KBC Bank

Annual Report for 2012

To the reader

Company name

'KBC', 'the group', 'we' or 'KBC Bank' as used in this annual report refer to the consolidated bank entity, i.e. KBC Bank NV including all group companies included in the scope of consolidation. 'KBC Bank NV' refers solely to the non-consolidated entity. The 'Company annual accounts' section deals only with the non-consolidated entity.

Difference between KBC Bank and KBC Group

KBC Bank NV is a subsidiary of KBC Group NV. The KBC group's legal structure has one single entity – KBC Group NV – in control of two underlying companies, viz. KBC Bank NV and KBC Insurance NV. All KBC Bank NV shares are owned (directly and indirectly) by KBC Group NV. A number of KBC Bank's debt instruments are exchange-listed. Everywhere where mention is made of KBC Group or the KBC group in this annual report, KBC Group NV is meant, including all group companies included in the scope of consolidation.

Disclaimers

-The expectations, forecasts and statements regarding future developments that are contained in this annual report are based on assumptions and assessments. By their nature, forward-looking statements involve risk and uncertainty, because they relate to events and depend on circumstances that will occur in the future. Various factors, including, but not limited to, those described in the context of such forward-looking statements in this annual report, could cause actual results and developments to differ materially from those expressed in or implied by such statements.
- Nothing in this annual report constitutes an offer of securities for sale in the United States, Canada, Japan or Australia or any other jurisdiction.

Translation

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

Ratios used

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

Cover ratio: [specific impairment on non-performing loans] / [outstanding non-performing loans]. For a definition of 'non-performing', see 'Non-performing loan ratio'. Where relevant, the numerator may be limited to specific impairment on performing loans.

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

Credit cost ratio: [net changes in specific impairment for credit risks] / [average outstanding loan portfolio]. For a definition of the loan portfolio, see the 'Value and risk management' section (government bonds, for instance, are excluded).

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

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

(Core) Tier-1 ratio: [consolidated tier-1 capital] / [total risk-weighted volume]. The calculation of the core tier-1 ratio does not include hybrid instruments.

Articles 96 and 119 of the Belgian Companies Code

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

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Report of the Board of Directors

Group profile

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

2012 was the year in which the new KBC took more definite shape. We have largely completed our divestment plan, repaid a substantial amount of state aid at KBC group level, further reduced our exposure to CDOs and Southern European government bonds, and boosted the capital base of KBC Group. We also adjusted our strategy and structure in line with the renewed, slimmed-down and more focused group we are today. However, the worldwide economic situation remained uncertain. Although this, together with our divestment programme, has also obviously influenced our results, we nevertheless closed the year with an underlying net result of almost 1.2 billion euros (i.e. disregarding non-operating items), thanks to the strong underlying performance of our business.

Thomas Leysen, Chairman of the Board of Directors, and Johan Thijs, President of the Executive Committee, reflect on the main events of the past year.

The consolidated net result under IFRS came to -0.3 billion euros for 2012.

Thomas Leysen: Our net result is still influenced by a number of significant non-operating items, one of which was the substantial markdowns on our remaining divestments. Disregarding these items, we achieved a satisfactory underlying net profit of 1.2 billion euros in 2012, which is 86% more than in 2011.

Johan Thijs: We accomplished that good underlying result thanks to a gradual recovery in our net fee and commission income, sound dealing room income, ongoing rigorous cost control and lower overall impairment on loans, despite the considerable amount still being recorded for Ireland. The fact that significant negative factors in 2011, such as the impact of the situation in Greece, were not repeated in 2012 also helped our underlying result.

Where are we with the divestment programme?

Johan Thijs: The KBC Group divestment programme is now largely completed. As far as KBC Bank is concerned, we signed an agreement with Banco Santander on the merger of our subsidiaries in Poland, and we reached an agreement for the sale of Absolut Bank in Russia and for the sale of our minority stake in Nova Ljubljanska banka in Slovenia. The remaining divestments essentially relate to KBC Bank Deutschland and Antwerp Diamond Bank. We completed some of the preparatory work for these divestments in 2012 and, as Thomas Leysen has already said, we recorded markdowns on them.

Thomas Leysen: The Executive Committee has done exceptionally well to bring all of these transactions to a successful conclusion, despite the turbulence on the markets. What's more, we continued to take other risk-mitigating measures, just as we had done in 2011. For instance, we scaled down our exposure to GIIPS sovereign bonds even more and further lowered our exposure to CDOs and ABS.

KBC Group – the parent company of KBC Bank – issued new shares and has already repaid a significant proportion of the state aid it received.

Thomas Leysen: That's right. We carried out a capital increase of 1.25 billion euros at KBC Group level at the end of 2012, and further strengthened our capital buffer in January 2013 by issuing contingent capital notes to the value of 1 billion US dollars. This and a number of other factors, including the capital that was released following the divestments, enabled the KBC group to repay a total of 3.5 billion euros – plus a 15% penalty – to the Belgian Federal Government. That means we have now redeemed all the core-capital securities issued to the Belgian State in 2008. We will now concentrate on repaying the remaining 3.5 billion euros to the Flemish Regional Government. We are pleased to say that the financial support provided to KBC will not cost the taxpayer anything in the end. In fact, it is generating revenue for the government.

Johan Thijs: At the same time, we are continuing to ensure that our solvency position remains robust, which is borne out by a number of indicators, including a solid tier-1 ratio. What's more, we improved our already strong liquidity position, resulting in an excellent loan-to-deposit ratio of 78% at year-end 2012. Towards the end of the year, we also completed the highly successful launch of our first covered bond issue, which means we will gradually be able to further diversify our funding mix.

KBC has also modified its strategy and management structure. Why was that?

Johan Thijs: Macroeconomic conditions, the competitive environment, the regulatory framework and economic outlook all remain challenging. Everyone needs to adjust. Our group's strengths lie in our integrated bank-insurance model, which continued to perform well throughout the economic cycle, as well as in the competence and professionalism of our employees, and in the strong ties we have with our clients. We have continued to build on these strengths and have further modified our strategy by making clear business choices, optimising the group's organisational structure and committing ourselves to a clearly defined corporate culture. We want to become more versatile, more efficient, and hence more competitive, ultimately to achieve the goal of being the reference for bank-insurance in all our core markets.

Thomas Leysen: In this approach, we will also adapt ourselves not only to the changing attitudes of our clients, but also to the legitimate expectations of society as a whole. We're firmly embedded in the communities in which we operate, and those strong local ties are precisely what form the core and strength of our strategy and business model.

KBC is indeed firmly embedded in society. Could you expand on that?

Thomas Leysen: We obviously aim to generate a decent profit at KBC group level so that we can reward our shareholders and also maintain our independence. However, our main focus lies in working with a sustainable business model. That means not only establishing and developing long-term, sustainable relationships with clients, but also earning the respect of society, something that requires a modified corporate culture and commitment towards the community in which we operate. Specific information on the numerous initiatives we have taken in this regard can be found elsewhere in this report, in our *Report to Society* and in our *Corporate Social Responsibility* report on our website.

Johan Thijs: We also intend to start gradually incorporating more non-financial elements into our reports, in addition to the financial information they already contain. Besides explaining our results, we will provide even more information on our ecological footprint, our role in society as a major employer and as an intermediary between depositors and borrowers, and – last but not least – for KBC Group in its entirety, as a recipient of state aid.

How do you see things down the line?

Johan Thijs: It's far from easy in the current climate to make a statement regarding economic developments. The direction the world economy will take remains difficult to predict. Although important steps have been taken to tackle the euro crisis, it has still to be fully resolved. Even so, we believe that these steps are enough to revive confidence, something that can already be seen in a number of leading indicators. And with encouraging signs emerging from outside Europe, such as the improving housing market in the US, we can be cautiously optimistic. In fact it's our duty to be so. I'm pleased to say that we have proved in recent years that, thanks to the efforts of our employees, we're back and more focused than ever. We would therefore like to express our thanks to all our employees and all other stakeholders, especially our clients, the Belgian State and the Flemish Region for the confidence they have placed in our group.

Thomas Leysen: I'd like to conclude with a special word of thanks to Jan Vanhevel who retired in May 2012. His unflagging dedication over the past few years as CEO of the group has been instrumental in ensuring that our far-reaching restructuring plan could be implemented. Now that the divestment programme is largely completed, we will be focusing more than ever on our core business of bank-insurance in a number of carefully selected countries. And we're now in a position to channel all our energy into doing just that.

Johan Thijs
President of the Executive Committee

Thomas Leysen
Chairman of the Board of Directors

Area of operation and activities

KBC Bank is a multi-channel bank catering mainly for retail, private banking SME and mid-cap clients. Geographically, we focus on our core markets of Belgium, the Czech Republic, Slovakia, Hungary and Bulgaria. Apart from Ireland, we have a limited presence elsewhere in the world, primarily to support corporate clients from our core markets.

Summary of the main events in 2012

January

- Repayment by KBC Group – the parent company of KBC Bank – of 0.5 billion euros' worth of core-capital securities (plus penalty) to the Belgian Federal Government.

February

- Agreement is reached between Banco Santander and KBC regarding the merger of their Polish banking subsidiaries, Bank Zachodni WBK SA and Kredyt Bank SA. The Polish regulator approved the merger in December 2012. Recent developments can be found in note 43 of the Consolidated financial statements.
- The KBC Mobile Banking app wins the 'Accenture Innovation Award (Public Prize)' in the Financial Services category.

March

- Agreement is reached with Value Partners Ltd. for the sale of KBC's stake in KBC Goldstate in China.
- Implementation of the agreement on Greek debt.

May

- Johan Thijs succeeds Jan Vanhevel as CEO of the group. Daniel Falque is appointed new CEO of the Belgium Business Unit.
- Agreement is reached with Business Lease Group regarding the sale of KBC Autolease Polska.

July

- The consumer finance company Żagiel is sold to Banco Santander.

September

- Management buyout at KBC Lease Deutschland.

October

- Announcement that KBC Bank has achieved the target of a core tier-1 ratio of 9%, including the buffer for sovereign exposure, recommended by the European Banking Authority.
- The modified strategy, management structure and financial aspirations are unveiled. The new structure is implemented on 1 January 2013.

December

- Successful first issue of Belgian covered bonds for the sum of 1.25 billion euros.
- Agreement is reached regarding the sale of the bulk of KBC Private Equity's residual portfolio.
- Repayment by KBC Group of 3 billion euros (plus a 15% penalty) to the Belgian Federal Government and announcement of the intention to make an accelerated repayment of 1.17 billion euros (plus a 50% penalty) to the Flemish Regional Government in the first half of 2013.
- 58.8 million new shares are issued by KBC Group for the sum of 1.25 billion euros; announcement that contingent capital notes worth approximately 0.75 billion euros will be issued at a later date.
- Agreement is reached with the Belgian Federal Government on revision of the guarantee agreement for CDOs.
- Agreements are reached on the sale of Absolut Bank in Russia and the sale of the minority interest in Nova Ljubljanska banka in Slovenia.

Early 2013

- January 2013: successful placement of 1 billion US dollars' worth of contingent capital notes.
- January 2013: decision taken to repay the LTRO of 8.3 billion euros to the European Central Bank in the first quarter of 2013.

More detailed information on the events summarised above can be found in the relevant sections.

Shareholders

Shareholder structure on 31-12-2012	Number of shares
KBC Group NV	915 228 481
KBC Insurance NV	1
Total	915 228 482

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

Network and personnel

Network and personnel	
Bank branches (31-12-2012)	
Belgium	833
Central and Eastern Europe (the four core markets of the Czech Republic, Slovakia, Hungary and Bulgaria)	799
Number of staff (2012 average in FTEs)	35 938

Financial calendar

Financial communication is largely organised at KBC Group level. Financial information relating to KBC Bank is available at www.kbc.com/investor relations/financial information on KBC Bank.

Financial calendar for KBC Group and KBC Bank	
2012 financial year	Earnings release for KBC Group: 14 February 2013 KBC Group Annual Report for 2012, Risk Report for 2012 and CSR Report for 2012 available: 2 April 2013 2012 Annual Report for KBC Bank available: 2 April 2013 AGM of KBC Bank: 24 April 2013 AGM of KBC Group: 2 May 2013
1Q2013	Earnings release for KBC Group: 16 May 2013
2Q2013/1H2013	Earnings release for KBC Group: 8 August 2013 Earnings release for KBC Bank: 30 August 2013
3Q2013/9M2013	Earnings release for KBC Group: 14 November 2013
4Q2013/FY2013	Earnings release for KBC Group: 13 February 2014

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

Long-term credit ratings

Credit ratings for KBC Bank (28 February 2013)	long-term ratings	short-term ratings
Fitch	A- (stable outlook)	F1
Moody's	A3 (stable outlook)	P-2
Standard & Poor’s	A- (positive outlook)	A-2

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

The table shows the long-term and short-term credit ratings of KBC Bank NV. The ratings changed as follows in the course of 2012:

- In January 2012, Fitch lowered the long-term rating from A to A- (with stable outlook).
- In June 2012, Moody’s lowered the long-term rating from A1 to A3 and the short-term rating from P-1 to P-2. The outlook was placed on ‘stable’.
- In December 2012, Standard & Poor’s upgraded the outlook for the ratings from ‘stable’ to ‘positive’.

Strategy, company profile and structure

The strategy, company profile and management structure of KBC Bank is embedded in that of the KBC group. A summary is given below of the strategy of the KBC group, where KBC Bank is essentially responsible for the banking business and KBC Insurance for the insurance business. For more detailed information, please see the 2012 annual report for the KBC group.

Divestment programme now largely completed

The group's restructuring plan, which had been approved by the European Commission in November 2009 and was adjusted in mid-2011, included a summary of the operations we were required or still have to divest. By the end of 2012, the plan had largely been implemented. A simplified overview of the situation for KBC Bank only is presented in the table below.

Implementation of divestment programme (simplified)	
Project	Situation (up to beginning of March 2013)
Sale of complementary distribution channels in Belgium	Completed. Centea sold mid-2011.
Sale, termination or run-down of various non-core activities (chiefly investment banking)	Sold: KBC Peel Hunt, KBC Securities Baltic Investment Company, KBC Asset Management's UK and Irish operations, KBC Business Capital, various KBC Financial Products operations, stake in KBC Concord Asset Management (Taiwan), KBC Securities' Romanian and Serbian operations, stake in KBC Goldstate (China), KBC Autolease Polska, KBC Lease Deutschland, participating interests held by KBC Private Equity. Preparatory phase: divestment of KBC Bank Deutschland and Antwerp Diamond Bank.
Run-down of a significant proportion of the loan portfolios outside the core markets	The risk-weighted assets of the corporate banking operations in the Merchant Banking Business Unit have been reduced by 10 billion euros in the space of three years.
Sale of Kredyt Bank in Poland	Announcement in late February 2012 that agreement had been reached with Banco Santander regarding the merger of Bank Zachodni WBK and Kredyt Bank. Following the merger, KBC ultimately aims to divest its shareholding in the merged bank. The Polish regulator approved the merger in December. Recent developments can be found in note 43 of the Consolidated financial statements.KBC also sold its Polish consumer finance company, Żagiel, at the end of July.
Sale of the activities in Russia and Slovenia	Agreement reached for the sale of Absolut Bank in Russia (still to be completed) and the sale of the minority interest in Nova Ljubljanska banka in Slovenia.
Sale or run-down of certain CDO and ABS assets	CDO and ABS exposure reduced to a greater extent than envisaged at this stage in the plan (see 'Further improvement in the risk profile').

Further improvement in the risk profile

The divestments performed in the past few years have made KBC Bank a smaller, more focused group, as partly reflected in the 28% decline in risk-weighted assets over the past three years. Although this development was also influenced by other factors, including changes in the activities to be retained and new regulations, the reduction primarily reflects the divestments already completed and activities already run down.

We have also lowered our risk profile in recent years through a number of other measures. These included reducing the portfolio of sovereign bonds issued by riskier Southern European countries and Ireland (GIIPS countries) by more than 80% in the past two years, bringing it to approximately 1.3 billion euros at year-end 2012. Moreover, we further scaled back our historical portfolios of CDO and ABS paper, reducing it to a greater extent than envisaged at this stage in the European plan. Holdings of CDOs and ABS at KBC Group level have been trimmed by a nominal amount of roughly 13 billion euros in three years, representing 42% of the original amount.

KBC Group signed a guarantee agreement with the Belgian Federal Government in 2009 concerning a substantial proportion of the CDO exposure. This related initially to a nominal amount of 20 billion euros, but this has been scaled down in the past few years to approximately 12 billion euros at year-end 2012.

KBC Group sold a total of 7 billion euros' worth of core-capital securities to the Belgian State and Flemish Region in 2008 and 2009 (3.5 billion euros each – see the 'Additional information' section of this report for more information). Since then, it has repaid the Belgian State 0.5 billion euros plus a 15% penalty in January 2012 and 3 billion euros and a 15% penalty in December 2012. KBC Group intends to redeem the remaining 3.5 billion euros' worth of core-capital securities issued to the Flemish Regional Government within a reasonable period of time, i.e. it is aiming to repay 1.17 billion euros of this amount (plus penalty) in the first half of 2013.

Focus on the future: renewed strategy and structure

Like other businesses in the financial sector, we have to contend with shifting customer attitudes, the different expectations of other stakeholders, tighter regulations, a challenging macroeconomic climate, the fact that different European countries each demand a specific approach, a changing financial landscape and deleveraging. A great deal of our efforts in recent years has gone into implementing the divestment plan we agreed with the European Commission in 2009. We have made exceptionally good progress since then in executing that plan, which has resulted in a significant reduction in our total assets and risk-weighted assets.

The renewed strategy – the key drivers of which are given below – provides a framework for the smaller, more focused group we have become following our divestment phase. At the same time, it places us in an ideal position to meet the challenges ahead. When we unveiled our renewed strategy, we also announced the financial aspirations of the KBC group for 2015. These aspirations, together with the additional objectives announced subsequently, can be found in the 2012 annual report for KBC Group.

We also aligned the group's organisational structure to take full account of the new strategy. The new structure includes a separate new business unit for the Czech Republic and a reallocation of merchant banking operations. More details in this regard are provided elsewhere in this report.

Key drivers of the new strategy (KBC group)

- Integrated bank-insurance. KBC Group confirms its commitment to the bank-insurance model, which has generated excellent results throughout the cycle. This model is a fully integrated business model. It delivers cost synergies by avoiding overlaps between support entities and offers clients clear added value, thanks to a complementary and optimised offering of banking and insurance products and services.
- Core markets. KBC Group defines core markets as those in which it has a banking and insurance presence, namely Belgium, the Czech Republic, Hungary, Slovakia and Bulgaria. The group is firmly embedded in the local economies there. All other activities that do not contribute to supporting client relationships in these core markets will, in principle, be discontinued. Ireland remains an exception. In the years ahead, KBC Bank Ireland will focus on raising profitability through the provision of personal banking services.
- Local responsiveness. Local responsiveness means that we respond readily to local opportunities. KBC focuses on the client and wishes to build and deepen sustainable relationships with private individuals, SMEs and mid-caps. Local responsiveness implies that we understand local clients better, that we pick up signals effectively and respond to them proactively, and that we offer products and services tailored to these local needs. Relationship bank-insurance is key to local responsiveness. In other words, KBC will focus on those banking and insurance activities that are needed to support sustainable client relationships.
- Co-operation. KBC fosters cross-border collaboration and leverage effects at group level in order to enhance cost-efficiency across the group. International product factories and service providers focus on offering products and services tailored to the distribution strategy of the different business units, and to local responsiveness. Exchange of know-how, best practices, experience, products and services between the different business units and corporate functions is stimulated by means of communities. Their mission is to promote synergy, dialogue and exchange wherever deemed useful within the group.
- Business unit structure. With effect from 2013, KBC is implementing a new, business-driven organisational or management structure, which is fully aligned with our strategic choices (local responsiveness, bank-insurance, client focus, etc.) and which supports effective decision-making and accountability. The new structure includes a separate new business unit for the Czech Republic and clarifies the future role of the activities of the former Merchant Banking Business Unit (more details are provided under 'New management structure' below).
- Group culture. KBC is committed to a clearly defined group culture. The group aims to become more versatile and alert by focusing on streamlined performance management and accountability for all employees. Using performance indicators, we establish a clear link between strategic priorities and accountability.

New management structure

Up until the end of 2012, the management structure of the group and its subsidiary, KBC Bank, was built around the Belgium, Central & Eastern Europe, Merchant Banking and Shared Services & Operations business units. This breakdown is based on geographic criteria (Belgium and Central and Eastern Europe, the group's two core markets) and business criteria (either retail bank-insurance or merchant banking). The Shared Services & Operations Business Unit incorporates a number of services that provide support and products to the other business units.
The results by segment or business unit that we discuss in this annual report are based on the management structure applying until the end of 2012. Therefore, the group results are broken down according to the 'old' business units, with two exceptions:

- We do not allocate any results to the Shared Services & Operations Business Unit, since all its income and expenses are passed on to the other business units and reflected in their results. Consequently, this business unit is not presented separately when the results are reported by segment.
- We recognise all group companies earmarked for sale under the strategic plan under the Group Centre. The Group Centre also includes the results of certain head-office services, as well as costs that cannot be allocated.

Each business unit is run by a management committee chaired by a CEO and, in the case of the Shared Services & Operations Business Unit, by the Chief Operating Officer (COO). The business unit CEOs, the Chief Operating Officer (COO), the Group CEO, the Chief Financial Officer (CFO) and the Chief Risk Officer (CRO) constitute the Group Executive Committee.

A new management structure was introduced at the start of 2013. The first financial report in this format for KBC Group will be the earnings statement for the first quarter of 2013 (and the earnings statement for the first half of 2013 for KBC Bank). Consequently, this annual report still uses the old format in dealing with the activities and results. We discuss the main differences between the old and the new structures in the sections devoted to the individual business units.

The new group structure comprises three building blocks and eight pillars, each focused on its contribution to the group.

The 'generate' building block has four new business units, which focus on the local business and are expected to contribute to sustainable earnings and growth.

- The Belgium Business Unit and the Czech Republic Business Unit have the remit of ensuring that increasingly stable profitability is maintained at high levels.
- The International Markets Business Unit encompasses the other core countries in Central and Eastern Europe (Slovakia, Hungary and Bulgaria), which we view as growth generators for the group. KBC Bank Ireland also belongs to this business unit, as do the remaining non-core entities earmarked for divestment, such as Absolut Bank and Antwerp Diamond Bank.
- The International Product Factories Business Unit comprises a number of entities and activities, including Asset Management, Trade Finance, Consumer Finance, Markets and KBC Securities.

The 'improve' building block is made up of the auxiliary Corporate Change & Support, CRO Services and CFO Services pillars, which act as an internal regulator, but whose main role is to support the business units.

The 'develop' building block comprises the Corporate Staff pillar, which is a competence centre for strategic know-how and best practices in corporate organisation and communication. It supports both the Group Executive Committee and the business units and is tasked to stimulate co-operation within the organisation.

The members of the Executive Committee are given in the table below, together with their position in the old and new organisational structure.

Johan Thijs	Danny De Raymaeker	Daniel Falque	Luc Gijsens	John Hollows	Luc Popelier	Marko Voljč	Pavel Kavánek
Group CEO	Position until end of 2012: COO Position in the new structure: CEO of the International Markets Business Unit	CEO of the Belgium Business Unit	Position until end of 2012: CEO of the Merchant Banking Business Unit Position in the new structure: CEO of the International Product Factories Business Unit	CRO	CFO	Position until end of 2012: CEO of the Central & Eastern Europe Business Unit Position in the new structure: CCO	Not a member of the Group Executive Committee in 2012 Position in the new structure: CEO of the Czech Republic Business Unit

CEO = Chief Executive Officer; COO = Chief Operating Officer; CRO = Chief Risk Officer; CFO = Chief Financial Officer; CCO = Chief Change Officer (Corporate Change & Support).

KBC in society

KBC takes its responsibility towards society as a whole very seriously indeed and has enshrined this in its modified strategy. To create value in a sustainable way, this strategy works on the basic principle of building sustainable client relationships that are maintained by competent and motivated employees. However, the expectations of other stakeholders also need to be taken into account. To ensure this happens, KBC uses many different channels to take these views on board, and devotes time and energy to communication and dialogue.

Our clients

Johan Thijs, Group CEO: 'Our clients have to be at the centre of our thoughts and actions. They deserve all our energy and attention. We can only earn their trust if we concentrate on their satisfaction and put them first. And our renewed strategy will continue in that vein. We're convinced that through our enhanced insight into local clients, we can offer products and services that are perfectly suited to their local needs and that this will increase our competitive advantage even further. That's why we've given local responsiveness an important place within the new strategy.'

Being a sustainable financial group primarily means having sustainable and respectful relationships with our clients. After all, they are at the heart of our business. As a group, therefore, we believe it important to continue to respond to the shifting needs of our clients and to constantly changing market conditions. That's why we have joined Febelfin's initiative in Belgium to help clients with a mortgage or long-term loan who are affected by a business closure. By adjusting the terms of that loan to take account of their individual situation, we give those clients the chance to get through a difficult period. We have also launched various initiatives in our other core markets to give clients extra breathing space in times of crisis. In Hungary, for instance, clients have been offered a range of possibilities to lighten their financial burden by postponing repayment, adjusting credit terms and setting up debt repayment plans. And in Ireland too, we adopt a socially responsible approach to find solutions for clients in financial difficulties.

We are also working continuously to help improve overall financial literacy. Fine examples in this regard are the *'Een klare kijk op je geld'* teaching package for primary schools and the *'Een klare kijk op je geld en verzekering'* teaching package for secondary schools in Belgium, and the 'Financial Literacy Program' in the Czech Republic. KBC makes sure the right product is offered to the right client, and helps them evaluate their financial risk more effectively by providing them with clear and transparent information.

Customer satisfaction surveys performed at our various entities all paint the same positive picture, i.e. KBC clients are generally satisfied with the service, accessibility and products of their bank. In Belgium, the most recent survey showed a high level of satisfaction, with as many as 80% describing themselves as 'very satisfied' (the number of clients giving their branch a score of eight or more out of ten). In Central and Eastern Europe, roughly 80% of bank clients rated themselves as being satisfied. For more detailed information on the individual results, please refer to our *CSR Report for 2012*.

Our employees

As one of the largest employers in its core markets, KBC wants to make sure that its employees continue to feel a part of the group. We are very much aware that it is our employees who see to it that KBC is able to post strong underlying results. We conduct annual employee satisfaction surveys of our own and use the findings to take selective measures. The most recent one found that a high 95% of employees surveyed in Belgium rated themselves as satisfied. In an external survey organised by the Vlerick Leuven Gent Management School and the Great Place to Work® Institute in 2012, KBC was again recognised as one of the ten 'Best Large Employers in Belgium' (for the seventh time in a row).

By continually assessing and adjusting its remuneration policy to take account of the latest labour-market trends, KBC aims to increase its employees' potential for development and to pay them a salary commensurate with their performance. In 2011, KBC embarked on a thorough updating of its HR policy in Belgium, which it called 'HRinEvolution'. Since then, we have continued to update the job classification system, formulated a policy on developing talent, drew up a career growth path for new junior managerial staff and introduced further alternative remuneration schemes. An example of that particular scheme is the 'cafeteria plan', where staff can opt for a salary-only package or a salary package plus benefits they choose themselves, such as a company car or additional holidays.

KBC is also sensitive to its employees' mobility problems. Initiatives in this area include projects for staff to work locally or from home, free shuttle buses between railway stations and head office buildings, the encouragement of carpooling, cycling and use of public transport, and the provision of a green vehicle fleet. All this gives employees the opportunity to achieve a better work-life balance.

In its staff regulations, its selection and promotion policy, as well as in its performance appraisal systems, the group does not make any distinction whatsoever on the grounds of sex, religion, ethnic background or sexual orientation. Equal treatment of employees is also addressed in the *KBC Code of Conduct* and in the various anti-discrimination manifestos and charters KBC has endorsed. As an employer, KBC wants to give a clear signal to society: we treat our employees in a socially responsible manner and mutual trust and respect is one of our goals.

We want to offer people a challenging job and to give them the opportunity to further develop their talents. This applies not just to the younger generation, but also to all the generations that make up our workforce. ‘Lifelong learning’ is our motto. Accordingly, the group devotes considerable attention to training and provides an extensive range of development opportunities. Employees can choose from a number of training programmes which complement and reinforce each other, including conventional training courses, individual study, e-learning, learning on the job and mentoring. Developmental needs are also an important element in the annual performance appraisal reviews held between employees and their managers.

Our place in the economic fabric

It is important to KBC that, as a major player in the market, we can be a driving force behind the local economies of our home markets. We do this in a number of ways, including by providing loans and therefore financing specific projects. Whereas we have reduced lending outside our home markets in accordance with the divestment plan, we have continued to increase lending in our home markets (see table).

Increase in lending in the core markets*	In the past two years (since year-end 2010)
Belgium (Belgium Business Unit plus Corporate Banking in Belgium)	+11%
Central and Eastern Europe (Czech Republic, Slovakia, Hungary, Bulgaria)	+5%

* Outstanding loan portfolio as defined in the ‘Value and risk management’ section.

Our loan portfolio contains not only loans to private individuals and companies, but also loans to the social profit sector (i.e. to hospitals, retirement and nursing homes, educational institutions, local authorities and the like). We also provide funding to infrastructure projects that have a major impact on economic development in Belgium (Public Private Partnerships to fund sports halls in Flanders, funding of road schemes, etc.) and to the development of green energy projects (for instance, by funding various onshore wind projects).

Through KBC Insurance (KBC Bank’s sister company), the group is also a large-scale insurer in Belgium and most of its core markets in Central and Eastern Europe. The relevance of insurance for the economy and society as a whole speaks for itself. It is the ideal instrument for covering the risks inherent in activities that are essential in our day-to-day lives. For instance, without car insurance, goods and people would not be transported; without public liability insurance businesses could not be run; without fire insurance, property would not be protected; without industrial accident insurance, people would not be protected at work; and without income and health insurance, health care would become unaffordable. In this regard, we have a tradition going back many years of working closely with numerous organisations that are involved in road safety, welfare and victim assistance.

Our relationship with government

Since the end of 2008, KBC Group – the parent company of KBC Bank – has issued 7 billion euros in core-capital securities to the Belgian State and the Flemish Region (each in the amount of 3.5 billion euros). In principle, it pays an annual coupon of 8.5% for this financial support (provided a dividend has also been paid to the shareholders) and a penalty when the securities are redeemed. In May 2009, it also signed an agreement with the Belgian State regarding a guarantee for a substantial part of its structured credit portfolio (CDOs). That guarantee basically comprises a notional amount that initially totalled 20 billion euros, but has now been reduced to 12.2 billion euros. The group also pays a significant fee for this guarantee. For more information, please refer to ‘Capital transactions and guarantee agreements with the government in 2008 and 2009’ in the 'Additional information' section.

After years of hard work, and with the loyal support of staff, clients and shareholders, KBC Group repaid 3 billion euros in financial aid (plus a 15% penalty) to the Belgian Federal Government on 17 December 2012 – on top of the 0.5 billion euros (plus 15% penalty) that it had paid back at the start of the year – bringing the cumulative total amount in repayments, penalties, coupon payments and fees for the CDO guarantee to 6.4 billion euros at year-

end 2012. By the time KBC Group has repaid all the aid it received, the total amount in repayments, coupon payments, penalties and fees for the CDO guarantee will have risen to at least 13 billion euros.
We are especially pleased that we were able to repay the entire capital injection of 3.5 billion euros from the Belgian Federal Government earlier than planned, and we hope to continue this momentum as regards our commitment towards the Flemish Regional Government and the 3.5 billion euros in aid it provided. We aim to repay 1.17 billion euros of this amount (plus a 50% penalty) in the first half of 2013 (subject to the customary approval of the National Bank of Belgium).

Of course, our relationship with government is not confined solely to state aid. Besides lending to private individuals and companies, we also pump money into the economy by lending directly and indirectly to government. At the end of 2012, for instance, KBC Group invested approximately 25 billion euros in Belgian government paper. KBC has also been involved for years in providing insurance (via KBC Insurance) to various institutions of the Flemish Regional Government and in Public Private Partnerships for major social projects.

Our impact on society

KBC is sensitive to the social impact it can have on the community in which it operates, especially in urban areas (where, for instance, we have head offices). In Belgium, we work to fulfil that role in society by supporting a range of projects in Brussels, Ghent and Antwerp. In the Brussels borough of Sint-Jans-Molenbeek, for instance, where our Belgian head office is located, we are enthusiastic supporters of the *Foyer*, *Yes* and *Bonnevie* projects. 'Foyer' is a neighbourhood centre focused on issues affecting the integration of ethnic minorities. It endeavours to provide youngsters with homework support, with the aim of encouraging them to perform better at school. Thanks to the centre's efforts, the number of youngsters leaving school early has been reduced considerably in recent years. KBC also sponsors initiatives like the BIS Award, which encourages young people aged between 14 and 22 to broaden their horizons. Participants are given a tailored package of tasks to complete over a three-year period. These packages include a challenge or commitment in four different areas, namely sport, education, volunteer work and expeditions.

Our role goes further, however, than simply supporting social projects. Through our patronage activities and the Rockox House, we preserve Belgium's cultural heritage and make it accessible to the public. In Hungary, K&H is systematically building up its art collection ('Art For a Better and More Meaningful World'), with the works of art capturing and reflecting K&H's values of dynamism, renewal and social development. Each of the group's business units engages in local community projects, the precise focus of which depends on local priorities and culture. The sections devoted to the individual business units in this report provide a range of examples and initiatives in the field of corporate social responsibility in 2012.

Our ecological footprint

KBC makes a continuous effort to reduce its ecological footprint, concentrating on both its direct and indirect impact on the environment.

The following is just a selection of what we have done recently in this regard:
- In Hungary, K&H Bank launched campaigns in its branches and new head office to raise awareness about a range of issues, including sorting waste. By centralising all head-office departments in a single building, the number of printers was reduced by 50% and work-related travel between the various head offices avoided.
- At KBC Bank Ireland, the in-house 'Travel to work' survey resulted in improvements being made to the facilities for staff coming to work by bicycle. In this way, we hope to encourage more employees to travel to work in a healthier and more environmentally friendly way.
- ČSOB in the Czech Republic has made concerted efforts to produce less waste and to sort it more efficiently, to reduce work-related travel, to cut back on paper consumption and to replace as much lighting as possible by LED lighting.
- In Belgium, KBC introduced a digital archiving system for commercial credit that generated savings of between 30% and 50% in paper per credit file. An additional benefit to this system is that fewer filing cabinets are needed in the branches.
- In March 2012, KBC Belgium decided to link the non-recurrent results-based bonus for 2012 to a number of environmental targets, which were duly achieved. A similar type of system will continue to apply in the years to come. At the end of 2012, we also obtained EMAS certification for our environmental management system in Belgium.

Open communication with our stakeholders

KBC aims to communicate as openly and transparently as possible with its stakeholders. To that end, we organise various contact opportunities between them and management throughout the KBC group. These include things like investor events, employee satisfaction surveys, customer satisfaction surveys, conferences, road shows and Investor Days, all dealing with specific matters. Group Communication, Investor Relations, Group HR, Marketing and the CSR team are just some of the entities that facilitate those contacts and deal with the various stakeholders' questions. KBC Group provides information all year round in a number of ways, including by means of press releases and presentations, and publishes reports to coincide with the quarterly, half-year and annual results. This information is available at www.kbc.com, which in addition to various notifications required by law (including those relating to AGMs), provides general company information and specific reports, such as risk and corporate social responsibility reports.

The group attaches great importance to corporate social responsibility in its communication. For a number of years now, for instance, we have been publishing an annual *Corporate Social Responsibility Report* (www.kbc.com), which deals with our vision and achievements in this area. At the beginning of 2012, the group decided it would publish a broader *Report to Society*, dealing with all the society-related themes encountered in our business operations of the past year. The report is written in language that is clear and understandable, without jargon, with a focus on what is happening in society. As a group, we also have a common goal of incorporating more information on the non-financial and social aspects of our business operations into our reports. This annual report already takes a step in that direction.

In a survey conducted by Transparency International Belgium in December 2012, when the largest Belgian listed companies were assessed on the basis of their public commitment to transparency, KBC Group achieved the highest score of all the companies evaluated.

Review of the consolidated financial statements

Consolidated income statement

Consolidated income statement, KBC Bank (in millions of EUR)	IFRS		Underlying result	
	2011	2012	2011	2012
Net interest income	4 484	3 838	4 258	3 703
Interest income	10 942	9 389	1	1
Interest expense	-6 458	-5 551	1	1
Dividend income	33	13	15	10
Net result from financial instruments at fair value through profit or loss	2	37	502	901
Net realised result from available-for-sale assets	85	90	85	59
Net fee and commission income	1 565	1 589	1 587	1 602
Fee and commission income	2 098	2 046	1	1
Fee and commission expenses	-533	-457	1	1
Other net income	-50	370	-167	219
Total income	6 119	5 937	6 280	6 494
Operating expenses	-3 709	-3 666	-3 622	-3 611
Impairment	-1 659	-2 323	-1 578	-1 130
on loans and receivables	-1 331	-1 063	-1 331	-1 063
on available-for-sale assets	-182	-10	-182	-3
on goodwill	-81	-386	0	-2
other	-66	-863	-66	-62
Share in results of associated companies	-52	8	-52	-26
Result before tax	699	-44	1 028	1 727
Income tax expense	-216	-147	-257	-434
Net post-tax result from discontinued operations	0	0	0	0
Result after tax	483	-191	771	1 293
Result after tax, attributable to minority interests[2]	136	115	136	115
Result after tax, attributable to equity holders of the parent	**347**	**-306**	**635**	**1 178**

For a description of the underlying result, in this section of the report.
1 Not available, as the analysis of these underlying result components is performed on a net basis within the group.
2 Primarily the 48.14% stake that KBC Group holds in KBC Asset Management.

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

IFRS results compared with underlying results

In addition to results prepared in accordance with IFRS as approved for use in the European Union ('results according to IFRS' in this annual report), KBC publishes results which exclude certain exceptional and non-operating items and in which certain items have been rearranged to provide a clearer picture of how the results from ordinary business activities are developing ('underlying results'). These results are presented in segment reporting in the consolidated financial statements and thus comply with IFRS 8. This standard specifies that IFRS principles should be deviated from if such deviation reflects the management view. That is indeed the case, as the underlying results are an important element in assessing and managing the business units. The statutory auditor has reviewed the segment reporting presentation as part of the consolidated financial statements. A description of the differences between the IFRS results and the underlying results is provided under 'Notes on segment reporting' in the 'Consolidated financial statements' section. Items influencing the net result that have not been included in the underlying results in 2012 are summarised below.

Simplified overview of differences between IFRS results and underlying results	Results according to IFRS	Underlying results
Changes in fair value of ALM hedging instruments*	Under 'Net result from financial instruments at fair value'	Excluded
Changes in fair value of own debt instruments	Included	Excluded
Exceptional items (including results from actual divestments and changes in the value of CDOs, impairment on goodwill, etc.)	Included	Excluded
Income from professional trading activities	Divided up among different items	Grouped together under 'Net result from financial instruments at fair value'

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

Overview of items excluded from the underlying result (in millions of EUR, after tax)	2011	2012
Changes in fair value of ALM hedging instruments	-268	-40
Gains/losses relating to CDOs (including the fee for the CDO guarantee agreement)	-331	161
Impairment on goodwill	-81	-9
Result from legacy structured derivatives business	50	-6
Changes in fair value of own debt instruments	359	-531
Divestments	-18	-1 058
Total exceptional items	-288	-1 484

The main exceptional and non-operating items in 2012 were the results and impairment recognised in respect of divestments. The figure includes primarily the positive impact of the merger of Kredyt Bank (+0.1 billion euros after tax) and the negative effect of the impairment charges taken on Absolut Bank, KBC Bank Deutschland, Antwerp Diamond Bank, KBC Banka and Nova Ljubljanska banka (an aggregate -1.2 billion euros after tax). Other significant exceptional and non-operating items in 2012 were the results relating to CDOs (due chiefly to the narrowing of credit spreads on corporate bonds and ABS) and the valuation of own debt instruments (the improvement in KBC's credit spread had a negative impact).

Key consolidated balance sheet and solvency figures

Selected balance-sheet and solvency items, KBC Bank (in millions of EUR)	2011	2012
Total assets	241 076	224 824
Loans and advances to customers	140 078	128 474
Securities (equity and debt instruments)	46 740	48 230
Deposits from customers and debt securities	171 605	163 107
Risk-weighted assets	106 256	88 927
Total equity	12 093	11 973
Parent shareholders' equity	11 117	11 255
Minority interests	975	718
Tier-1 ratio (Basel II)	11,6%	13,8%
Core tier-1 ratio (Basel II)	9,6%	11,4%

Additional information

- The ongoing divestment programme obviously influences the comparison of results between 2011 and 2012:
  - We recognise realised gains, losses and impairment charges on divestments as exceptional items and have, therefore, excluded them from the underlying results.
  - The results for the divested group companies are included in principle in both the IFRS and underlying group results until the moment of sale. An indication of the period for which the results of the most important of these companies are recognised in the group result can be found in the table, 'Main acquisitions, divestments or changes in the ownership percentage of consolidated subsidiaries or operations', in the 'Consolidated financial statements' section. In the following analysis, we correct the percentage comparisons – where relevant – to take account of the main changes in the scope of consolidation (in this case, for Centea).

- The assets and liabilities of divested/deconsolidated companies no longer appear, of course, in the balance sheet. Several group companies scheduled for divestment fell, moreover, under the scope of IFRS 5 on 31 December 2012 (Absolut Bank, Antwerp Diamond Bank, KBC Bank Deutschland and Nova Ljubljanska banka). This means that the entities' assets and liabilities are grouped together under 'Non-current assets held for sale and disposal groups' and 'Liabilities associated with disposal groups'. The reference figures have not been restated. Comparable *pro forma* figures can be found in Note 14 of the 'Consolidated financial statements' section.

- The overall impact on the net result of fluctuations in the exchange rates of the main non-euro currencies was very limited (in the order of 9 million euros).
- Information on financial instruments, hedge accounting and the use thereof is provided in the 'Consolidated financial statements' section (Notes 1b, 5 and 14-25 among others) and in the 'Value and risk management' section.
- All KBC Bank shares are owned directly and indirectly by KBC Group. KBC Bank will not pay a dividend for 2012.

Analysis of the main income statement and balance sheet items

Net interest income

Net interest income came to 3 838 million euros in 2012, or 3 703 million euros on an underlying basis. Excluding changes in the scope of consolidation, the underlying figure was 11% below its year-earlier level, due to factors such as lower yields on reinvestments (owing to the run-down of the high-yield GIIPS government bond portfolio and generally lower level of interest rates) and higher senior debt costs. Consequently, the underlying net interest margin came to 1.81%, roughly 16 basis points lower than in 2011. On a comparable basis (and after eliminating transactions between KBC group companies), the group's total volume of credit outstanding rose overall by 1% in 2012, with increases of 5% at the Belgium Business Unit and 4% at the Central & Eastern Europe Business Unit (where the contraction in Hungary was amply offset by growth in the other countries), and a decline of 6% at the Merchant Banking Business Unit (due to the scaling back of lending in non-core countries). On a comparable basis (and after eliminating transactions between KBC group companies), the total volume of deposits grew by 9% on balance in 2012, with the Belgium Business Unit recording an increase of 5% and the Central & Eastern Europe Business Unit 2%. At the Merchant Banking Business Unit, which had experienced a sharp decline in deposits from corporate and institutional entities outside the core markets at the end of 2011, deposits were up again (rising by 23%).

Net fee and commission income

Net fee and commission income came to 1 589 million euros in 2012. On an underlying basis, it came to 1 602 million euros, virtually unchanged (+0.2%) on the year-earlier figure (excluding changes in the scope of consolidation).
At the end of 2012, the group's total assets under management (investment funds and assets managed for private and institutional investors) amounted to approximately 155 billion euros, 4% more than the year-earlier figure on a comparable basis, due primarily to higher prices. The Belgium Business Unit was responsible for the bulk of assets under management (144 billion euros) at year-end 2012, while the Central & Eastern Europe Business Unit accounted for almost 11 billion euros.

Trading and fair value income

The net result from financial instruments at fair value through profit or loss (trading and fair value income) came to 37 million euros in 2012, as opposed to 2 million euros in 2011. Various exceptional and non-operating items influenced this item (see the 'Overview of items excluded from the underlying result' table), the main ones being valuation markdowns on CDOs and changes in the fair value of own debt instruments. If all exceptional items are excluded from this trading and fair value income, and trading-related income recorded under IFRS in various other income items is included, underlying trading and fair value income amounted to a positive 901 million euros in 2012, well up on the 502 million euros recorded a year earlier, due in part to a more robust performance in the dealing rooms and positive counterparty valuation adjustments for derivative financial instruments.

Other income

Dividends, realised gains and other net income came to an aggregate 473 million euros in 2012. On an underlying basis (i.e. disregarding *inter alia* the gains realised on the merger of Kredyt Bank), that is 288 million euros, or 355 million euros more than in 2011. The difference is mainly attributable to the considerably higher level of other net income, which had been negatively impacted in 2011 by the recognition of 334 million euros for the 5-5-5 investment product, compared with just 56 million euros in 2012 (see Note 8 of the 'Consolidated financial statements' section for more information on this product), and positively impacted in 2012 by the recovery of 126 million euros in relation to an earlier fraud case at KBC Lease UK.

Operating expenses

Operating expenses came to 3 666 million euros in 2012, or 3 611 million euros on an underlying basis. Excluding changes in the scope of consolidation, the underlying figure was up 1% on its year-earlier level, due in part to slightly higher staff expenses, exchange rate effects and higher special bank taxes. In particular, that held true for Hungary (a special bank tax of 51 million euros in 2012, compared with just 2 million euros in 2011), where the figures for 2011 had been favourably influenced by the partial compensation of losses related to the legislation on foreign-currency mortgage loans in Hungary.
The underlying cost/income ratio for the group was approximately 56% in 2012, an improvement on the 58% in 2011. It was 56% for the Belgium Business Unit, 58% for the Central & Eastern Europe Business Unit and 41% for the Merchant Banking Business Unit.

Impairment on loans and receivables

Impairment on loans and receivables (loan loss provisions) amounted to 1 063 million euros in 2012, compared with 1 331 million euros in 2011. The decline resulted primarily from considerably lower provisioning in Hungary and Bulgaria, which more than offset the increase at the Group Centre (at KBC Finance Ireland, among other companies). Loan loss provisions remained at a high level in Ireland (547 million euros in 2012, compared with 510 million euros in 2011).
Overall, the group's credit cost ratio improved from 83 basis points in 2011 to 70 basis points in 2012 (142 basis points at the Merchant Banking Business Unit, 40 basis points at the Central & Eastern Europe Business Unit and a very favourable 11 basis points yet again at the Belgium Business Unit). The proportion of non-performing loans in the total loan portfolio was 5.3% at year-end 2012, compared with 4.9% in 2011.

Other impairment charges

At an aggregate 1 259 million euros in 2012, other impairment charges related primarily to the remaining companies earmarked for divestment (impairment on goodwill and impairment on other, particularly in respect of Absolut Bank, Nova Ljubljanska banka, Antwerp Diamond Bank and KBC Bank Deutschland, which had a combined net impact of -1.2 billion euros in 2012). In 2011, this item related chiefly to the recognition of 0.2 billion euros for Greek government bonds. Impairment charges relating to companies earmarked for divestment are classified as an exceptional item and have, therefore, been eliminated from the underlying results.

Balance sheet and solvency

At the end of 2012, the group's consolidated total assets came to 225 billion euros, down 7% year-on-year. Risk-weighted assets fell by 16% to 89 billion euros in 2012, due primarily to the divestments.
Loans and advances to customers (126 billion euros in loans at the end of 2012, not including reverse repos) and securities (48 billion euros, 96% of which were debt instruments) continued to be the main products on the assets side of the balance sheet. On a comparable basis (i.e. excluding divestments and companies that fall under the scope of IFRS 5, and after eliminating transactions between KBC group companies), lending was up 1%, due primarily to an increase of 5% at the Belgium Business Unit and of 4% at the Central & Eastern Europe Business Unit, and a decline of 6% at the Merchant Banking Business Unit. The main credit products (including reverse repos) were again term loans (59 billion euros) and mortgage loans (54 billion euros). On a comparable basis (and after eliminating transactions between KBC group companies), total customer deposits (excluding repos) rose by 9% billion euros at group level. Deposits increased by 5% at the Belgium Business Unit, by 2% at the Central & Eastern Europe Business Unit, and by 23% at the Merchant Banking Business Unit (following the 45% decline there in 2011). As in 2011, the main products (including repos) were time deposits (53 billion euros), demand deposits (38 billion euros) and savings deposits (35 billion euros).
On 31 December 2012, the group's total equity came to 12 billion euros. This figure included parent shareholders' equity (11.3 billion euros) and minority interests (0.7 billion euros). On balance, total equity fell by 0.1 billion euros in 2012, due in part to the inclusion of the annual loss and changes in the available-for-sale reserve and cashflow hedge reserve. At year-end 2012, the group's tier-1 ratio (Basel II) amounted to 13.8% and its core tier-1 ratio to 11.4%.

Review of the business units

Net results per business unit

Consolidated income statement, KBC Bank: breakdown of result after tax, attributable to equity holders of the parent (in millions of EUR)	2011	2012
IFRS result	347	-306
Underlying result	635	1 178
Belgium Business Unit	422	623
Central & Eastern Europe Business Unit	298	642
Merchant Banking Business Unit	-113	-19
Group Centre (including planned divestments)	28	-68

When adjusted for non-operating or exceptional items, the underlying result stood at 623 million euros for the Belgium Business Unit (up 201 million euros on the figure for 2011, which had been badly affected by provisioning for the 5-5-5 investment product and by impairment charges relating to Greece), 642 million euros for the Central & Eastern Europe Business Unit (344 million euros more than in 2011, due primarily to much lower loan loss provisioning in Hungary and Bulgaria), -19 million euros for the Merchant Banking Business Unit (94 million euros more than in 2011, which had been adversely impacted by provisioning for the 5-5-5 investment product), and -68 million euros for the Group Centre.

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

Belgium Business Unit

The Belgium Business Unit comprises the group's retail and private banking activities in Belgium. The main group companies that belonged to this unit in 2012 were CBC Banque, KBC Asset Management, KBC Bank (retail and private banking activities in Belgium), KBC Lease (Belgian retail activities) and KBC Consumer Finance. We have now sold Centea and its results are included under the Group Centre until the date of sale.

The business unit contributed 623 million euros to the underlying results in 2012 (or 53% of the results for the group as a whole).

Market position in 2012*

820 retail and private banking branches

Estimated market share of 20% for traditional bank products and 35% for investment funds

3.2 million customers

* Market shares and customer numbers: based on own estimates (mostly at 30.09.12). Share for traditional bank products: average estimated market share for loans and deposits (retail and corporate customers). The number of branches includes the CBC Banque branches that cater for both corporate and retail customers, as well as the group's social profit and public sector branches.

Macroeconomic trends

Belgium, our most important domestic market, and a small, open economy, was not immune to the instability of the international economy in 2012. A certain amount of optimism was justified at the beginning of the year, at which point the leading indicators were suggesting an economic upturn for the key regions in the world economy. The European Central Bank had seemingly managed to ward off the euro crisis by providing unlimited long-term funding (Long Term Refinancing Operation). By the summer, however, the global economic situation had become gloomier and the euro crisis flared up again, due in part to the Spanish banking crisis. The slowdown of economic growth proved fairly short-lived in the United States and China, but was more persistent in the euro area, where austerity measures in various countries weighed heavily. The European Central Bank eased financial market tensions by announcing an unlimited purchase programme for government bonds (Outright Monetary Transactions) and a cut in its intervention rate. This had the effect of narrowing long-term spreads between the sovereign paper of most euro countries, on the one hand, and German government paper, on the other, and pushing down most other risk premiums.

Against that backdrop, the Belgian economy generally marked time in 2012. Export growth naturally suffered from the weakness of key export markets, but consumer spending was also rather weak, and investment demand fell back, too. The increase in unemployment remained relatively limited. Confidence in Belgian government paper returned, with the result that the surge in the spread with Germany that had occurred a year earlier was entirely eliminated by the end of 2012.

2013 will be another year of economic uncertainty. We expect employment growth and the recovery of the housing market in the United States to sufficiently offset the negative economic impact of the budgetary measures introduced to stave off the fiscal cliff, which – together with a firming of economic growth in China – ought to keep the world economy out of recession. The strengthening of economic and monetary union in Europe, including steps toward a banking union, should restore confidence and hence boost growth in the second half of the year. For the Belgian economy, the outlook for 2013 will also depend heavily on the speed at which employees made redundant can get back to work, filling the still relatively large number of vacancies. We believe that the increase in unemployment should be limited, and that should boost purchasing power and consumer confidence. Exports will benefit from an improving economy and from gains – albeit fairly limited so far – in competitiveness. This will be supported by the measures taken by the Belgian government in drawing up its budget for 2013 and by the easing of inflation. Together, these factors should enable slightly positive economic growth to be recorded. This outlook is based on forecasts made at the start of 2013 and, therefore, the actual situation could differ (considerably).

Activity in 2012

The retail network of KBC Bank and CBC Banque offers a wide range of loan, deposit, asset management, insurance (in collaboration with KBC Insurance) and other financial products for private individuals and smaller SMEs. The private banking branches, meanwhile, also offer wealthy clients a wide range of specific services, including advisory and discretionary asset management tailored to each client's requirements.

The retail strategy that KBC pursues in Belgium is and will remain based on being deeply embedded locally through a close-knit network of bank branches (working closely with KBC Insurance agencies), backed up by a complementary online channel. At the end of 2012, our Belgian network consisted of around 800 KBC Bank and CBC Banque retail and private banking branches (and some 500 tied KBC Insurance and CBC Assurances agencies). We focus explicitly on relationship bank-insurance, tailored to each client and offering every client readily available expertise.

A few years ago, we launched a programme to further optimise the structure of our commercial network in Belgium. The project is called 'Net 3.0' in Flanders and Brussels, and we began its phased rollout at the beginning of 2011. We finished setting up the new structure and installed the related roles and teams in 2012.

We adjust our product and service offering all the time to take account of the changing needs of our clients, new legislation and social trends. Examples of new products include Start2Save – a formula that, among other things, enables new savers to set aside small amounts regularly, at a higher return than a traditional savings account – and Start2Enjoy, a unit-linked insurance product that allows the investor to withdraw amounts at fixed times by switching from one fund to another at appropriate moments.

A very important feature of our model in Belgium is the unique co-operation between branches (of KBC Bank and CBC Banque) and agencies (of KBC Insurance and CBC Assurances) in micro markets. Working together like this enables us to deliver a product offering to our clients that is aligned with their needs. A few figures help illustrate the success of our model. At year-end 2012, no less than 47% of households that are with KBC Bank also held at least one KBC Insurance product. Almost 20% even held at least three banking and three insurance products from KBC in their portfolio. In another example, we sold a KBC Home Insurance policy to go with eight out of every ten home loans granted. The same goes for home loans and loan balance insurance.

We are actively investing in mobile bank-insurance too. KBC mobile banking apps enable clients with a KBC-Online contract to check their account balance, transfer funds and more besides on their smartphones and tablets. In February 2012, the KBC Mobile Banking app won the public vote in the 'Financial Services' category of the Accenture Innovation Award, and in January 2013 came fourth in the 'Belgian apps' category of the 'Site of the Year' contest organised by the computer magazine *Clickx*. In addition, we launched an app specially designed for businesses at the start of January 2013.

We gave our website for private individuals a complete overhaul in 2012, reconceiving the homepage as a dashboard containing messages about accounts and personal information, among other things. We also launched new sites for young people and for agents.

We launched the Save for Goals facility especially for our active online and mobile users. It allows clients to save toward specific goals in a unique, simple and visually appealing way. They open a KBC Savings Account, to which they can then easily link a goal, a target amount and a photo of their choice. Savers can track their progress with a savings meter and also share their savings goal with friends and family on Facebook using the KBC Mobile Banking app.

KBC-Online is providing clients with ever more information and facilities to perform their own banking and/or insurance transactions. It already boasts over a million subscribers, 850 000 of whom are active users. Our Mobile Banking app now has over 50 000 active users. And we are constantly increasing our accessibility via social media like LinkedIn, Facebook, YouTube and Twitter. We enhanced KBC-Online for Business, as well. For example, self-employed people and members of the liberal professions can now manage their personal and business accounts using the same e-banking application, and we have made it easier for businesses to request a KBC payment button for their website.

Our wide-ranging and bespoke product offering makes us one of Belgium's leading financial institutions. Based on provisional data and our own estimates, our share of the Belgian market amounted to roughly 23% in lending and 17% in deposits at year-end 2012. As in previous years, we did very well in the investment fund market, as illustrated by an estimated share of 35%.

The group's divestment plan included the sale of Centea and (KBC Insurance subsidiary) Fidea, both formerly part of the Belgium Business Unit. We completed the sale of Centea to Landbouwkrediet in July 2011 and finalised the sale of Fidea to J.C. Flowers & Co. in March 2012. These deals marked the completion of the divestment programme for this business unit.

KBC in society

As a major financial institution in Belgium, KBC attaches a great deal of importance to its place in and contribution to society in general.

We are, for instance, one of the country's largest employers and as such we focus intensively on employee satisfaction. We conduct annual employee satisfaction surveys of our own, and use the findings to take selective measures. In an external survey organised by the Vlerick Leuven Gent Management School and the Great Place to Work® Institute in 2012, KBC was recognised as one of the ten 'Best Large Employers in Belgium' for the seventh year in a row.

Given its importance to relationship bank-insurance, we also track customer satisfaction very closely. The annual survey of our bank branches conducted in 2012 confirmed the trend of recent years, which is one of persistently high satisfaction among our clients. In statistical terms, 95% of our clients rated themselves as being satisfied, a result virtually unchanged from the previous year.

Our involvement in society is also expressed through a range of initiatives in areas like combating social deprivation and exclusion, the environment and our product offering. Through our social sponsorship activities, we focus on projects in the area of health and road safety, with the emphasis on prevention. To give some examples, we have partnered the Belgian road safety campaigns *Levenslijn* and *Mobiel 21* for many years now, and we hold regular blood donation sessions at our head offices in collaboration with the Red Cross. We have also worked closely for numerous years with the cancer charity, *Kom Op Tegen Kanker*, providing both financial donations and infrastructure. The KBC4Society project, meanwhile, enables KBC departments and branches in Belgium to devote their budget for an annual team-building event to an initiative that offers added social, cultural or ecological value. We also support the *Belgische Raiffeisen Stichting* (BRS) – a not-for-profit organisation that promotes the creation of savings, loans and insurance societies in certain countries in the Southern hemisphere. We actively sponsor many cultural and sporting events as well, such as the *Ronde van Vlaanderen* (a road cycling race held in Flanders), the *KBC Nacht van de Atletiek* (an athletics event) and a number of summer festivals.

Our social engagement is also apparent in our approach to young people. KBC gained regular media coverage through our GenerAction campaigns. The 'Rock Werchter in your Blood' campaign, for instance, encouraged students to donate blood or plasma. As part of the 'Save CO_2 with KBC' campaign, for each young person's account opened, we donate one euro to the 'ARGUS Trees for Life' project, which plants trees in Belgium and Africa. Our festival stand raised the funds to plant almost 7 000 trees in the *Hopperbos* project. Lastly, we have committed to planting a six-hectare 'All Digital' wood provided we reach certain targets for the number of clients who carry out their banking and insurance business electronically. This initiative is part of a campaign to persuade as many clients as possible to opt for digital communication. At the same time, we are systematically increasing the range of documents available in digital form. An example of this is the possibility for KBC-Online and CBC-Online clients to consult their account information and certain correspondence digitally. In this way, we are helping to reduce the amount of paper used in external communication.

We place great importance on our ecological footprint, which we monitor systematically. To that end, we made the non-recurrent results-based bonus paid to our employees in Belgium subject for the first time to reaching green, sustainable targets, including electricity consumption, CO_2 emissions from company cars and paper consumption.

One of the measures we took in that regard in 2012 was to encourage virtual meetings as an alternative to business travel. This was achieved by, for instance, providing tips via Intranet on web meetings and video and audio-conferencing. The specific goal is to virtualise at least one in five meetings that normally require participants to travel.

Employees who cycle to work also receive an additional financial stimulus, rail-users have their season tickets fully reimbursed, car-poolers are given guaranteed parking spaces and the company car fleet now also includes hybrid vehicles. In addition, KBC takes part in initiatives like ‘Bike to Work’ and ‘Mobility Week’.

In December 2012, we opened our first energy-efficient branch in Belgium (Gooik-Leerbeek). The building has been given a rating of E1 for its energy efficiency (the legal standard on 1 January 2012 was E70) and a K-value of 25 for overall heating and insulation (the legal standard is K40). The way this branch was constructed illustrates how sustainability and a modern bank branch can go hand in hand.

Belgium in the new group structure from 2013

The KBC group unveiled its renewed strategy in October 2012. This strategy and the new group management structure associated with it are described in the ‘Strategy, company profile and structure’ section. Within the new structure, the Belgium Business Unit has been extended to include Belgium Corporate Banking, which was previously part of the Merchant Banking Business Unit.

Central & Eastern Europe Business Unit

The Central & Eastern Europe Business Unit comprises all activities pursued in Central and Eastern Europe. The main companies that belonged to this unit in 2012 were CIBANK (Bulgaria), ČSOB (Slovakia), ČSOB (Czech Republic) and K&H Bank (Hungary). Absolut Bank in Russia, the minority interest in Nova Ljubljanska banka in Slovenia and Kredyt Bank in Poland, which were or are being divested, also belong to this business unit, but their results are recognised under the Group Centre.

The business unit contributed 642 million euros to the underlying results in 2012 (or 54% of the results for the group as a whole).

Market position in the core markets (Czech Republic, Slovakia, Hungary, Bulgaria) in 2012*

799 bank branches

4.7 million customers

Market share (bank products/investment funds)

Czech Republic	20% / 30%
Slovakia	10% / 8%
Hungary	8% / 20%
Bulgaria	2% / –

* Market shares and customer numbers: based on own estimates. Share for traditional bank products: average estimated market share for loans and deposits. Bank branches by country: 322 in the Czech Republic (ČSOB Bank + Postal Savings Bank), 132 in Slovakia, 236 in Hungary, 109 in Bulgaria.

Macroeconomic trends

Like Belgium, most of our Central and Eastern European core markets suffered from the weakness of the euro area economy. Deteriorating domestic demand also weighed on economic growth in the Czech Republic and Hungary. Against a backdrop of rising unemployment, consumer demand was stifled by budget austerity and precautionary saving. On top of that, Hungary suffered from weak investment. Overall, both countries saw their economies contract by over 1% in 2012. Exports slowed in Bulgaria too. Domestic demand held up better, with the result that economic growth was slightly positive on balance. The Slovakian economy performed remarkably well in this context. Driven by exceptionally dynamic output in the automotive industry, it grew by 2.5%, although it lost steam as the year progressed.

2013 is likely to be another economically challenging year. Broadly speaking, we anticipate zero economic growth for the Czech Republic, whereas the Hungarian economy should grow slightly and the Bulgarian economy expand by around 1.5%. Growth is expected to slow down to roughly 1% in Slovakia. This outlook is based on forecasts made at the start of 2013 and, therefore, the actual situation could differ (considerably).

Update on the situation in Hungary: K&H Bank reported significant additional impairment charges on its mortgage portfolio in 2011, due to the new law that came into force in that year concerning foreign-currency mortgage loans, resulting in a credit cost ratio of 438 basis points for 2011. This ratio fell again to 78 basis points in 2012. At year-end, roughly 11.4% of the loan portfolio was non-performing, compared with 10.5% at the end of 2011. An overview of K&H Bank's loan portfolio can be found in the 'Value and risk management' section.

Activity in 2012

As noted, we focus in Central and Eastern Europe on the core markets of the Czech Republic, Slovakia, Hungary and Bulgaria. That will remain the case in the new strategy as of 2013. In each of these four countries, we own a bank and (through sister company, KBC Insurance) an insurer that work together closely. Whereas KBC works exclusively with a network of tied agents in Belgium, the group's insurers in Central and Eastern Europe also co-operate with other distribution channels, including insurance brokers and multi-agents.

The group's strategic plan requires us to divest our holdings in the other markets in the region. At the end of February 2012, we concluded an agreement with Banco Santander SA with regard to the merger of our respective Polish banking subsidiaries, Bank Zachodni WBK SA and Kredyt Bank SA. Following the merger, KBC ultimately aims to divest its remaining shareholding in the merged bank. We concluded sale agreements for Absolut Bank and for the minority stake in Nova Ljubljanska banka at the end of December 2012. The group does not intend to make any significant acquisitions in the region in the years ahead.

As in Belgium, our group companies in each of the four Central and Eastern European core markets offer a wide range of bank products (including loans, deposits and various specialised financial services), insurance products (life and non-life via the subsidiaries of KBC Insurance) and asset management products (except in Bulgaria). We constantly screen and adjust this product range. For example, in Hungary, K&H Bank launched a CPPI fund (an actively managed fund that complements the existing range of open-ended and capital-protected funds) and made a number of improvements in its payments offering for corporate clients (including a new intraday clearing system for local currencies and new cross-border cash-pooling solutions). In Bulgaria, CIBANK came out with new products for every client segment, ranging from consumer loans linked to energy subsidies for private individuals to new products for members of the liberal professions, and extended its range of trade finance products for SME and corporate clients. In Slovakia, ČSOB Bank introduced numerous new products and product variations, including for mortgages, investments and payments.

We are a major player in the region. In 2012, we had a market share in traditional bank products (average of loans and deposits) of an estimated 20% in the Czech Republic, more than 10% in Slovakia, more than 8% in Hungary and just above 2% in Bulgaria. As in Belgium, our share of the market in investment funds is greater in the Czech Republic and Hungary than that of the market in traditional deposit products. At year-end, we estimate it at 30% in the Czech Republic, 20% in Hungary and 8% in Slovakia.

KBC in society

As a major financial player in Central and Eastern Europe, we set great store – as we do in Belgium – by the role we play in society in our group's core markets.

We are, for instance, a large employer not only in Belgium but in our core Central and Eastern European markets too, and as such we focus intensively on employee satisfaction. We also conduct annual employee satisfaction surveys of our own, and use the findings to take selective measures.

Our staff in Central and Eastern Europe are also given various opportunities to improve their work-life balance. They may, for instance, work part time, take parental leave, breastfeeding leave and temporary unpaid leave for personal or family reasons. We also take account of the changing needs and working patterns of older employees, offering them the possibility to make the switch to retirement gradually by reducing their working hours over time, among other things.

Given its importance within a relationship bank-insurance approach, we also track customer satisfaction very closely. Every year, all of the main Central and Eastern European group companies conduct a customer satisfaction survey and use the results to launch new campaigns. The surveys conducted in our bank branches in the region show that roughly 80% of our clients describe themselves as being satisfied.

Our social engagement in Central and Eastern Europe is also expressed in the initiatives our group companies take in areas like patronage, combating social deprivation and exclusion, the environment and product offering. K&H in Hungary, for instance, provides material and financial help for sick children through its 'K&H MediMagic' programme, and promotes financial education by organising the national 'K&H Ready, Steady, Money' contest, in which students' financial knowledge is tested. Financial education is also the focus of the 'ČSOB Head and Heel Programme' in Slovakia, where university students are encouraged to find a creative approach to a financial topic. ČSOB in Slovakia also organises the ČSOB Bratislava Marathon, with which a variety of charities are affiliated, and supports a number of NGOs through its 'Employee Grant Programme'. ČSOB in Slovakia meanwhile published a first CSR report of its own in 2012.

In the Czech Republic, ČSOB promotes financial literacy through its 'ČSOB Education Fund Programme', which includes actual funding for the submitted projects. The 'ČSOB Helping Together Programme' is a voluntary initiative, where ČSOB employees get the opportunity to do voluntary work for various not-for-profit organisations.

Central and Eastern Europe in the new group structure from 2013

The KBC group unveiled its renewed strategy in October 2012. This strategy and the new group management structure associated with it are described in the 'Strategy, company profile and structure' section. In simple terms, the Central & Eastern Europe Business Unit will be split within the new management structure and a separate Czech Republic Business Unit created, reflecting the exceptional importance of that country within the group's overall Central and Eastern European operations. Operations in the other core countries – Hungary, Slovakia and Bulgaria – will be grouped under the International Markets Business Unit.

Merchant Banking Business Unit

The Merchant Banking Business Unit comprises corporate banking and market activities in Belgium and abroad (apart from those in Central and Eastern Europe). The main group companies belonging to this business unit in 2012 were KBC Bank (merchant banking activities), KBC Commercial Finance, KBC Bank Ireland, KBC Credit Investments, KBC Lease (corporate), KBC Internationale Financieringsmaatschappij and KBC Securities. Antwerp Diamond Bank, KBC Bank Deutschland, KBC Financial Products and KBC Peel Hunt, which were or are being divested, also belong to this business unit, but their results will be recognised under the Group Centre until they are sold.

The business unit contributed -19 million euros to the underlying results in 2012 (or -2% of the results for the group as a whole).

Market position in 2012*

13 corporate branches in Belgium, 16 abroad

Estimated 26% share of the corporate credit market in Belgium

* Market shares: based on own estimates. The number of corporate branches in Belgium excludes the CBC Banque branches that cater for both retail and corporate customers. Branches abroad are the bank branches and representative offices of KBC Bank and KBC Bank Ireland. KBC Bank Deutschland not included in these figures.

Activity in 2012

The Merchant Banking Business Unit focuses on market activities and corporate banking for clients in Belgium and abroad, provided there is a link with KBC's core markets in Belgium and Central Europe. Our merchant banking activities comprise a wide range of services, including lending, cash management, payments, trade finance, leasing, money market activities, capital market products, stockbroking and corporate finance. These activities will be spread across a number of business units under the new business unit structure (see elsewhere in this report).

We are one of the largest corporate banks in Belgium and estimate our share of the corporate credit market at roughly 26% in 2012. We offer our services via a network of 13 KBC Bank corporate branches, several CBC Banque branches that cater for both retail and corporate clients and various specialised service-providers and subsidiaries. We also have a small number of branches and subsidiaries elsewhere in the world, including KBC Bank Ireland, which we have reviewed separately below.

In line with the group's strategic focus, we have re-oriented our operations abroad to the maximum possible extent in recent years to support clients from our core markets, We have scaled back the other activities, including the divestment of KBC Peel Hunt, several subsidiaries of KBC Securities, various KBC Financial Products activities, KBC Business Capital and KBC Private Equity's portfolio, all of which has happened over the past three years. Over the past few years, we also closed a number of our branches outside Belgium.

At year-end 2012, the Merchant Banking Business Unit's total portfolio of credit drawn down amounted to 49 billion euros, 43% of which related to Belgian companies, 33% to Ireland (see below) and the remainder primarily to the US, UK, rest of Europe and Southeast Asia.
The Irish loan portfolio stood at about 16 billion euros at the end of the year, approximately three quarters of which relates to mortgage loans. The rest is more or less equally divided across SME and corporate loans, and loans related to real estate investment and development. In 2012, the group set aside another 0.5 billion euros in loan loss provisions for its Irish portfolio, on top of the 0.5 billion euros provisioned in 2011. At year-end 2012, roughly 23% of the total Irish loan portfolio was non-performing, compared with 18% a year earlier. The credit cost ratio came to 334 basis points in 2012 and the cover ratio for the Irish portfolio (all loan loss provisioning relative to the non-performing loan portfolio) to approximately 46%. The Irish economy appears to be growing modestly, albeit in fits and starts. A solid export performance and growing signs of stabilisation in domestic activity have coincided with improved market sentiment. However, given the challenging global environment and ongoing budget austerity, economic recovery is likely to be gradual. Nevertheless, higher tax revenues, a marginal easing in unemployment and broadly encouraging survey data suggest domestic activity is approaching a turning point, while recent data on housing transactions and prices seem consistent with a bottoming out in the housing market.

KBC Securities was also part of the Merchant Banking Business Unit until the end of 2012. It specialises in stockbroking, related professional services and corporate finance. In addition to its presence in Belgium, KBC Securities is active through its own establishments in a number of KBC's Central European core countries, where it strives to achieve a significant market position as a local player. Through its integrated execution platform, KBC Securities provides various market parties with access to a global network of stock markets and custodians. In January 2013, it was named 'No. 1 Brokerage House Derivatives Market' and 'No. 1 Brokerage House Mid & Small Caps' at the NYSE Euronext Brussels Awards 2012.

Merchant Banking in the new group structure from 2013

The KBC group unveiled its renewed strategy in October 2012. This strategy and the new group management structure associated with it are described in the 'Strategy, company profile and structure' section.
In the new structure, the Merchant Banking Business Unit will be split into the following principal entities:

- Belgium Corporate Banking which, in keeping with the 'local responsiveness' principle, we are transferring to the Belgium Business Unit. Corporate banking operations outside Belgium will also be placed in the Belgium Business Unit.
- Market-related activities and KBC Securities, which we are allocating to the International Product Factories Business Unit.
- KBC Bank Ireland, which we are placing in the International Markets Business Unit.

Shared Services & Operations Business Unit

This business unit supports and provides products to the other business units. The main divisions belonging to this unit in 2012 were Asset Management, Payments, Consumer Finance, Trade Finance, ICT, Lease and Organisation.

The results for this business unit are not reported as all its income and expenses are allocated to the group's other units.

Market share in 2012[1]

Investment funds: 35% in Belgium, 30% in the Czech Republic, 8% in Slovakia and 20% in Hungary.

Documentary credit: 35% in Belgium, 31% in the Czech Republic, 20% in Slovakia and 16% in Hungary.

Leasing: 14%[2] / 21%[3] in Belgium, 13% in the Czech Republic, 18% in Slovakia and 4% in Hungary.

Consumer finance: 6% in Belgium, 9% in the Czech Republic, 4% in Slovakia and 2% in Hungary.

1 Market shares are based on own estimates and therefore are indicative.
2 Full-service car leasing.
3 General leasing.

Activity in 2012

The Shared Services & Operations Business Unit provides a quality service at a competitive price to its internal clients (e.g., the group's distribution channels) and external clients. For that reason, we constantly take initiatives to increase efficiency and quality of service, and to reduce costs. It was with that in mind that we launched our 'Lean' project. Embedding 'Lean' principles in our corporate culture has promoted a focus on continuous improvement. By devolving accountability to every employee for identifying and tackling waste, we can create maximum value for our clients. All the relevant divisions were operating according to Lean principles by year-end 2012. As part of the new structure introduced at the start of 2013, we have reallocated this business unit's activities to the other business units and divisions (see below and elsewhere in this report).

The geographic focus of this business unit was on the core markets in Belgium and Central and Eastern Europe. We have scaled back the other activities in recent years. Examples include the sale of KBC Asset Management's Irish and UK operations, the sale of KBC Asset Management's stake in KBC Concord in Taiwan and in KBC Goldstate in China, the sale of KBC Lease's Romanian, Spanish, Italian and Polish activities, and the management buy-out of KBC Lease Deutschland.
We developed a new business model for asset management in Poland, whereby KBC TFI sells products developed by KBC Asset Management through several distributors in that country rather than through Kredyt Bank alone.

In the new group structure, the divisions belonging to this business unit will continue to strive, as always, to improve service by exploiting synergies and sharing best practices. A good example in this regard is the roll-out of a uniform trade finance processing platform in our core markets. This unique back-office platform, together with the no less unique Flexims front-end system which has been in use for some years, generates significant productivity gains and makes it very easy to exchange specialists and best practices between the different countries. Another example – this time in the area of payments – is the connection of ČSOB in the Czech Republic and Slovakia to our group platform for international payments. A fine example in the case of asset management is the collaboration with and support from Belgium for the roll-out of funds offering a monitoring mechanism for the floor price in Slovakia, Hungary and the Czech Republic.

We regularly screen and optimise our product offering. In 2012, that paid off at a number of companies, including KBC Asset Management, which again developed numerous innovative investment products. One such product was Comfort4Life Defensive, a fund with a mechanism to monitor the floor price, which investors can buy into via a standing order. We also launched our first 'longevity' product called Start2Enjoy. Products that allow investors to spread their investments across a number of set intervals were popular, too. This approach has proved successful, as reflected in persistently strong shares of the investment fund market primarily in Belgium, the Czech Republic and Hungary, where we score considerably higher than with traditional loan and deposit products.

As regards consumer finance in 2012, we had robust sales in the Czech Republic, thanks to various product improvements, and we successfully introduced a new credit card in Hungary despite the difficult market conditions. 2012 also saw the successful launch of a consumer finance product factory in Slovakia.

We once again picked up a variety of awards in 2012. Global Finance magazine, for instance, again chose KBC Bank as its 'Best Trade Finance Provider' in Belgium, and likewise ČSOB in the Czech Republic. And both banks again picked up the title of 'Best bank' in their respective countries. KBC Asset Management's funds also featured regularly among fund awards in Belgium and elsewhere. KBC Asset Management, for example, took Morningstar's 'Best Large Fixed-Interest Fund House' award in early 2012.

Research & development

We constantly develop new products and services to align our offering as closely as possible with market demand. We have a specific process within the group, for instance, to support research and development of new products by enhancing the efficiency with which approval is granted for new product and service launches. It also entails a thorough analysis of all relevant risks and the proposal of actions to avoid or manage those risks. In addition, we regularly review all our products, so that existing ones can be adapted to evolving customer needs and changing market conditions. We further optimised this process in the past year in line with 'Lean' concepts, and we rolled out a documentation application to enhance support of process monitoring and to facilitate research.

Besides the projects and products mentioned in this section, we have provided several examples of new product developments in 2012 elsewhere in this annual report. New products and services are often developed in tandem with new software. Details of software developed in-house can be found in Note 30 of the 'Consolidated financial statements'.

The activities of this business unit in the new group structure from 2013

The KBC group unveiled its renewed strategy in October 2012. This strategy and the new group management structure associated with it are described in the 'Strategy, company profile and structure' section. Within that new structure, we are reallocating the activities of the Shared Services & Operations Business Unit to the following entities:

- Product factories by country and international product factories. We are allocating truly international product factories like Asset Management, KBC Securities, Trade Finance, Consumer Finance and Financial Institutions to the International Product Factories Business Unit. Other, not truly international product factories (e.g., Lease) will be allocated across different business units as (embedded) product factories by country.
- We are placing international service-providers like ICT into Corporate Change & Support.

Group Centre

The Group Centre includes a small portion (not attributable to the other business units) of the results and intersegment eliminations. It also contains the results of companies scheduled for divestment. The most important of these are Centea, Absolut Bank, the minority interest in Nova Ljubljanska banka, Kredyt Bank, KBC Financial Products, KBC Peel Hunt, Antwerp Diamond Bank and KBC Bank Deutschland. Many of these companies have now been sold.

The Group Centre contributed -68 million euros to the underlying results in 2012 (or -6% of the results for the group as a whole).

Divestment history

The principal divestments for KBC Bank since 2010 – based on the year in which the agreement was concluded, not the year the deal was closed – are as follows:

- 2010: KBC Peel Hunt, various specialised merchant banking activities at KBC Financial Products, KBC Asset Management's UK and Irish activities, KBC Securities Baltic Investment Company and KBC Business Capital.
- 2011: Centea, KBC Concord Asset Management and KBC Securities' Serbian and Romanian operations.
- 2012: KBC Goldstate, Zagiel, Kredyt Bank (via merger with Bank Zachodni WBK), KBC Autolease Polska, KBC Lease Deutschland, participating interests held by KBC Private Equity, Absolut Bank (deal not yet completed) and the minority stake in Nova Ljubljanska banka.

The divestment programme had been largely completed at KBC group level by the opening months of 2013. For KBC Bank, the only significant divestments still to be carried out are Antwerp Diamond Bank in Belgium and KBC Bank Deutschland in Germany. Preparatory work has been carried out for most of these projects, and impairment recognised in 2012. We are continuing our open and constructive dialogue with the European Commission and have agreed certain deadlines and procedures for completing a number of the remaining divestment projects.

The following table contains more information about divestments for which an agreement has been signed and which were either completed in 2012 or have yet to be completed.

Notes on recent divestments			
File	Agreement date	Closing date*	Description (situation and calculation of impact when deal announced)
Kredyt Bank (banking, Poland)	February 2012	Recent developments can be found in note 43 of the Consolidated financial statements.	Agreement with Banco Santander SA on merging the Polish subsidiaries, Bank Zachodni WBK SA and Kredyt Bank SA. The deal freed up about 0.5 billion euros of capital on the date of the merger, based on the market valuation at the beginning of December 2012. The Polish financial regulator approved the merger in early December 2012. Recent developments can be found in note 43 of the Consolidated financial statements.
Absolut Bank (banking, Russia)	December 2012	Not yet completed	Agreement to sell Absolut Bank to the group of Russian companies that manage the assets of the BLAGOSOSTOYANIE pension fund. This deal – for a total consideration of 0.3 billion euros plus repayment of all KBC funding (0.7 billion euros) that is currently placed with Absolut Bank – will free up around 0.3 billion euros of capital, primarily by reducing risk-weighted assets by 2 billion euros. When finalised, the deal is expected to have an impact of some -0.1 billion euros on net profit. The regulator has still to approve the deal.
Nova Ljubljanska banka (NLB) (banking, Slovenia)	December 2012	March 2013	Agreement with the Republic of Slovenia on the sale of the 22% stake in NLB for around 2.8 million euros. This deal has had a negative impact of 0.1 billion euros on 2012 earnings, while its effect on capital is negligible.
Smaller files	–	–	Agreement signed with Value Partners Ltd. in March 2012 concerning the sale of the 49% stake in KBC Goldstate in China. Agreement signed with Business Lease Group in May 2012 regarding the sale of KBC Autolease Polska. Sale of Żagiel to Santander finalised in July 2012. Management buy-out of KBC Lease Deutschland completed in September 2012. Agreement signed with private equity fund KeBeK I in December 2012 for the sale of most of KBC Private Equity's remaining portfolio.

* Situation when annual report went to press.

Value and risk management

Mainly active in banking and asset management, we are exposed to a number of typical industry-specific risks and uncertainties such as – but not exclusively – credit default risk, country risk, movements in interest rates and exchange rates, liquidity risk, operational risks, exposure to emerging markets, changes in regulations, customer litigation, as well as the economy in general. One aspect of the business risk is that the macroeconomic environment and the ongoing restructuring plans may have a negative impact on asset values or could generate additional charges beyond anticipated levels. Obviously, the activities of a large financial group such as ours are inherently exposed to other risks that only become apparent with the benefit of hindsight.

This section of our annual report focuses on our risk governance model and most of the material risks we face, namely credit risk, market risk, liquidity risk, as well as our capital adequacy.

Our statutory auditors have audited the information in this section that forms part of the IFRS financial statements, viz.:

- the entire ‘Risk governance’ section;
- certain parts of the ‘Credit risk’ section, namely the introduction, ‘Managing credit risk’, the ‘Loan and investment portfolio, KBC Bank' table (audited parts are indicated in the footnote to the table), the tables regarding the loan and investment portfolio of KBC Bank Ireland and K&H Bank, the ‘Other credit exposure, KBC Bank’ table, and ‘Overview of exposure to sovereign bonds’;
- certain parts of the ‘Market risk in non-trading activities’ section, namely the introduction, ‘Managing market risk in non-trading activities’, ‘Interest rate risk’ (except for the ‘Impact of a parallel 100-basis-point increase in the yield curve for KBC Bank’ table) and ‘Foreign exchange risk’;
- the ‘Liquidity risk’ and ‘Market risk in trading activities’ sections in their entirety;
- certain parts of the ‘Capital adequacy’ section, namely the introduction, ‘Managing solvency’, the ‘Solvency at KBC Bank’ table (audited parts are indicated in the footnote to the table).

Remark:

Please note that, unless otherwise stated Absolut Bank, Antwerp Diamond Bank, KBC Bank Deutschland (and the minority shareholding in Nova Ljubljanska banka) in 2012, which have all been recognised as ‘disposal groups’ under IFRS 5, have been excluded from the various tables in order to maintain consistency with their treatment in the balance sheet. We have provided summary information for these entities separately in the footnotes under these tables.

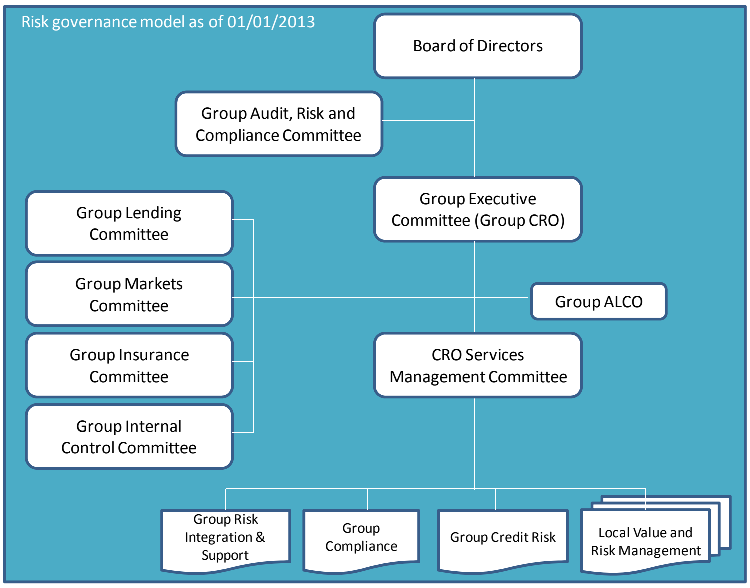
Risk governance

Risk governance in KBC Bank is fully embedded in the risk governance of the KBC Group. Below, the governance model of the KBC Group is highlighted.

In financial year 2012, our risk governance model was characterised primarily by:

- the Board of Directors (assisted by the Audit, Risk and Compliance Committee (ARC Committee)) which sets the risk appetite each year, monitors risks and proposes action, where necessary. More information on the Board of Directors and the ARC Committee can be found in the section entitled ‘Corporate governance statement’.
- integrated architecture centred around the Executive Committee that links risk appetite, strategy and performance goal setting via capital allocation to limits and targets. Along with a consequential monitoring process, this creates the parameters for the business to take risks within the overall strategic choices and risk appetite of the group.
- the Group Risk and Capital Oversight Committee (GRCOC), the activity-based Asset/Liability Management Committee (ALCO), the Group Risk Management Committee and activity-based risk subcommittees that leverage the time of the Executive Committee.
- a single, independent, group-wide risk function that comprises the Group Chief Risk Officer (CRO), local CROs, and group and local risk functions.
- risk-aware business people, who act as the first line of defence for conducting sound risk management in the group. The Risk and Compliance functions act as the second line of defence, while Internal Audit is the third line.

As of 2013, a new risk governance model will be put in place to take account of changes in the organisational structure of KBC.



This new model will be characterised primarily by:

- the Board of Directors (assisted by the ARC Committee) which sets the risk appetite each year, monitors risks and proposes action, where necessary.
- integrated architecture centred around the Executive Committee that links risk appetite, strategy and performance goal setting.
- the CRO Services Management Committee and activity-based risk committees mandated by the Group Executive Committee.
- risk-aware business people, who act as the first line of defence for conducting sound risk management in the group.
- a single, independent risk function that comprises the Group Chief Risk Officer (CRO), local CROs, local risk functions and the group risk function. The risk function (together with the compliance function) acts as the second line of defence, while Internal Audit is the third line.

Relevant risk management bodies and control functions:

- Group Executive Committee:
  - Makes proposals to the Board of Directors about risk and capital strategy, risk appetite, and the general concept of the KBC Risk Management Framework.
  - Decides on the non-strategy-related building blocks of the KBC Risk Management Framework and monitors its implementation throughout the group.
  - Allocates capital to activities in order to maximize the risk-adjusted return.
  - Acts as the leading risk committee, covering material issues that are channeled via the specific risk committees or the Group Asset/Liability Management Committee (Group ALCO).
  - Monitors the group's major risk exposure to ensure conformity with the risk appetite.
- Group ALCO:
  - Is a business committee that assists the Group Executive Committee in the domain of (integrated) balance sheet management at group level. It handles matters related to ALM and liquidity risk.
- Risk committees:
  - The CRO Services Management Committee supports the Group Executive Committee in assessing the adequacy of, and compliance with, the KBC Risk Management Framework and defines and implements the vision, mission and strategy for the CRO Services of the KBC group.
  - The Group Lending Committee (GLC) supports the Group Executive Committee in setting, monitoring and following up limits for lending activities (funding, liquidity and ALM issues related to lending activities remain the responsibility of the Group Executive Committee/Group ALCO).
  - The Group Markets Committee (GMC) supports the Group Executive Committee in in setting, monitoring and following up limits for markets activities (trading activity, where there is not only market risk, but also operational and counterparty credit risks).
  - The Group Insurance Committee (GIC) supports the Group Executive Committee in in setting, monitoring and following up limits for insurance activities at group level.
  - The Group Internal Control Committee (GICC) supports the Group Executive Committee in monitoring and strengthening the quality and effectiveness of KBC's internal control system.

- Local Chief Risk Officers (LCROs) are situated throughout the group according to a logical segmentation based on entity and/or business unit. Close collaboration with the business is assured since they take part in the local decision-making process. Independence of the LCROs is achieved through a direct reporting line to the Group CRO.
- Group Risk Integration & Support and Group Credit Risk (known collectively as 'the Group risk function') have a number of responsibilities, including monitoring risks at an overarching group-wide level, developing risk and capital models (while business models are developed by business), performing independent validations of all risk and capital models, developing risk frameworks and advising/reporting on issues handled by the Group Executive Committee and the risk committees.

The overall conceptual structure of the KBC Risk Management Framework was defined in 2011. The design phase for all frameworks was concluded in 2012. Performance is assessed on a yearly basis as part of the Internal Control Statement.

Please note that all the processes described in the rest of this section refer to the risk governance model that was in place during 2012.

Credit risk

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

Managing credit risk

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

Credit risk management at transactional level

We have sound acceptance policies and procedures in place for all kinds of credit risk exposure. However, we are limiting our description here to exposures related to traditional loans to businesses and to lending to individuals, as these account for the largest part of the group's credit risk exposure.

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

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

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

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

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

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

In order to avoid a situation where an obligor facing financial difficulties ends up defaulting, we can decide to renegotiate its loans in accordance with internal policy guidelines. Renegotiated loans are loans whose original payment terms have been altered, due to a deterioration in the borrower's financial condition. Renegotiation may involve changing the contractual repayment schedule, lowering or postponing interest or fee payments, or partially charging-off the loan as uncollectible. The negotiated changes must be reflected in a new, or an amended, and duly signed loan agreement.
A client with a renegotiated loan will in principle be assigned PD class 9 or higher.
If – based on the bank's assessment of the borrower's revised financial projections/restructuring plans – there is a reasonable chance that the borrower will be able to meet the renegotiated terms of the loan, and the expected loss (in the broad sense) for the bank after renegotiation will be lower than it would have been without renegotiation, the credit committee will assign/confirm PD 9. However, if a renegotiated loan is approved and the credit committee is of the opinion that it is unlikely that the borrower will be able to meet the renegotiated terms – or if a loan to a counterparty was (partially) charged off – PD class 10 (or higher) will be assigned. In this case, it is highly likely that an impairment charge will be recorded. An obligor in this situation needs to be classified as 'defaulted' according to KBC's rules. A renegotiation tag is attached to the file in the credit systems for identification and reporting purposes.
If, after one year, the credit committee is of the opinion that the borrower is showing signs of improvement and that the loan's renegotiated terms are likely to be met, then – in the case of PD 9 – a better classification may be assigned to the borrower and the renegotiation tag can be removed. If a borrower is classified as PD 10 (or higher), PD 9 (only) may in principle be assigned for one year and the renegotiation tag kept in place. If the credit committee decides that the existing PD class 9 (or worsehigher) should remain unchanged or be assigned a worse rating, the renegotiation tag may not be removed for the time being (i.e. at least until the next review takes place).
Some exceptions to the PD 9 principle exist for certain retail portfolios. In these cases, the PD class assigned is determined on the basis of th behavioural score, and may result in a PD that is lower than 9.
At the end of 2012, loans that were renegotiated to avoid impairment accounted for some 2.7% of the total loan portfolio (amount outstanding, including entities classified as 'disposal groups' under IFRS 5), compared with 2.6% at the end of 2011. A breakdown by business unit is provided below.

Renegotiated loans avoiding impairment (as a % of the total portfolio of renegotiated loans)	31-12-2011	31-12-2012
Belgium Business Unit	20%	12%
CEE Business Unit	19%	18%
Czech Republic	5%	5%
Slovakia	1%	1%
Hungary	11%	11%
Bulgaria	2%	2%
Merchant Banking Business Unit	57%	66%
Group Centre (including planned divestments)	4%	4%
Total	100%	100%
In billions of EUR	4.0	4.0

Credit risk management at portfolio level

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

Whereas some limits are still in notional terms, we also use concepts such as 'expected loss' and 'loss given default'. Together with 'probability of default' and 'exposure at default', these concepts form the building blocks for calculating the regulatory capital requirements for credit risk, as KBC has opted to use the Basel II Internal Rating Based (IRB) approach. After receiving the approval of the regulators in 2012, the main group entities have adopted the IRB Advanced approach. Others are scheduled to shift to the IRB Advanced or Foundation approaches in 2013. 'Non-material' entities will continue to adopt the Basel II Standardised approach. However, entities on the divestment list will stick with their current Basel II approach.

Overview of credit risk exposure

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

The loan and investment portfolio as defined in this section differs significantly from 'Loans and advances to customers' in Note 14 of the 'Consolidated financial statements' section. That particular heading, for instance, does not include loans and advances to banks, guarantee credit and credit derivatives, the undrawn portion of credit lines or corporate and bank bonds, but does include repurchase transactions with non-banks.

Loan and investment portfolio, KBC Bank	31-12-2011[5]	31-12-2011 *pro forma*[5]	31-12-2012[5]
Total loan portfolio (in billions of EUR)			
Amount granted	185.9	169.2	166.6
Amount outstanding	155.7	142.2	140.7
Loan portfolio breakdown by business unit (as a % of the portfolio of credit granted)			
Belgium	34%	37%	39%
CEE	19%	21%	22%
Merchant Banking	37%	40%	37%
Group Centre (including planned divestments)	10%	1%	1%
Total	100%	100%	100%
Loan portfolio breakdown by counterparty sector (as a % of the portfolio of credit granted)[1]			
Private individuals	36%	36%	37%
Financial and insurance services	6%	7%	6%
Governments	4%	4%	3%
Corporates	54%	53%	53%
Non-financial services	10%	11%	11%
Retail and wholesale trade	8%	7%	8%
Real estate	7%	7%	7%
Construction	5%	5%	5%
Other[2]	23%	23%	22%
Total	100%	100%	100%
Loan portfolio breakdown by region (as a % of the portfolio of credit granted)[1]			
Western Europe	68%	72%	72%
Central and Eastern Europe	25%	21%	22%
North America	4%	4%	3%
Other	3%	3%	3%
Total	100%	100%	100%

Loan and investment portfolio, KBC Bank	31-12-2011[5]	31-12-2011 *pro forma*[5]	31-12-2012[5]
Loan portfolio breakdown by risk class (part of the portfolio, as a % of the portfolio of credit granted)[1, 3]			
PD 1 (lowest risk, default probability ranging from 0.00% up to, but not including, 0.10%)	27%	29%	27%
PD 2 (0.10% – 0.20%)	12%	12%	12%
PD 3 (0.20% – 0.40%)	17%	18%	15%
PD 4 (0.40% – 0.80%)	15%	15%	18%
PD 5 (0.80% – 1.60%)	11%	11%	12%
PD 6 (1.60% – 3.20%)	7%	6%	7%
PD 7 (3.20% – 6.40%)	5%	4%	4%
PD 8 (6.40% – 12.80%)	2%	2%	2%
PD 9 (highest risk, ≥ 12.80%)	3%	3%	4%
Total	100%	100%	100%
Impaired loans[4] (PD 10 + 11 + 12; in millions of EUR or %)			
Impaired loans	11 205	9 992	10 757
Specific impairment	4 850	4 152	4 614
Portfolio-based impairment (i.e. based on PD 1 to 9)	341	317	244
Credit cost ratio			
Belgium Business Unit	0.10%	0.10%	0.11%
CEE Business Unit	1.59%	1.59%	0.40%
Czech Republic	0.37%	0.37%	0.31%
Slovakia	0.25%	0.25%	0.25%
Hungary	4.38%	4.38%	0.78%
Bulgaria	14.73%	14.73%	0.94%
Merchant Banking Business Unit	1.36%	1.36%	1.42%
Group Centre (including planned divestments)	0.36%	0.36%[6]	1.44%[6]
Total	0.83%	0.83%[6]	0.70%[6]
Non-performing loans (PD 11 + 12; in millions of EUR or %)			
Amount outstanding	7 553	6 754	7 397
Specific impairment for non-performing loans	3 864	3 263	3 626
Non-performing ratio			
Belgium Business Unit	1.5%	1.5%	1.6%
CEE Business Unit	5.6%	5.6%	5.2%
Merchant Banking Business Unit	7.8%	7.8%	9.8%
Group Centre	5.5%	2.2%	6.1%
Total	4.9%	4.8%	5.3%
Cover ratio			
[Specific impairment for non-performing loans]/[outstanding non-performing loans]			
Total	51%	48%	49%
Total excluding mortgage loans	63%	60%	63%
[Specific & portfolio-based impairment for performing and non-performing loans]/[outstanding non-performing loans]			
Total	69%	66%	66%
Total excluding mortgage loans	89%	88%	91%

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

1 Audited figures.

2 Individual sector shares not exceeding 3%.

3 Internal rating scale.

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

5 Excluding entities classified as 'disposal groups' under IFRS 5.. In 2012, the relevant entities (see 'Remark' at the start of this chapter) accounted for 8.4 billion euros' worth of credit granted, 6.2 billion euros of which was outstanding. The data in the '31-12-2011 *pro forma*' column excludes the entities classified as 'disposal groups' under IFRS 5 at year-end 2012 and Kredyt Bank (deconsolidated at the end of 2012) to enable a comparison to be made between 2012 and 2011 using the same scope.

6 Including entities classified as 'disposal groups' under IFRS 5. Excluding these entities, the credit cost ratio at 31-12-2012 would have been 3.42% for 'Group Centre' and 0.69% for 'Total'.

We have provided the following additional information for the loan and investment portfolio in Ireland and Hungary, due to the specific situation on these markets.

Details for Irish and Hungarian portfolios	31-12-2011	31-12-2012
KBC Bank Ireland (Ireland) – loan and investment portfolio[1]		
Total portfolio (outstanding, in billions of EUR)	17	16
Breakdown by loan type		
Home loans	77%	78%
SME & corporate loans	12%	11%
Real estate investment and real estate development	11%	11%
Breakdown by risk class		
Normal performing (PD 1-9)	78%	72%
Impaired, still performing (PD 10)	4%	5%
Impaired, non-performing (PD 11+12)	18%	23%
Credit cost ratio[2]	3.01%	3.34%
Cover ratio [total impairment (for both performing and non-performing loans)]/[outstanding non-performing loans]	42%	46%
Renegotiated distressed loans	9%	14%
K&H Bank (Hungary) – loan and investment portfolio[1]		
Total portfolio (outstanding, in billions of EUR)	6	5
Breakdown by loan type		
Retail loans	50%	49%
FX mortgage loans	33%	29%
SME & corporate loans	50%	51%
Breakdown by risk class		
Normal performing PD(1-9)	88%	88%
Impaired, still performing (PD 10)	2%	1%
Impaired, non-performing (PD 11+12)	10%	11%
Credit cost ratio[2]	4.38%	0.78%
Cover ratio [total impairment (for both performing and non-performing loans)]/[outstanding non-performing loans]	77%	67%
Renegotiated distressed loans	8%	8%

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

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

Short-term commercial transactions. This activity involves export or import finance (documentary credit, pre-export and post-import finance, etc.) and only entails exposure to financial institutions. We manage risks associated with this activity 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). We measure exposure to this type of risk on the basis of the market value of the securities. Issuer risk is curtailed through the use of limits both per issuer and per rating category. The exposure to asset-backed securities and collateralised debt obligations in the trading book is not included in the figures shown in the table, but is reported separately (see the 'Overview of outstanding structured credit exposure' section).

Interprofessional transactions (deposits with professional counterparties and derivatives trading). These transactions result in counterparty risk. The amounts shown in the table are the group's pre-settlement risks, measured as the sum of the (positive) current replacement value ('mark-to-market' value) of a transaction and the applicable add-on. Risks are curtailed by setting limits per counterparty. We also use close-out netting and collateral techniques. Financial collateral is only taken into account if the assets concerned are considered eligible risk-mitigants for regulatory capital calculations (Basel II).

Government securities in the investment portfolio of banking entities. We measure exposure to governments in terms of nominal value and book value. Such exposure relates mainly to EU states (particularly Belgium). We have put in place limiting caps for both non-core and core country sovereign bond exposure. More details on the exposure of the combined banking and insurance activities to government bonds are provided in a separate section below.

Other credit exposure, KBC Bank (in billions of EUR)[1]	31-12-2011	31-12-2012
Short-term commercial transactions	2.8	3.2
Issuer risk[2]	0.3	0.3
Counterparty risk in interprofessional transactions[3]	11.6	9.0
Government bonds in the investment portfolio (nominal)	34.1	31.9

1 Excluding entities classified as 'disposal groups' under IFRS 5. In 2012, the relevant entities (see 'Remark' at the start of this chapter) were exposed to a negligible issuer risk, a counterparty risk of 0.1 billion euros and a government bond risk of 0.5 billion euros.
2 Excluding a nominative list of central governments, and all exposure to EU institutions and multilateral development banks.
3 After deduction of collateral received and netting benefits.

Overview of exposure to sovereign bonds

We hold a significant portfolio of government bonds, primarily as a result of our considerable excess liquidity position. A breakdown per country is provided in the table below.

Overview of exposure to sovereign bonds at year-end 2012, carrying value[1] (in millions of EUR)

Total (by portfolio)								Total (by remaining term to maturity)		
	Available for sale	Held to maturity	Designated at fair value through profit or loss	Loans and receivables	Held for trading	Total	*For comparison purposes: total at year-end 2011*	Maturing in 2013	Maturing in 2014	Maturing in 2015 and later
Southern Europe and Ireland										
Greece	0	0	0	0	0	0	*126*	0	0	0
Portugal	0	56	0	0	0	56	*66*	0	0	56
Spain	229	0	0	0	1	230	*1 184*	12	0	218
Italy	565	91	0	0	27	683	*1 298*	33	8	641
Ireland	126	233	0	0	0	360	*325*	0	0	360
KBC core countries										
Belgium	7 792	13 271	602	0	1 043	22 708	*16 842*	3 352	2 627	16 730
Czech Rep.	2 392	5 335	68	0	1 149	8 944	*7 985*	924	709	7 311
Hungary	227	1 735	63	190	225	2 439	*2 103*	801	237	1 401
Slovakia	336	888	20	0	214	1 458	*1 212*	80	141	1 237
Bulgaria	88	0	0	0	0	88	*48*	6	7	76
Other countries										
France	403	1 262	0	0	3	1 667	*1 576*	26	191	1 449
Poland	105	20	0	0	3	128	*2 058*	17	4	106
Germany	42	8	16	0	336	402	*980*	131	9	263
Austria	0	164	0	0	0	164	*257*	2	4	158
Netherlands	69	5	0	0	12	86	*89*	2	2	82
Finland	72	2	0	0	1	75	*70*	3	0	72
Rest[2]	1 105	272	42	0	376	1 795	*1 812*	1 259	191	346
Total	13 551	23 341	811	190	3 390	41 283	*38 031*	6 648	4 129	30 505

1 Including entities classified as 'disposal groups' under IFRS 5 (see 'Remark' at the start of this chapter), accounting for 0.4 billion euros at year-end 2011 and 0.5 billion euros at year-end 2012. Excluding exposure to supranational entities of selected countries.
2 Sum of countries whose individual exposure is less than 0.5 billion euros at year-end 2012 and also including 0.9 billion euros in deposits at the National Bank of Hungary.

For full-year 2011, we recorded impairment of 203 million euros on Greek government bonds. During the first quarter of 2012, we took part in the Greek debt exchange operation. The new Greek government bonds received in exchange for old Greek government bonds (31.5% of the nominal value of the 'old' bonds) were valued at about 20% of the old nominal value at the end of March 2012. This led to a realised loss of roughly 30 million euros on the available-for-sale and held-to-maturity categories (above the impairment recognised in 2011). During the last quarter of 2012, these new bonds (classified in level 1 of the fair value hierarchy, whereas the 'old' bonds had been classified in level 2) were sold, leading to a net realised gain of approximately 10 million euros.

The carrying value of the exposure to Belgium increased by 5.9 billion euros compared to 2011, due mainly to purchases made in the first three quarters of 2012 (partially offsetting the sale of several GIIPS sovereign bonds). In nominal amounts, the increase was less explicit (though still considerable at +4.4 billion euros), as a number of held-to-maturity bonds were purchased above par and the marked-to-market value of available-for-sale bonds rose.

For full-year 2012, we realised a loss of -59 million euros on the sale of available-for-sale GIIPS sovereign bonds and a loss of -4 million euros on the sale of held-to-maturity GIIPS sovereign bonds.

At 31 December 2012, the carrying value of the total available-for-sale government bond portfolio incorporated a positive revaluation of 857 million euros, before tax. This included +7 million euros for Italy, -27 million euros for Spain, +3 million euros for Ireland, -14 million euros for Hungary, and +446 million euros for Belgium.

Overview of outstanding structured credit exposure (entire KBC Group)

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

- KBC Group (via KBC Financial Products) acted as an originator when structuring CDO deals (based on third-party assets) for ourselves or for third party investors. For several outstanding transactions, protection was bought from MBIA, the US monoline credit insurer (see 'CDO exposure protected with MBIA' in the table).
- KBC Group invested in structured credit products, both in CDOs (notes and super senior tranches), largely those originated by ourselves (see 'other CDO exposure' in the table) and in other ABS (see 'other ABS exposure' in the table). The main objective at that time was to differentiate risk and to enhance the yield for the reinvestment of the insurance reserves and bank deposits not being used for loans.

The figures exclude the expired, unwound and terminated CDOs.

KBC investments in structured credit products (CDOs and other ABS) – entire KBC Group (in billions of EUR)	31-12-2011	31-12-2012
Total nominal amount	20.4	17.1
of which CDO exposure protected with MBIA	*10.9*	*10.1*
of which other CDO exposure	*6.4*	*5.4*
of which other ABS exposure	*3.1*	*1.6*
Cumulative value markdowns (mid-2007 to date)*	-5.5	-4.1
of which value markdowns	*-4.5*	*-3.6*
for other CDO exposure	*-4.1*	*-3.4*
for other ABS exposure	*-0.4*	*-0.1*
of which Credit Value Adjustment (CVA) on MBIA cover	*-1.0*	*-0.5*

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

In 2012, there was a total notional reduction of 3.3 billion euros in our CDO and ABS exposure. This was due mainly to:

- the collapse of two CDOs, which reduced the outstanding notional amount by 1.7 billion euros;
- a 0.4-billion-euro reduction in other ABS exposure due to the sale of KBL EPB being completed in the third quarter of 2012;
- a 1.2-billion-euro decrease due to the sale and amortisation of ABS assets held by the KBC group;

The other outstanding CDO positions held by KBC (see 'other CDO exposure') have incurred net effective losses totalling -2.2 billion euros, caused by claimed credit events in the lower tranches of the CDO structure (situation at 7 January 2013). Of this figure, -2.1 billion euros' worth of events have been settled. These have had no further impact on the income statement because complete value markdowns for these CDO tranches had already been absorbed in the past.

As stated above, KBC Group bought credit protection from MBIA for a large part of the (super senior) CDOs we originated.

Moreover, the remaining risk related to MBIA's insurance coverage is largely mitigated, as it is included in the scope of the guarantee agreement that was agreed between KBC Group and the Belgian State on 14 May 2009. At 31 December 2012, this agreement related to a nominal value of 12.2 billion euros, 10.1 billion euros of which relates to the exposure protected with MBIA. The remaining 2.1 billion euros of exposure covered by the agreement with the Belgian State relates to part of the 'other CDO exposure'. Of this portfolio (i.e. CDO exposure not covered by credit protection with MBIA), the super senior assets have also been included in the scope of the guarantee agreement with the Belgian State. More details are provided in the 'Additional information' section of this report.

Details for CDO exposure protected by MBIA – entire KBC Group (in billions of EUR)	31-12-2011	31-12-2012
Total amount insured by MBIA (notional amount of super senior swaps)	10.9	10.1
Details for MBIA insurance coverage		
- Fair value of insurance coverage received (modelled replacement value, after taking the guarantee agreement into account)	1.4	0.6
- CVA for counterparty risk, MBIA	-1.0	-0.5
(as a % of fair value of insurance coverage received)	70%	80%

We have provided details of the underlying assets of the CDOs and ABS in the *Risk Report for 2012* (available at www.kbc.com).

Market risk in non-trading activities

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

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

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

Managing market risk in non-trading activities

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

- a focus on 'economic value' as the cornerstone of ALM policy, with attention also being paid to criteria such as income, solvency and liquidity.
- the use of a uniform ALM methodology for banking and insurance activities across the group, based on 'fair value models' that forecast the value of a product group under different market scenarios and that are translated into replicating portfolios (combinations of market instruments that allow the relevant product groups to be hedged with the lowest risk).
- the use of a Value-at-Risk (VaR) measurement method for the various categories of risk throughout the group for risk budgeting and limit-setting purposes. This VaR measures the maximum loss that might be sustained over a one-year time horizon with a certain confidence level, as a result of movements in interest rates and other fluctuations in market risk factors. The VaR losses are estimated based on a sample period of 20 years for the most important risk drivers.
- the definition of an ALM VaR limit at group level and the breakdown of this limit into various types of risk and entities.
- the use of VaR, which is calculated using fair value models for non-maturing products, taking into account different embedded options and guarantees in the portfolio.
- the use of other risk measurement methods, such as Basis-Point-Value (BPV), notional amounts, etc., to supplement VaR.

KBC Bank non-trading market risk, by risk category (VaR 99%, 1-year time horizon, marginal contribution of various risk types to VaR) (in billions of EUR)[1]	31-12-2011	31-12-2012
Interest rate risk[2]	0.93	0.33
Equity risk[3]	-0.02	0.37
Real estate risk	-0.02	0.05
Other risks[4]	-0.003	-0.01
Total diversified VaR (KBC Bank)	0.89	0.74

1 Excluding a number of small group companies. Cyclical prepayment options embedded in mortgage loans and spread risk have not been captured. Excluding entities classified as 'disposal groups' under IFRS 5. In 2012, the impact of the relevant entities (see 'Remark' at the start of this chapter) on the group's ALM VaR was 140 million euros.
2 The VaR on interest rate risk substantially decreased due to adjustment in liabilities modelling of savings and current accounts.
3 Equity investment in BZ – acquired as part of the divestment deal of Kredyt Bank is included within the equity VaR leading to an increase of equity VaR.
4 Foreign exchange risk and inflation risk.

Interest rate risk

We use two main techniques to measure interest rate risks: 10 BPV and VaR (see above). The 10 BPV measures the extent to which the value of the portfolio would change if interest rates were go up by ten basis points across the entire curve (negative figures indicate a decrease in the value of the portfolio). We set 10 BPV limits in such a way that interest rate positions combined with the other structural exposures (equity, real estate, etc.) remain within the overall VaR limits. We also use 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).

In addition, we report the IFRS sensitivity to interest rate movements on a regular basis. The table illustrates the impact of a 100-basis-point increase in the yield curve on both net profit and value.

Impact of a parallel 100-basis-point increase in the yield curve for KBC Bank[1] (in millions of EUR)	Impact on net profit (IFRS)		Impact on value[2]	
	2011	2012	2011	2012
KBC Bank	-27	-44	-315	-396

1 Excluding entities classified as 'disposal groups' under IFRS 5 (see 'Remark' at the start of this chapter). In 2012, a 100-basis-point increase in the yield curve would have had an impact of -0.6 million euros on net profit and an impact of -50 million euros on the market value of these entities.
2 Full market value, regardless of accounting classification or impairment rules.

We manage the ALM interest rate positions of the banking entities via a system of market-oriented internal pricing for products with a fixed maturity date, and via a replicating portfolio technique – reviewed on a dynamic basis – for products without a fixed maturity date (e.g., current and savings accounts).

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

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

BPV (10 basis points) of the ALM book, KBC Bank* (in millions of EUR)	2011	2012
Average for 1Q	-61	-52
Average for 2Q	-62	-49
Average for 3Q	-58	-49
Average for 4Q	-45	-47
As at 31 December	-40	-39
Maximum in year	-65	-57
Minimum in year	-40	-39

* Excluding entities classified 'as disposal groups' under IFRS 5 (see 'Remark' at the start of this chapter). Including these entities would lead to an overall BPV for the banking activities of -44 million euros at year-end 2012.

In line with the Basel II guidelines, we conduct a 200-basis-point stress test at regular intervals. It sets off the total interest rate risk in the banking book (given a 2% parallel shift in interest rates) against total capital and reserves. For the banking book, this risk came to 11.19% of total capital and reserves at year-end 2012. This is well below the 20% threshold, where a bank is considered an ‘outlier bank’ and which can lead to a higher regulatory capital charge.

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

Interest sensitivity gap of the ALM book (including derivatives), KBC Bank* (in millions of EUR)	≤ 1 month	1–3 months	3–12 months	1–5 years	5–10 years	> 10 years	Non-interest-bearing	Total
31-12-2011	-8 134	3 226	2 540	7 104	2 828	2 896	-10 459	0
31-12-2012	3 731	3 904	-1 251	-7 095	4 450	2 039	-5 778	0

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

31-12-2012	633	-74	-220	128	258	258	-981	0

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

Equity risk

We have provided more information on total non-trading equity exposures at KBC Bank in the tables below.

Equity portfolio of KBC Bank* (breakdown by sector, in %)	31-12-2011	31-12-2012
Financial	32%	23%
Consumer non-cyclical	9%	11%
Communication	2%	0%
Energy	0%	3%
Industrial	28%	21%
Utilities	3%	2%
Consumer cyclical	3%	4%
Basic materials	13%	3%
Other and not specified	10%	33%
Total	100%	100%
In billions of EUR	0.2	0.2
of which unlisted	0.1	0.1

* Excluding a number of small group companies and entities classified as ‘disposal groups’ under IFRS 5. In 2012, the entities with this classification (see ‘Remark’ at the start of this chapter) did not have an equity portfolio. The divestment of Kredyt Bank resulted in an equity position at KBC Bank (estimated market value on 31/12/2012 is 0,9 bio EUR).

Impact of a 12.5% drop in equity prices[1] (in millions of EUR)	Impact on net profit (IFRS) 2011	2012	Impact on value 2011	2012
KBC Bank	-28	-12	-26	-22

1 Excluding entities classified as ‘disposal groups’ under IFRS 5 (see ‘Remark’ at the start of this chapter). At year-end 2012, however, the entities classified as ‘disposal groups’ under IFRS 5 (see ‘Remark’ at the start of this chapter) did not have any equity exposure.

Non-trading equity exposure[1] (in millions of EUR)	31-12-2011 Net realised gains (in income statement)	Net unrealised gains on year-end exposure (in equity)	31-12-2012 Net realised gains (in income statement)	Net unrealised gains on year-end exposure (in equity)
KBC Bank	31	29	11	47

1 Excluding a number of small group companies and entities classified as ‘disposal groups’ under IFRS 5. In 2012, however, the entities with this classification (see ‘Remark’ at the start of this chapter) did not have any equity exposure.

Real estate risk

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

Impact of a 12.5% drop in real estate prices[1] (in millions of EUR)	Impact on value	
	2011	2012
KBC Bank	-68	-66

1 Excluding a number of small group companies. Entities classified as 'disposal groups' under IFRS 5 have also been excluded (see 'Remark' at the start of this chapter). However, they had no impact at all in 2012.

Foreign exchange risk

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

Liquidity risk

Liquidity risk is the risk that an organisation will be unable to meet its payment obligations as they come due, without incurring unacceptable losses.

The principal objective of our liquidity management is to be able to fund the group and to enable the core business activities of the group to continue to generate revenue, even under adverse circumstances. Since the financial crisis, there has been a greater focus on liquidity risk management throughout the industry, and this has been intensified by the minimum liquidity standards defined by the Basel Committee.

We are preparing for the Basel III era by incorporating Basel III concepts into our liquidity and funding framework, as well as into our financial planning.

Managing liquidity risk

Our liquidity management framework and group liquidity limits are set by the Board of Directors. Liquidity management is organised within the Group Treasury function, which is responsible for the overall liquidity and funding management of the KBC group. The Group Treasury function monitors and steers the liquidity profile on a daily basis and sets the policies and steering mechanisms for funding management (intra-group funding, funds transfer pricing). These policies ensure that local management has an incentive to work towards a sound funding profile. The local treasuries in the subsidiaries implement these policies and report to the Group Treasury function, which in turn further centralises collateral management and the acquisition of long-term funding. The local treasuries are directly responsible for liquidity management in their respective entities. However, the liquidity contingency plan requires all significant local liquidity issues to be escalated to group level.

Our liquidity risk management framework is based on the following pillars:

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

- *Structural liquidity risk*. We manage our funding structure so as to maintain substantial diversification, to minimise funding concentrations in time buckets, and to limit the level of reliance on short-term wholesale funding. We manage the structural funding position as part of the integrated strategic planning process, where funding – in addition to capital, profits and risks – is one of the key elements. At present, our strategic aim for the next few years is to build up a sufficient buffer in terms of the Basel III LCR and NSFR requirements via a funding management framework, which sets clear funding targets for the subsidiaries (own funding, reliance on intra-group funding) and provides further incentives via a system of intra-group pricing to the extent subsidiaries run a funding mismatch.

  In the table below, we have illustrated the structural liquidity risk by grouping the assets and liabilities according to the remaining term to maturity (contractual maturity date). The difference between the cash inflows and outflows is referred to as the 'net liquidity gap'. At year-end 2012, KBC had attracted 29 billion euros' worth of funding from the professional interbank and repo markets. Please note that US dollar funding obtained from these markets amounted to approximately 3 billion euros on the position at year-end (total US dollar funding of 8 billion euros).

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

Structural liquidity risk data

Liquidity risk at year-end (excluding intercompany deals)* (in billions of EUR)		<= 1 month	1-3 months	3-12 months	1-5 years	5-10 years	> 10 years	not defined	Total
31-12-2011									
Total inflows		32	11	17	55	40	36	50	241
Total outflows		51	17	12	36	5	2	118	241
	Professional funding	28	10	1	4	0	0	0	43
	Customer funding	17	6	8	11	3	1	77	123
	Debt certificates	3	2	3	20	2	1	1	31
	Other	3	0	0	0	0	0	40	43
Liquidity gap (excl. undrawn commitments)		-20	-6	5	19	36	34	-68	0
Undrawn commitments		–	–	–	–	–	–	-34	–
Financial guarantees		–	–	–	–	–	–	-12	–
Net liquidity gap (incl. undrawn commitments)		-20	-6	5	19	36	34	-114	-46
31-12-2012									
Total inflows		29	12	17	50	44	34	39	225
Total outflows		31	20	14	36	5	1	118	225
	Professional funding	13	12	2	1	0	0	0	29
	Customer funding	13	5	7	15	4	1	79	124
	Debt certificates	1	4	4	20	1	1	1	32
	Other	3	0	0	0	0	0	38	40
Liquidity gap (excl. undrawn commitments)		-2	-8	2	15	39	33	-79	0
Undrawn commitments		–	–	–	–	–	–	-28	–
Financial guarantees		–	–	–	–	–	–	-11	–
Net liquidity gap (incl. undrawn commitments)		-2	-8	2	15	39	33	-118	-39

* Cashflows exclude interest rate flows consistent with internal and regulatory liquidity reporting. Inflows/outflows that arise from margin calls posted/received for MtM positions in derivatives are reported in the 'not defined' bucket. Entities classified as 'disposal groups' under IFRS 5 (see 'Remark' at the start of this chapter) have also been excluded (balance sheet total of 7.1 billion euros in 2012). 'Professional funding' includes all deposits from credit institutions and investment firms, as well as all repos.

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

KBC has a solid liquidity position. Historically, we have always had a substantial amount of liquid assets. At year-end 2012, KBC Bank (at the consolidated level) had 54 billion euros' worth of central bank eligible assets, 37 billion euros of which in the form of liquid government bonds.

During 2012, KBC Bank used its EMTN programme to raise 3.95 billion euros in long-term funding, 2.75 billion euros of which through wholesale benchmark issues. We also recorded continuous solid growth in customer deposits at different entities, especially in Ireland, where concerted efforts to build a retail deposit base have helped increase KBC Bank Ireland's funding independence.
In November 2012, we announced our Belgian residential mortgage covered bonds programme. This 10-billion-euro programme was set up following the entry into force of the Act of 3 August 2012 that established a legal framework for Belgian covered bonds. This new bond programme gives KBC access to the covered bond market, allowing it to diversify its funding structure and reduce the cost of long-term funding. We plan to issue 2 to 3 billion euros' worth of these bonds annually in the coming years. At the start of December 2012, we launched a first covered bond issue in the amount of 1.25 billion euros, which was extremely well received by the market. A second issue for 0.750 billion euros followed in January 2013.

We also announced our intention to repay 8.3 billion euros of the 8.67 billion euros borrowed from the ECB under the long-term refinancing operations (LTROs) of December 2011 and February 2012. The remaining LTRO is being used at companies earmarked for divestment.

Market risk in trading activities

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

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

We are exposed to market risk via the trading books of our dealing rooms in Western Europe, Central and Eastern Europe, the United States and Asia. The traditional dealing rooms, with the dealing room in Brussels accounting for the lion's share of the limits and risks, focus on trading in interest rate instruments, while activity on the FX markets has traditionally been limited. This type of trading concerns client-related business. 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.

At KBC Financial Products, the only ongoing activity – European equity derivatives – is managed directly from Brussels since March 2012. The market risk of the legacy CDO portfolio is managed stringently, with a number of de-risking trades having taken place during the year. These trades have significantly lowered the P&L sensitivity to credit spread movements.

The remaining legacy business lines at KBC Financial Products, which represent less than 2% of market risk regulatory capital charges for trading activities, continue to be wound down by dedicated teams.

Managing market risk

The principal tool we use for measuring and monitoring market risk exposures in the trading book is the Historical Value-at-Risk (HVaR) method. VaR is defined as an estimate of the amount of economic value that might be lost on a given portfolio due to market risk over a defined holding period, with a given confidence level. The measurement takes account of the market risk of the current portfolio. We use 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), and 500 working days of historical data. The HVaR method does not rely on assumptions regarding the distribution of price fluctuations or correlations, but is based on patterns of experience over the previous two years. Complex and/or illiquid instruments that cannot be modelled in an HVaR context are subject to nominal and/or scenario limits.

We monitor risk concentrations via a series of secondary limits, including equity concentration limits, FX concentration limits and basis-point-value limits for interest rate risk and basis risk. The specific risk associated with a particular issuer or country is also subject to concentration limits. There are also scenario analysis limits involving multiple shifts of underlying risk factors. In addition, secondary limits are in place to monitor the risks inherent in options (the so-called 'greeks').

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

One of the building blocks of sound risk management is prudent valuation. We perform a daily independent middle-office valuation of front-office positions. Whenever the independent nature or the reliability of the valuation process is not guaranteed, we perform a parameter review. Where applicable, we make adjustments to the fair value to reflect close-out costs, mark-to-model-related valuation adjustments, counterparty risk, liquidity risk and operations-related costs.
In addition to the parameter review, we perform periodic risk controls, 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, we set up a business case for every new product or activity in order to analyse the risks and the way in which they will be managed.

Risk analysis and quantification

We calculate an overall VaR for each specialised subsidiary and for all trading entities worldwide. The VaR for the latter (see KBC Bank in the table) includes both the linear and non-linear exposure of the traditional dealing rooms. KBC Financial Products' HVaR, which comprises the single names credit derivatives portfolio and the remaining correlation portfolio, is also shown in the table. At the end of 2012, the HVaR for KBC Securities amounted to 0.46 million euros (not shown in the table as only a minor amount of trading is conducted at KBC Securities). The calculation is based on a 10-day holding period.

Market risk (VaR)[1] (in millions of EUR)	HVaR			
	2011 KBC Bank	2011 KBC Financial Products	2012 KBC Bank	2012 KBC Financial Products
Holding period: 10 days				
Average for 1Q	13	16	30	12
Average for 2Q[2]	13	16	34	2[3]
Average for 3Q	14	22	30	2
Average for 4Q	26	8	30	1
As at 31 December	28	18	37	2
Maximum in year	33	29	39	18
Minimum in year	10	4	23	1

1 KBC Bank: excluding 'specific interest rate risk' (measured using other techniques). Swap basis risk has been included since end of October 2011 for the dealing rooms of Brussels and branches (significant upward effect on HVaR as can be seen in the table), and extended to the remaining subsidiaries since March 2012 (small effect). KBC Financial Products: excluding Avebury and the fund derivatives business line.
2 Scope change as of 1st March 2012: European Equity Derivatives moved from KBC Financial Products to KBC Bank.
3 Large decrease in average HVAR usage for KBC Financial Products due to simplification of the credit event settlement process.

As can be seen in the above table, during 2012, the relative importance of HVaR figures for KBC Bank versus KBC Financial Products changed, making KBC Bank's by far the most significant. A breakdown of the risk factors in KBC Bank's HVaR model, averaged from 1st March 2012 (the date of the scope change) to 31st December 2012, is shown in the table below. Please note that the equity risk stems from the European Equity Business (the other equity positions being held at KBC Securities).

Breakdown by risk factor of the trading HVaR for KBC Bank (in millions of EUR)	
Interest rate risk	31.0
FX risk	2.2
FX Option Risk	2.0
Equity risk	1.6
Diversification effect	-5.7
Total HVaR	31.1

We test the reliability of the VaR model 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.

We have provided an overview of the derivative products under Note 25 in the 'Consolidated financial statements' section.

Business lines that are of a more illiquid character and that have more of a credit nature, such as fund derivatives, do not lend themselves to VaR modelling and therefore fall outside the scope of HVaR. The fund derivatives business is considered to be a legacy business activity (i.e. no new trading activity is carried out) and is monitored on the basis of Key Performance Indicators relating to, for example, strike and redemption trends.

Both KBC Bank and KBC Financial Products have been authorised by the Belgian regulator to use their respective VaR models to calculate regulatory capital requirements for part of their trading activities. ČSOB (Czech Republic) has also received approval from the local regulator to use its VaR model for capital requirement purposes. These models are also used for the calculation of Stressed VaR (SVaR), which is one of the new CRD III Regulatory Capital charges that entered into effect at year-end 2011. The calculation of an SVaR measure is based on the normal VaR calculations and follows the same methodological assumptions, but is constructed as if the relevant market factors were experiencing a period of stress. The period of stress is based on recent history and is calibrated regularly.

In addition, KBC Financial Products has implemented models (as required by CRD III) to calculate and report an Incremental Risk Charge (IRC) for credit risk positions that carry default and migration risks (i.e. the single name corporate CDS). The risk is measured as a 99.9% loss over a one-year holding period for a constant level of risk (constant position). The liquidity horizon for the portfolio in scope is set to one year. Furthermore, a Comprehensive Risk Measure is calculated to cover all price risks in the bespoke CDO tranches. The risk attached to ABS and retained CDO positions follows the (re-)securitisation framework.
The resulting capital requirements for trading risk at year-end 2011 and year-end 2012 are shown in the table below. The regulatory trading risk capital requirements of local KBC entities that did not receive approval from their respective regulator to use an internal model for capital calculations and the business lines that are not included in the HVaR calculations are measured according to the Standardised approach. This approach sets out general and specific risk weightings per type of market risk (interest risk, equity risk, FX risk and commodity risk).

Trading regulatory capital requirements, by risk type (in millions of EUR)		Interest rate risk	Equity risk	FX risk	Commodity risk	Incremental Risk Charge	Com-prehen-sive Risk Measure	Re-securitisation	Total
31-12-2011									
Market risks assessed by internal model	HVaR SVaR	109 159	4 6	18 43	-	5	101	-	445
Market risks assessed by the Standardised Approach		76	18	18	1	-	-	216	329
Total		344	28	78	1	5	101	216	773
31-12-2012									
Market risks assessed by internal model	HVaR SVaR	88 114	3 4	10 20	-	1	34	-	274
Market risks assessed by the Standardised Approach		60	12	11	2	-	-	340	425
Total		263	18	42	2	1	34	340	698

Operational and other non-financial risks

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

We have provided information on legal disputes in Note 31 of the 'Consolidated financial statements' section.

Managing operational risk

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

The Group risk function is primarily responsible for defining the operational risk management framework for the entire group. The development and implementation of this framework is supported by an extensive operational risk governance model covering all entities of the group. This framework was redesigned in 2012 in line with the KBC Risk Management Framework and will gradually be implemented (with full implementation in 2014).

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

The building blocks for managing operational risks

We use a number of building blocks for managing operational risks, which cover all aspects of operational risk management.

Between 2011 and 2015, specific attention is being given to the structured set-up of process-based Group Key Controls, which will gradually replace the former Group Standards. These Controls are policies containing top-down basic control objectives and are used to mitigate key and killer risks inherent in the processes of KBC entities. As such, they are an essential building block of both the operational risk management framework and the internal control system.

- A first set was approved in 2011 for the Credit, Personal Financial Advice, Legal, Tax, Business Continuity Management and Risk & Capital Management processes.
- A second set was approved in 2012 for the Cash, Current Account, Savings Account, Lease, Trading and Sales (part 1), Portfolio Management, Customer Administration, Human Resources, Corporate Communication and Accounting and External Financial Reporting processes.

The business and (local) control functions assess these Group Key Controls. The risk self-assessments are consolidated at the Group risk function and ensure that there is a consistent relationship between (i) processes, (ii) risks, (iii) control activities and (iv) assessment scores. KBC created an objective management tool to evaluate its internal control environment and to benchmark the approach across its entities. Each year, we report the assessment results to the National Bank of Belgium in our Internal Control Statement.

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

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

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

Operational risk and regulatory capital requirements

KBC uses the Standard approach to calculate operational risk capital under Basel II. Operational risk capital for KBC Bank at the consolidated level totalled 884 million euros at the end of 2012, compared with 862 million euros at the end of 2011.

Other non-financial risks

Reputation risk

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

We redesigned the Reputation Risk Management Framework in 2012, in line with the KBC Risk Management Framework. The pro-active and re-active management of reputation risk is the responsibility of the business, supported by many specialist units (e.g., Group Communication, Investor Relations).

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

Business Risk

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

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

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

Capital adequacy

Capital adequacy (or solvency) risk is the risk that the capital base of the bank might fall below an acceptable level. In practice, this entails checking solvency against the minimum regulatory and in-house solvency ratios.

Managing solvency

We report our solvency calculating it on the basis of IFRS figures and the relevant guidelines issued by the Belgian regulator. Regulatory minimum solvency targets were amply exceeded in 2012, not only at year-end, but also throughout the entire year.

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

Solvency at KBC Bank

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

Solvency, KBC Bank (in millions of EUR)	31-12-2011	31-12-2012
KBC Bank (consolidated, Basel II)		
Total regulatory capital, after profit appropriation	16 364	14 390
of which tier-1 capital*	12 346	12 235
Total weighted risks	106 256	88 927
Tier-1 ratio	11.6%	13.8%
of which core tier-1 ratio	9.6%	11.4%
CAD ratio	15.4%	16.2%

* Audited figures.

EBA capital exercise in October 2012

In early October 2012, the European Banking Authority (EBA) and the National Bank of Belgium announced the results regarding the final assessment of the capital exercise and fulfilment of the EBA December 2011 Recommendation, which showed that KBC Bank met the 9% Core Tier-1 ratio including the sovereign buffer, as stated in the EBA December 2011 recommendation.

Basel 2.5 and Basel III

Agreed in July 2009, Basel 2.5 enhanced the measurement of risks related to securitisation and trading book exposures, and introduced higher capital requirements for this type of exposure. Basel 2.5 came into force at year-end 2011.

The Basel III agreement and corresponding draft European CRD IV Directive and Regulation will introduce new, more stringent capital requirements for financial institutions. According to these proposals, the legal minimum tier-1 ratio, which stood at 4% under Basel II, will be increased to 4.5% in 2013, and gradually increase to 6% in 2015 (with a common equity ratio of 4.5%). On top of this, a so-called 'conservation buffer' (0% in 2013, gradually rising to 2.5% in 2019), a 'countercyclical buffer' (of between 0% and 2.5%, to be determined by the national regulatory authority) and an extra charge for global systemic banks will be applied. Certain elements used in the calculation of regulatory capital will be gradually phased out or changed. Under the current CRD IV draft, the capital injections received from the government will be classified as common equity tier-1 capital and will be grandfathered until 2018. Basel III was meant to come into force on 1 January 2013, but a postponement of 12 months now seems the most realistic scenario.

Corporate governance statement

Composition of the Board of Directors during financial year 2012

Name Number of meetings in 2012: 12	Position	Period served on the Board in 2012	End, current term of office	Board meetings attended	Non-executive directors	Core shareholders' representatives	Independent directors	Members of the EC	ARC Committee**
LEYSEN Thomas	Chairman	Full year	2015	12	●				
VANHEVEL Jan	President of the Executive Committee/Executive Director	4 months		4				●*	
THIJS Johan	President of the Executive Committee (8 months) Executive Director	Full year	2013	12				●*	
DE RAYMAEKER Danny	Executive Director	Full year	2016	9				●	
FALQUE Daniel	Executive Director	8 months	2016	8				●	
GIJSENS Luc	Executive Director	Full year	2015	10				●	
HOLLOWS John	Executive Director	Full year	2013	12				●	
POPELIER Luc	Executive Director	Full year	2013	12				●	
VOLJC Marko	Executive Director	Full year	2014	11				●	
DE JONG Jan Maarten	Independent Director	6 months		1			●		
DE WILDE Julien	Independent Director	Full year	2014	8			●		●
DEPAEMELAERE Jean-Pierre	Independent Director	4 months		3			●		
van den BRINK Rudolf	Independent Director	6 months	2016	5			●		
BOSTOEN Alain	Non-Executive Director	8 months	2016	8	●	●			
DEPICKERE Franky	Non-Executive Director	Full year	2015	12	●	●			●*
DISCRY Luc	Non-Executive Director	Full year	2014	12	●	●			
DONCK Frank	Non-Executive Director	8 months	2016	6	●	●			●
KONINGS Pierre	Non-Executive Director	4 months		4	●	●			
MORLION Lode	Non-Executive Director	8 months	2016	8	●	●			
NONNEMAN Walter	Non-Executive Director	4 months		4	●	●			
ORLENT-HEYVAERT Marita	Non-Executive Director	4 months		4	●	●			
ROUSSIS Theodoros	Non-Executive Director	8 months	2016	6	●	●			
SAP Gustaaf	Non-Executive Director	4 months		4	●	●			
TYTGADT Alain	Non-Executive Director	8 months	2016	8	●	●			
VANDEN AVENNE Patrick	Non-Executive Director	4 months		1	●	●			●
VANTHEMSCHE Piet	Non-Executive Director	Full year	2015	10	●	●			
VAN KERCKHOVE Ghislaine	Non-Executive Director	8 months	2016	7	●	●			

VAN OEVELEN Guido	Non-Executive Director	4 months		3	●	●				
VLERICK Philippe	Non-Executive Director	8 months	2016	8	●	●				
WAUTERS Dirk	Non-Executive Director	4 months		4	●	●				
WITTEMANS Marc	Non-Executive Director	Full year	2014	12	●	●				●

* Chairman of this committee.
** Audit, Risk and Compliance Committee

Secretary to the Board of Directors: Johan Tyteca
Auditor: Ernst & Young Bedrijfsrevisoren BCVBA, represented by Pierre Vanderbeek and Christel Weymeersch.

Appointments and resignations

At the General Meeting of 25 April 2012:

- the following non-executive and non-independent directors relinquished their seats, before or when their office ended: Pierre Konings, Walter Nonneman, Marita Orlent-Heyvaert, Gustaaf Sap, Guido Van Oevelen, Patrick Vanden Avenne and Dirk Wauters. At the same time, Jean-Pierre Depaemelaere, independent director, also relinquished his seat on the Board before his office ended.
- on the advice of KBC Group NV's Nomination Committee, the following non-executive and non-independent directors of KBC Group NV were appointed as non-executive and non-independent directors of KBC Bank NV for a period of four years, i.e. until after the General Meeting of 2016: Alain Bostoen, Frank Donck, Lode Morlion, Theodoros Roussis, Alain Tytgadt, Ghislaine Van Kerckhove and Philippe Vlerick.
- on the advice of KBC Group NV's Nomination Committee, Danny De Raymaeker was re-appointed for a further period of four years, i.e. until after the General Meeting of 2016.
- on the advice of KBC Group NV's Nomination Committee, Daniel Falque was appointed for a period of four years, i.e. until after the General Meeting of 2016.

On the advice of KBC Group NV's Nomination Committee, the Board of Directors of KBC Bank NV nominated Johan Thijs, executive director, to succeed Jan Vanhevel as President of the Executive Committee, with effect from the aforementioned General Meeting.

The Board of Directors duly appointed Daniel Falque to the Executive Committee as an executive director.

The Board of Directors appointed Rudolf van den Brink by co-option as independent director of KBC Bank, within the meaning of Article 526*ter* of the Belgian Companies Code, to replace Jan Maarten de Jong who had expressed his intention to step down as director. The Board of Directors wishes to express its sincere gratitude to Jan Maarten de Jong for the constructive role he played as independent director of KBC Bank.
The Extraordinary General Meeting of 18 December 2012 confirmed this appointment and Rudolf van den Brink was duly appointed for a period of four years, i.e. until after the General Meeting of 2016.

The Board of Directors proposed to the Extraordinary General Meeting of 19 November 2012 that Pavel Kavánek be appointed as director of KBC Bank. This meeting duly appointed Mr Kavánek to this position, with effect from 1 January 2013 and until after the General Meeting of 2016. The Board of Directors appointed Mr Kavánek to the Executive Committee, as a result of which he acquired the capacity of executive director on 1 January 2013.

CV for the new President of the Executive Committee and brief CVs for the new executive directors:

Johan Thijs
Born in Genk, in 1965.
Master's Degrees in Applied Mathematics (KU Leuven, 1987) and in Actuarial Sciences (KU Leuven, 1989).
Joined the company in 1988 (ABB Insurance).
Starting his career at ABB Insurance in 1988, Johan Thijs held various actuary positions in the life and non-life businesses. He filled a number of increasingly senior positions between 1990 and 2000 before being appointed Senior General Manager of Non-Life Insurance. In 2006, he also became a member of the Management Committee of the Belgium Business Unit, where he dealt with both banking and insurance matters. In 2009, he took a seat on the EC and was appointed CEO of the Belgium Business Unit, taking overall charge of all retail and insurance activities in KBC's biggest market. President of the Executive Committee of KBC Bank NV from 25 April 2012 onwards.

Daniel Falque
Born in Mol (Belgium), in 1963.
Master's Degree in International Relations, Faculty of Economic, Social and Political Sciences (Université catholique de Louvain, 1989).
Mr Falque started his career at De Vaderlandsche NV insurance company, where he was a production inspector (1989-1991). He then joined Deutsche Bank AG (Belgium) as a credit analyst in 1991, before taking up the post of Corporate Relationship Manager for SMEs (1991-1997), Vice-President responsible for Medium-Sized Enterprises (1997-1999), Director responsible for Large Corporations and Co-ordination Centres (1999-2001), Managing Director, Head of Corporate and Investment Banking (2001-2004). He then moved to Deutsche Bank AG, Frankfurt/(Brussels), serving as Managing Director, Head of Global Transaction Banking Western & Eastern Europe and the Middle East, with responsibility for cash management, trade finance, capital markets sales, trust & securities services and corporate relationship management (2004-2009). In 2009, he joined CBC Banque & Assurance, where he was Executive Director, President of the Executive Committee and a member of the KBC Management Committee for Belgium (2009-2012).

Pavel Kavánek (with effect from 1 January 2013)
Born in Prague (Czech Republic), in 1948.
Graduate of the University of Economics (Prague) and recipient of The Pew Economic Freedom Fellowship (Georgetown University).
Starting his career at ČSOB in 1972, Mr Kavának held various positions in that company. He joined its Board of Directors in 1990 before going on to become Chairman of the Board and CEO in 1993. At the start of 2013, he became CEO of the Czech Republic Business Unit of the KBC group and a member of the EC.

Brief CVs for the new non-executive directors:

Alain Bostoen
Born in Ghent, in 1970.
Master's Degree in Law (1993, Universiteit Gent), MBA (1994, Vlerick Leuven Ghent Management School).
Alain Bostoen has been Managing Director of Krefima NV (1997-2002), Director of KBC Lease Holding NV (2003-2010) and is Managing Director of Algimo NV and Christeyns NV.

Frank Donck
Born in Aalter, in 1965.
Master's Degree in Law (1987, Universiteit Gent) and in Finance (1989, Vlerick Leuven Ghent Management School).
Frank Donck started his career at Investco NV where he was Investment Manager (1989-1998). He has been Managing Director of 3D NV since 1992. Furthermore, he is Chairman of the Board of Directors of Atenor Group NV (1997-date) and of the Board of Directors of Telenet Group Holding (2004-date). He is also a director of KBC Group NV (2003-date), Zenitel NV (2003-date), PinguinLutosa (2011-date) and KBC Lease NV (1999-2012).

Lode Morlion
Born in Elverdinge, in 1960.
Bachelor's Degree in Physiotherapy (1981, Higher Institute for the Paramedical Professions, Ghent).
Lode Morlion's career includes serving as Mayor of Lo-Reninge, Director of KBC Bank NV (2005-2008), Chairman of the Board of Directors of Cera Beheersmaatschappij NV (2006-date) and Director of KBC Group NV (2008-date).

Theodoros Roussis
Born in Spolaita, Greece in 1954.
Master's Degree in Biology (1977, University of Athens) and in Biochemistry (1980, University of Seville).
Theodoros Roussis has held various positions at Ravago Plastics since 1982, including Managing Director (1993-1999) and CEO (1999-date) of Ravago SA.

Alain Tytgadt
Born in Ghent, in 1956.
Master's Degree in Art History and Archaeology – Musicology (1979, Universiteit Gent) and an MBA – Finance (1980, University of Indiana, Bloomington, USA).
Alain Tytgadt has held various positions during his career including Director (1986-2005) and member of the Executive Committee (1994-2005) of Almanij NV, Director of KBC Group NV (2005-date), Director (1988-date) and Chairman of the Board of Directors (2000-date) of Sinfonia Investments NV, and Managing Director and Chairman of the Board of Directors of Metalunion CVBA (2006-date).

Ghislaine Van Kerckhove
Born in Wetteren, in 1963.
Master's Degree in Law (Universiteit Gent).

Ghislaine Van Kerckhove has been a member of the bar in Dendermonde since 1989. She was also a substitute justice of the peace in the canton Wetteren (1996-2008) and Wetteren-Zele (2001-2008). She holds the office of Director (2001-date) and Deputy Chairman (2007-date) of the Board of Directors of Cera Beheersmaatschappij NV (2001-date), Deputy Chairman of the Board of Directors of Cera Ancora VZW (2007-date), Director of KBC Group NV (2008-date), Director of Almancora Beheersmaatschappij NV (2009-date) and Deputy Chairman of BRS VZW.

Philippe Vlerick
Born in Kortrijk, in 1955.
Bachelor's Degree in Philosophy (1977, KU Leuven), Master's Degree in Law (1978, KU Leuven), Master's in Management (PUB) (1979, Vlerick School RUG), MBA (1980, University of Indiana, Bloomington, USA).
Philippe Vlerick's career includes Director (2005-date) and Deputy Chairman (2009-date) of the Board of Directors of KBC Group NV, Chairman of the Board of Directors and President of the Executive Committee of BIC NV, Deputy Chairman of the Board of Directors and CEO of Vlerick Group, Deputy Chairman of the Board of Directors of Spector Photo Group NV (2005-date), Deputy Chairman of the Board of Directors of Corelio NV (2008-date), and director of companies including Exmar NV (2006-date), Besix Group NV (2004-date), BMT NV (2007-date), Etex Group NV (2005-date).

Brief CV for the new independent director:

Rudolf van den Brink

Born on 4 February 1948
Doctorate in Economics (1971, University of Amsterdam); admitted to the degree of Doctor of Philosophy in the Faculty of Economics (1977, University of Amsterdam).
Rudolf van den Brink was Chief Economic Adviser to ABN Amro Bank NV (2002-2008). He is Chairman of the Supervisory Board of Elsevier Reed Finance BV (2006-date), a member of the Supervisory Board of Legal & General Nederland NV (2002-date), Chairman of the Supervisory Board of Nederlandse Waterschapsbank NV (2002-date), a member of the Supervisory Board and Chairman of the Audit Committee of Akzo Nobel NV, and is Professor of Monetary Economy and Financial Institutions at the University of Amsterdam (since 2012).

Main features of the internal control and risk management systems

In application of the provisions of the Belgian Companies Code, the main features of the internal control and risk management systems at the KBC Group are set out below (Part 1 contains general information, while Part 2 deals specifically with the financial reporting process). These features also apply to KBC Bank as it is a member of the KBC Group.

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

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

We examine the strategy and organisational structure of the KBC group in the 'Strategy, company profile and structure' section of this annual report.

KBC aims to be an efficient bank-insurer and asset manager that shows a strong affinity for its clients and careful consideration for its employees. It focuses on private individuals, the self-employed, members of the liberal professions, small and medium-sized enterprises and mid-cap clients in selected European countries, while seeking to achieve a sound level of profitability through efficiency, customer focus, employee satisfaction and sound risk management.
KBC also seeks to identify with the various communities in which it operates by using local trade names, employing local management and pursuing socially responsible business practices in line with the standards of the countries concerned.

The KBC group has a dual governance structure based on the Belgian model:
- The Board is responsible for defining general strategy and policy. It exercises all the responsibilities and activities reserved to it under the Companies Code and – based on a proposal by the EC – decides on the overall risk appetite.
- The EC is responsible for the operational management of the company within the confines of the general strategy and policy approved by the Board. To assume its specific responsibility towards financial policy and

risk management, the EC appoints a chief financial officer (CFO) and a chief risk officer (CRO) from among its ranks.

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

2 Corporate culture and Integrity policy

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

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

The most important guidelines relating to the integrity policy are:

- the *Code of Conduct for KBC Group Employees*, a generalised document based on a set of group values that outlines how all members of staff should conduct themselves. It forms the basis for developing specialised codes of conduct for specific target groups and for drawing up policy guidelines at group level.
- special group-wide compliance rules for:
  - combating money laundering and the funding of terrorism, and observing embargoes;
  - preventing fiscal irregularities including special mechanisms for tax evasion;
  - protecting the investor and preventing conflicts of interest (MiFID);
  - preventing market abuse, including insider trading;
  - protecting privacy, confidentiality of information and the professional duty of discretion.
- ethics and combating fraud:
  - The ethical behaviour of employees is inextricably linked to the code of conduct and various other policy guidelines already referred to in this section.
  - Various departments such as Compliance, Inspection, Internal Audit – as well as KBC's business side – engage in the prevention and detection of fraud. It is the business side that deals primarily with external product-related fraud. Departments not related to the business side carry out checks and investigations into fraud or ethical offences committed by employees. For complex fraud cases and/or incidents with an impact at group level, investigations are conducted and/or co-ordinated by Group Compliance in its capacity as the group competence centre for fraud.
  - The *Policy for the Protection of Whistleblowers at KBC Group* ensures that employees who act in good faith to report fraud and gross malpractice are protected.
  - The *Anti-Corruption Policy* affirms KBC's position in the fight against and its resolve to prevent corruption in its activities and operations, while setting out the measures that have been or will be taken to achieve this. One element of this is the 'policy on gifts, donations and sponsorship' through which KBC endeavours to protect its employees and the other parties involved by means of criteria that have been drawn up to foster transparent and reasonable behaviour.

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

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

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

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

As the first line of defence, the business operations side is responsible for being aware of the risks in its own domain and for having adapted and effective controls in place. This responsibility extends to all types of risk, including fraud and compliance with regulatory or legal requirements. In this regard, it can call upon the services of a number of first-line support departments, such as Inspection, Human Resources and Accounting. Besides turning to this first-line expertise, it can also seek advice from independent second-line functions.

3.2 As independent control functions, Risk, Compliance and – for certain matters – Accounting, Legal, Tax and Information Risk Security constitute the second line of defence

Independent of the business side and following advanced industry standards, second-line control functions are tasked with drawing up a group-wide framework for all relevant types of risk. The functions support implementation of this framework in their own particular area of work and monitor how it is used. Besides their support and supervisory tasks, the second-line functions also have an advisory role in assisting business-side management in the use of value, risk and capital management instruments and techniques. More information on value and risk management is provided in the relevant section of this report.

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

3.3 As independent third line of defence, Internal Audit provides support to the EC and ARC Committee in monitoring the effectiveness and efficiency of the internal control and risk management system

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

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

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

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

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

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

The role, composition, activities and qualifications of its members are laid down in the ARC Committee charter, the last one of which was approved by the Board on 23 September 2010. More information on the ARC Committee is provided elsewhere in this section.

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

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

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

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

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

Pursuant to the Act of 15 May 2007, the EC of KBC Group NV evaluated the internal control system for the financial reporting process and prepared a report on its findings.

The existence and monitoring of Mandatory Accounting Controls throughout the group (since 2006) are the mainstay in the internal control of the accounting process. These controls are the rules for managing the main risks attached to the accounting process and involve the establishment and maintenance of accounting process architecture: the establishment and maintenance of accounting policies and accounting presentations, compliance with authorisation rules and the separation of responsibilities when transactions are registered in the accounts, and the establishment of appropriate first- and second-line account management.

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

The Reporting Framework (2011) and Challenger Framework (2012) define a solid governance structure and clearly describe the roles and responsibilities of the various players in the financial reporting process. The aim here is to radically reduce reporting risks by challenging input data and improving the analysis of – and therefore insight into – the reported figures.

The Mandatory Accounting Controls, Reporting Framework and Challenger Framework were integrated into the Group Key Control Accounting and External Financial Reporting processes in 2012. Implementing these controls results in a list of all the responsibilities being drawn up (Entity Accountability Excel sheets), a well-founded demonstration of how these responsibilities are being shouldered (Departmental Reference documents), Key Risk Indicators and Key Performance Indicators being followed up and a specialist questionnaire being filled in by the CFO. This ensures that the risks attached to both the accounting process and external financial reporting process are kept under control.

Each year, when preparing the Internal Control Statement for the supervisory authorities, the legal entities have to assess themselves as to whether they comply with the Group Key Control Accounting and External Financial Reporting standards. The findings of this self-assessment must be registered in the Group Risk function’s ‘ARe assessment tool’. In this way, the CFOs formally confirm by substantiated means that all the defined roles and responsibilities relating to the end-to-end process for external financial reporting have been properly assumed within their entity. The veracity of this confirmation can be checked at any time by all the internal and external stakeholders involved.

KBC Group NV’s Internal Audit function conducts an end-to-end audit of the accounting process and external financial reporting process at both company and consolidated level.

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

Shareholder structure on 31 December 2012

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

At 31 December 2012, the shareholder structure of KBC Bank NV was.

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

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

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

Additional information

- Acquisition of treasury shares. KBC Bank NV and its subsidiaries do not hold any treasury shares.
- Conflicts of interest that fall within the scope of Article 523 or 524 of the Belgian Companies Code. There were no such conflicts of interest during the 2011 financial year.
- Discharge to directors and to the auditor. It will be requested at the General Meeting to grant discharge to the directors and auditor for the performance of their mandate in financial year 2012.
- At year-end 2012, the ARC Committee comprised the following members:
  - Julien De Wilde, Independent Director within the meaning of and in line with the criteria set out in Article 526 *ter* of the Companies Code, who holds a Master's Degree in Civil Engineering (KU Leuven), with rich and extensive experience in industry and management – including as CEO of Alcatel Bell (1995-1998), Vice-President of the Executive Committee of Alcatel in Paris, where he was responsible for Europe, the Middle East, Latin America, India and Africa (1999-2002) and CEO of the Bekaert Group (2002-2006) – and currently chairs the Boards of Directors of the Agfa Gevaert Group and Nyrstar, and is a board member at eda International, Telenet Group Holding NV and Arseus.
  - Franky Depickere, Director, who holds a double Master's Degree in Trade & Finance and in Corporate Financial Management, is a Managing Director of Cera Beheersmaatschappij NV and Almancora Beheersmaatschappij NV, Chairman of the Day-to-Day Management Committee of Cera CVBA, and a core shareholder in KBC Group NV.
  - Frank Donck, Director, who holds a double Master's Degree in Law and in Finance, is Chairman of the Board of Directors of Atenor Group NV (1997-date) and of the Board of Directors of Telenet Group Holding (2004-date). He is also a director of KBC Group NV (2003-date), Zenitel NV (2003-date), PinguinLutosa (2011-date) and KBC Lease NV (1999-date).
  - Marc Wittemans, Director, who holds a Master's Degree in Applied Economics, and degrees in Fiscal Sciences and Actuarial Sciences, is Managing Director of MRBB CVBA, and a core shareholder in KBC Group NV.

  They possess the requisite individual and collective expertise in the activities conducted by KBC Bank NV and in the areas of accounting and auditing, based on their education and extensive business experience.
- As agreed with the supervisory authorities, the Remuneration Committee of KBC Group NV is also authorised to act in relation to KBC Bank NV. It advises the Board of Directors of KBC Group NV regarding the remuneration policy pursued at both//both at KBC Group NV and KBC Bank NV. At year-end 2012, the Remuneration Committee comprised Jo Cornu, Dirk Heremans and Franky Depickere. On 20 December 2012, following the advice of the Nomination Committee and after consultation with the Flemish Regional Government, the Board of Directors of KBC Group NV appointed Marc De Ceuster to the Remuneration Committee as an observer.
- In compliance with the laws on the incompatibility of offices held by managers of credit institutions, the following is a list of the external offices held by the executive managers and directors of KBC Bank NV in other companies, with the exception of those functions performed in companies within the meaning of Article

Naamloze Vennootschap (company with limited liability): KBC Bank nv
Trade register: Brussels 623 074
VAT number or national number: 462.920.226

External offices held by the executive managers and directors of KBC Bank, 31-12-2012

Company name	Registered office	Sector	Office held	Listed (N= no)	Share of capital held (N= none)
Alain Bostoen, Director					
Quatorze Juillet bvba	Belgium	Accountancy & consulting	Executive Director	N	N
Algimo nv	Belgium	Holding company	Executive Director	N	N
Christeyns nv	Belgium	Chemicals	Executive Director	N	N
Agrobos nv	Belgium	Agriculture	Executive Director	N	N
Julien De Wilde, Independent Director					
Nyrstar nv	Belgium	Industry	Chairman Board of Directors	Euronext	N
Telenet Group Holding nv	Belgium	Holding company	Independent Director	Euronext	N
Arseus	Netherlands	Services	Director	Euronext	N
Agfa-Gevaert nv	Belgium	Technology	Chairman Board of Directors	Euronext	N
Franky Depickere, Director					
Almancora Beheersmaatschappij nv	Belgium	Management	Executive Director	N	N
Cera cvba	Belgium	Management	Executive Director	N	N
Miko nv	Belgium	Food/Synthetics	Independent Director	NYSE Euronext	N
Cera Beheersmaatschappij nv	Belgium	Management	Executive Director	N	N
Euro Pool System International BV	Netherlands	Packaging	Director	N	N
Luc Discry, Director					
Almancora Beheersmaatschappij nv	Belgium	Management	Director + Executive Director	N	N
Cera cvba	Belgium	Management	Director	N	N
Cera Beheersmaatschappij nv	Belgium	Management	Executive Director	N	N
Precura Verzekeringen NV	Belgium	Insurance	Director	N	N
Frank Donck, Director					
3D NV	Belgium	Investment company	Executive Director	N	N
3D Private Equity nv	Belgium	Investment company	Director	N	N
Anchorage nv	Belgium	Investment company	Director	N	N
Aspel Polyform sa	Belgium	Synthetic materials industry	Director	N	N
Aspel Slovakia sro	Slovakia	Synthetic materials industry	Director	N	N
Atenor Group sa	Belgium	Real estate	Chairman	Euronext	N
Hof Het Lindeke cvba	Belgium	Agriculture	Director	N	N
Huon & Kauri nv	Belgium	Real estate	Executive Director	N	N
Iberanfra bvba	Belgium	Real estate	Director	N	N
Ibervest nv	Belgium	Investment company	Executive Director	N	N
Plastiflex Group nv	Belgium	Synthetic materials industry	Director	N	N
Pinguin Lutosa nv	Belgium	Foodstuffs	Director	Euronext	N
Telenet nv	Belgium	Telecommunications	Chairman Board of Directors	N	N
Telenet Group Holding nv	Belgium	Telecommunications	Chairman Board of Directors	Euronext	N
Telenet Vlaanderen nv	Belgium	Telecommunications	Chairman Board of Directors	N	N
Ter Wyndt cvba	Belgium	Golf	Chairman	N	N
Ter Wyndt nv	Belgium	Golf	Chairman	N	N
Tris nv	Belgium	Real estate	Executive Director	N	N
Winge Golf NV	Belgium	Golf	Director	N	N
Zenitel nv	Belgium	Telecommunications	Director	Euronext	N
Luc Gijsens, Executive Director					
Gemma Frisius-Fonds K.U. Leuven nv	Belgium	Financial sector	Director	N	J
Thomas Leysen, Chairman of the Board of Directors					
Umicore nv	Belgium	Non-ferrous metals	Chairman Board of Directors	Euronext	N
Corelio nv	Belgium	Media	Chairman Board of Directors	N	N
De Vijver nv	Belgium	Media	Director	N	N
Mediacore nv	Belgium	Holding company	Executive Director	N	N
Tradicor nv	Belgium	Holding company	Executive Director	N	N
Booischot nv	Belgium	Real estate	Executive Director	N	N
Lode Morlion, Director					
M&D Invest nv	Belgium	Assets	Executive Director	N	N
Cera Beheersmaatschappij nv	Belgium	Management	Chairman	N	N
Woonmaatschappij Ijzer en Zee	Belgium	Housing	Director	N	N
Theo Roussis, Director					
Ravago Holding America Inc.	United States	Plastics company	Director	N	N
Plastomark (Propietary) ltd.	South Africa	Plastics company	Director	N	N
Polymed Global Group ltd.	United Arab Emirates	Plastics company	Director	N	N
Ravago SA	Luxembourg	Plastics company	CEO	N	N
Alain Tytgadt, Director					
Sinfonia Investments nv	Belgium	Holding company	Chairman Board of Directors	N	N
Hallex nv	Belgium	Holding company	Chairman Board of Directors	N	N
Metalunion cvba	Belgium	Wholesale trade in steel & HVAC	Chairman Board of Directors; Executive Director	N	N
Sobemetal nv	Belgium	Wholesale trade in steel	Chairman Board of Directors	N	N
Hallex Nederland bv	Netherlands	Holding company	Executive Director	N	N
Sloestaal bv	Netherlands	Wholesale trade in steel	Director	N	N

Company name	Registered office	Sector	Office held	Listed (N= no)	Share of capital held (N= none)
Dolf van den Brink, Independent Director					
Akzo Nobel	Netherlands	Chemicals	Member Board of Directors	AEX	N
Legal & General Nederland Levensverzekering Maatschappij NV	Netherlands	Life insurance	Member Board of Directors	N	N
Center Parcs Europe NV	France	Recreation	Chairman Board of Directors	N	N
Elsevier Reed Finance B.V.	Switzerland	Publishing	Chairman Board of Directors	N	N
Nederlandse Waterschapsbank NV	Netherlands	Financial holding company	Chairman Board of Directors	N	N
De Heus Veevoeders B.V.	Netherlands	Animal feed	Member Board of Directors	N	N
Ghislaine Van Kerckhove, Director					
Cera Beheersmaatschappij nv	Belgium	Management	Deputy Chairman Board of Directors	N	N
Almancora Beheersmaatschappij nv	Belgium	Management	Member Board of Directors	N	N
Piet Vanthemsche, Director					
M.R.B.B. - Maatschappij voor Roerend Bezit van de Boerenbond cvba	Belgium	Financial holding company	Chairman Board of Directors	N	N
BB-Patrim cvba	Belgium	Holding company	Chairman Board of Directors	N	N
Agri Investment Fund cvba	Belgium	Holding company	Chairman Board of Directors	N	N
Gimv-Agri+ Investment Fund nv	Belgium	Investment fund	Chairman Board of Directors	N	N
Philippe Vlerick, Deputy Chairman					
Besix Group nv	Belgium	Construction	Director	N	N
Exmar nv	Belgium	Trade	Director	Euronext	N
IVC nv	Belgium	Textiles	Director	N	N
Point nv	Belgium	Textiles	Chairman Board of Directors	N	N
Spector Photo Group nv	Belgium	Photo development	Deputy Chairman Board of Directors	Euronext	N
Batibic nv	Belgium	Real estate	Chairman Board of Directors	N	N
Cecan nv	Belgium	Holding company	Executive Director	N	N
Midelco nv	Belgium	Holding company	Chairman Board of Directors	N	N
Tessa Lim nv	Belgium	Construction	Chairman Board of Directors	N	N
VIT NV	Belgium	Holding company	Chairman Board of Directors	N	N
Vlerick Investeringsmaatschappij cvba	Belgium	Investment company	Chairman Board of Directors	N	N
Vlerick Vastgoed nv	Belgium	Real estate	Chairman Board of Directors	N	N
Raymond UCO denim Private Ltd	India	Textiles	Chairman Board of Directors	N	N
Pentahold nv	Belgium	Holding company	Chairman Board of Directors	N	N
BMT NV	Belgium	Metallurgical industry	Director	N	N
ETEX GROUP SA	Belgium	Construction	Director	N	N
Corelio nv	Belgium	Media group	Deputy Chairman Board of Directors	N	N
LVD Company nv	Belgium	Metallurgical industry	Director	N	N
Lurick nv	Belgium	Real estate	Executive Director	N	N
Therick nv	Belgium	Real estate	Executive Director	N	N
Hermes Invest nv	Belgium	Holding company	Chairman	N	N
Vobis Finance nv	Belgium	Holding company	Chairman Board of Directors	N	N
B.I.C. Carpets nv	Belgium	Textiles	Executive Director + Chairman Board of Directors	N	N
Concordia nv	Belgium	Textiles	Director	N	N
Indus Kamdhenu Fund	India	Investment company	Chairman	N	N
Hamon & Cie (International) SA	Belgium	Holding company	Director	Euronext	N
Durabilis	Belgium	Import-export	Deputy Chairman Board of Directors	N	N
Lutherick NV	Belgium	Holding company	Executive Director	N	N
De Robaertbeek NV	Belgium	Textiles	Director	N	N
Bareldam SA	Luxembourg	Holding company	Director	N	N
Sapient Investment Managers Ltd	Cyprus	Holding company	Chairman Board of Directors	N	N
UCO nv	Belgium	Textiles	Chairman Board of Directors	N	N
Cecan Invest nv	Belgium	Holding company	Executive Director	N	N
Marc Wittemans, Director					
Agro - Services cvba	Belgium	Temping agency	Director	N	N
Aktiefinvest cvba	Belgium	Real estate	Director	N	N
Arda Immo nv	Belgium	Real estate	Chairman Board of Directors	N	19,06%
SBB Accountants en Belastingconsulenten bv cvba	Belgium	Accountancy & consulting	Director	N	N
SBB Bedrijfsdiensten bv cvba	Belgium	Accountancy & consulting	Director	N	N
M.R.B.B. cvba	Belgium	Holding company	Executive Director	N	N
Agri Investment Fund cvba	Belgium	Holding company	Director	N	N
Acerta cvba	Belgium	Holding company	Director	N	N
Covalis nv	Belgium	Abbatoirs & meat processing	Director	N	N
Acerta Consulting cvba	Belgium	HR services	Director	N	N

Consolidated annual accounts

Ernst & Young
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Free Translation from the Dutch version

Statutory auditor's report to the general meeting of shareholders of KBC Bank nv on the consolidated financial statements for the year ended 31 December 2012

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

Unqualified opinion on the consolidated financial statements

We have audited the consolidated financial statements of KBC Bank nv and its subsidiaries (collectively referred to as 'the Group') for the year ended 31 December 2012, 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 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated cashflow statement and the consolidated statement of changes in equity for the year then ended, as well as the summary of significant accounting policies and other explanatory notes. The consolidated balance sheet shows total assets of € 224.824 million and the consolidated statement of income shows a loss for the year, share of the Group, of € 306 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 International Standards on Auditing (ISA). 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 2012 give a true and fair view of the Group's financial position as at 31 December 2012 and of the results of its operations and its cashflows in accordance with IFRS as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium.

Additional comments

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

Within the context of our assignment, it is our responsibility to verify in all material respects, the compliance with certain statutory and regulatory obligations. On this basis, we make the following comment which does not modify the scope of our opinion on the financial statements:

Audit report dated 18 March 2013 on the consolidated financial statements of KBC Bank nv for the year ended 31 December 2012 (continued)

- 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, 18 March 2013

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

Pierre Vanderbeek
Partner

Christel Weymeersch
Partner

13PVDB0090

Consolidated income statement

In millions of EUR	Note	2011	2012
Net interest income	3	4 484	3 838
Interest income		10 942	9 389
Interest expense		- 6 458	- 5 551
Dividend income	4	33	13
Net result from financial instruments at fair value through profit or loss	5	2	37
Net realised result from available-for-sale assets	6	85	90
Net fee and commission income	7	1 565	1 589
Fee and commission income		2 098	2 046
Fee and commission expense		- 533	- 457
Other net income	8	- 50	370
TOTAL INCOME		6 119	5 937
Operating expenses	9	- 3 709	- 3 666
Staff expenses		- 1 807	- 1 780
General administrative expenses		- 1 734	- 1 727
Depreciation and amortisation of fixed assets		- 168	- 160
Impairment	11	- 1 659	- 2 323
on loans and receivables		- 1 331	- 1 063
on available-for-sale assets		- 182	- 10
on goodwill		- 81	- 386
on other		- 66	- 863
Share in results of associated companies	12	- 52	8
RESULT BEFORE TAX		699	- 44
Income tax expense	13	- 216	- 147
Net post-tax result from discontinued operations		0	0
RESULT AFTER TAX		483	- 191
Attributable to minority interest		136	115
of which relating to discontinued operations		*0*	*0*
Attributable to equity holders of the parent		**347**	**- 306**
of which relating to discontinued operations		*0*	*0*

- Towards the end of 2009, the group unveiled a strategic plan that included a list of companies and activities to be divested. The European Commission approved this plan at the end of November 2009. The group made a number of adjustments to it in mid-2011. More information on the divestment plan is provided in the ‘Strategy, company profile and structure’ section (which has not been audited by the statutory auditor).
- It will be proposed that no dividend be paid for financial year 2012, subject to the approval of the General Meeting.
- The main items in the income statement are dealt with under ‘Review of the consolidated financial statements’ in the ‘Report of the Board of Directors’ section.

Consolidated statement of comprehensive income

In millions of EUR	2011	2012
RESULT AFTER TAX	483	- 191
attributable to minority interest	136	115
attributable to equity holders of the parent	347	- 306
OTHER COMPREHENSIVE INCOME		
Net change in revaluation reserve (AFS assets) - Equity	- 62	12
Fair value adjustments before tax	- 60	20
Deferred tax on fair value changes	- 1	- 5
Transfer from reserve to net profit	- 1	- 3
Impairment losses	1	1
Net gains/losses on disposal	- 1	- 6
Deferred income tax	0	1
Net change in revaluation reserve (AFS assets) - Bonds	23	742
Fair value adjustments before tax	- 189	814
Deferred tax on fair value changes	30	- 213
Transfer from reserve to net profit	183	141
Impairment losses	155	0
Net gains/losses on disposal	- 3	91
Amortization & impairment re assets transferred to L&R	81	181
Deferred income tax	- 50	- 130
Net change in revaluation reserve (AFS assets) - Other	0	0
Fair value adjustments before tax	0	0
Deferred tax on fair value changes	0	0
Transfer from reserve to net profit	0	0
Impairment losses	0	0
Net gains/losses on disposal	0	0
Deferred income tax	0	0
Net change in hedging reserve (cash flow hedge)	- 165	- 245
Fair value adjustments before tax	- 357	- 408
Deferred tax on fair value changes	134	156
Transfer from reserve to net profit	58	7
Gross amount	89	9
Deferred income tax	- 31	- 2
Net change in translation differences	- 126	67
Gross amount	- 34	32
Deferred taxes on income	- 92	35
Other movements	3	- 2
TOTAL COMPREHENSIVE INCOME	156	383
attributable to minority interest	121	114
attributable to equity holders of the parent	36	269

Consolidated balance sheet

ASSETS (in millions of EUR)	Note	31-12-2011	31-12-2012
Cash and cash balances with central banks		6 123	4 425
Financial assets	14-25	225 814	206 543
Held for trading	14-25	27 730	21 493
Designated at fair value through profit or loss	14-25	8 076	4 444
Available for sale	14-25	24 295	16 728
Loans and receivables	14-25	153 981	139 460
Held to maturity	14-25	10 958	23 343
Hedging derivatives	14-25	776	1 075
Fair value adjustments of hedged items in portfolio hedge of interest rate risk	-	197	204
Tax assets	27	2 406	2 104
Current tax assets		122	141
Deferred tax assets		2 284	1 963
Non-current assets held for sale and assets associated with disposal groups	41	3	6 883
Investments in associated companies	28	475	8
Investment property	29	552	412
Property and equipment	29	2 357	2 286
Goodwill and other intangible assets	30	1 544	1 045
Other assets	26	1 605	915
TOTAL ASSETS		241 076	224 824

LIABILITIES AND EQUITY (in millions of EUR)	Note	31-12-2011	31-12-2012
Financial liabilities	14-25	225 016	205 770
Held for trading	14-25	27 332	19 380
Designated at fair value through profit or loss	14-25	22 895	9 666
Measured at amortised cost	14-25	172 860	174 294
Hedging derivatives	14-25	1 929	2 430
Fair value adjustments of hedged items in portfolio hedge of interest rate risk	-	4	69
Tax liabilities	27	446	276
Current tax liabilities		233	167
Deferred tax liabilies		214	110
Liabilities associated with disposal groups	41	0	3 565
Provisions for risks and charges	31	852	482
Other liabilities	32	2 665	2 689
TOTAL LIABILITIES		228 983	212 851
Total equity		12 093	11 973
Parent shareholders' equity	34	11 117	11 255
Minority interests	-	975	718
TOTAL LIABILITIES AND EQUITY		241 076	224 824

- In accordance with IFRS 5, we have no longer recorded the assets and liabilities of most of the remaining divestments under various headings in the balance sheet, but have grouped them together instead under ‘Non-current assets held for sale and disposal groups’ and ‘Liabilities associated with disposal groups’. The entities concerned at the end of 2012 were Absolut Bank, KBC Bank Deutschland, Antwerp Diamond Bank and Nova Ljubljanska banka. For additional information, see Note 41.

Consolidated statement of changes in equity

In millions of EUR	Issued and paid up share capital	Share premium	Treasury shares	Revaluation reserve (AFS assets)	Hedging reserve (cashflow hedges)	Reserves	Translation differences	Parent shareholders' equity	Minority interests	Total equity
31-12-2011										
Balance at the beginning of the period	8 948	1 222	0	- 386	- 446	4 134	- 279	13 193	950	14 142
Net result for the period	0	0	0	0	0	347	0	347	136	483
Other comprehensive income for the period	0	0	0	- 38	- 166	3	- 111	- 311	- 15	- 326
Total comprehensive income	**0**	**0**	**0**	**- 38**	**- 166**	**351**	**- 111**	**36**	**121**	**156**
Dividends	0	0	0	0	0	- 2 122	0	- 2 122	0	- 2 122
Capital increase	0	0	0	0	0	0	0	0	0	0
Purchases of treasury shares	0	0	0	0	0	0	0	0	0	0
Sales of treasury shares	0	0	0	0	0	0	0	0	0	0
Results on (derivatives on) treasury shares	0	0	0	0	0	0	0	0	0	0
Impact business combinations	0	0	0	0	0	0	0	0	0	0
Change in minorities	0	0	0	0	0	0	0	0	- 95	- 95
Change in scope	0	0	0	11	0	0	0	11	0	11
Total change	**0**	**0**	**0**	**- 27**	**- 166**	**- 1 772**	**- 111**	**- 2 075**	**26**	**- 2 050**
Balance at the end of the period	**8 948**	**1 222**	**0**	**- 413**	**- 612**	**2 362**	**- 390**	**11 117**	**975**	**12 093**
of which revaluation reserve for shares				29						
of which revaluation reserve for bonds				- 443						
of which revaluation reserve for other assets than bonds and shares				0						
31-12-2012										
Balance at the beginning of the period	8 948	1 222	0	- 413	- 612	2 362	- 390	11 117	975	12 093
Net result for the period	0	0	0	0	0	- 306	0	- 306	115	- 191
Other comprehensive income for the period	0	0	0	755	- 245	- 2	67	574	- 1	574
Total comprehensive income	**0**	**0**	**0**	**755**	**- 245**	**- 308**	**67**	**269**	**114**	**383**
Dividends	0	0	0	0	0	- 120	0	- 120	0	- 120
Capital increase	0	0	0	0	0	0	0	0	0	0
Purchases of treasury shares	0	0	0	0	0	0	0	0	0	0
Sales of treasury shares	0	0	0	0	0	0	0	0	0	0
Results on (derivatives on) treasury shares	0	0	0	0	0	0	0	0	0	0
Impact business combinations	0	0	0	0	0	- 4	0	- 4	0	- 4
Change in minorities	0	0	0	0	0	0	0	0	- 224	- 224
Change in scope	0	0	0	- 7	- 6	0	6	- 8	- 147	- 155
Total change	**0**	**0**	**0**	**748**	**- 251**	**- 432**	**72**	**138**	**- 257**	**- 120**
Balance at the end of the period	**8 948**	**1 223**	**0**	**335**	**- 863**	**1 930**	**- 318**	**11 255**	**718**	**11 973**
of which revaluation reserve for shares				43						
of which revaluation reserve for bonds				292						
of which revaluation reserve for other assets than bonds and shares				0						

- For information on the number of shares, see Note 34.
- For information on the shareholder structure, see Note XVIII in the 'Company annual accounts' section and the 'Corporate governance statement' in the 'Report of the Board of Directors' section.
- The 'gross dividend of 120 million euros paid to KBC Group NV for the 2011 financial year is recognised under 'Dividends' in 2012.

Consolidated cashflow statement

In millions of EUR	2011	2012
Operating activities		
Result before tax	699	- 44
Adjustments for:	1 615	3 121
Result before tax related to discontinued operations	0	0
Depreciation, impairment and amortisation of property and equipment, intangible assets, investment property and securities	515	1 435
Profit/Loss on the disposal of investments	- 99	- 257
Change in impairment on loans and advances	1 331	1 063
Change in other provisions	354	- 359
Other non realised gains or losses	- 537	1 246
Income from associated companies	52	- 8
Cashflows from operating profit before tax and before changes in operating assets and liabilities	2 313	3 078
Changes in operating assets (excl. cash & cash equivalents)	29 248	13 957
Loans and receivables	2 478	3 911
Available for sale	9 680	6 555
Held for trading	7 072	5 266
Designated at fair value through P&L	10 770	4 226
Hedging derivatives	- 751	- 724
Operating assets associated with disposal groups & other assets	0	- 5 278
Changes in operating liabilities (excl. cash & cash equivalents)	- 33 627	- 11 858
Deposits at amortised cost	- 21 085	4 746
Debt certificates at amortised cost	- 11 649	891
Financial liabilities held for trading	3 391	- 7 581
Financial liabilities designated at fair value through P&L	- 5 090	- 13 229
Liability-derivatives hedge accounting	806	500
Operating liabilities associated with disposal groups & other liabilities	0	2 815
Income taxes paid	- 232	- 192
Net cash from (used in) operating activities	- 2 297	4 985

Investing activities		
Purchase of held-to-maturity securities	- 1 894	- 13 987
Proceeds from the repayment of held-to-maturity securities at maturity	1 056	1 640
Acquisition of a subsidiary or a business unit, net of cash acquired (increase in participation intrests included)	0	0
Proceeds from the disposal of a subsidiary or business unit, net of cash disposed (decrease in participation intrests included)	498	76
Purchase of shares in associated companies	- 18	0
Proceeds from the disposal of shares in associated companies	0	0
Dividends received from associated companies	19	0
Purchase of investment property	- 31	- 26
Proceeds from the sale of investment property	13	4
Purchase of intangible fixed assets (excl. goodwill)	- 45	- 48
Proceeds from the sale of intangible fixed assets (excl. goodwill)	7	14
Purchase of property and equipment	- 556	- 546
Proceeds from the sale of property and equipment	194	432
Net cash from (used in) investing activities	- 757	- 12 441
Financing activities		
Purchase or sale of treasury shares	0	0
Issue or repayment of promissory notes and other debt securities	- 2 155	1 004
Proceeds from or repayment of subordinated liabilities	- 897	- 1 657
Principal payments under finance lease obligations	0	0
Proceeds from the issuance of share capital	0	0
Proceeds from or repayment of non-voting core-capital securities	0	0
Proceeds from the issuance or repayment of preference shares	0	0
Dividends paid	- 2 122	- 120
Net cash from (used in) financing activities	- 5 175	- 773
Change in cash and cash equivalents		
Net increase or decrease in cash and cash equivalents	- 8 229	- 8 230
Cash and cash equivalents at the beginning of the period	17 650	9 431
Effects of exchange rate changes on opening cash and cash equivalents	10	- 71
Cash and cash equivalents at the end of the period	9 431	1 130
Additional information		
Interest paid	- 6 458	- 5 551
Interest received	10 942	9 389
Dividends received (including equity method)	52	13
Components of cash and cash equivalents		
Cash and cash balances with central banks	6 121	4 425
Loans and advances to banks repayable on demand and term loans to banks < 3 months	11 821	9 194
Deposits from banks repayable on demand and redeemable at notice	- 8 511	- 12 659
Cash and cash equivalents included in disposal groups	0	170
Total	9 431	1 130
of which not available	0	0

- KBC uses the indirect method to report on cashflows from operating activities.
- As stated in Note 41, KBC classified a number of group companies earmarked for divestment as ‘disposal groups’ at the end of 2012. KBC had concluded sale agreements for two of them (Absolut Bank and Nova Ljubljanska banka) by 31 December 2012 (sales not yet completed by then). When completed, the main impact these sales will have on cashflows relating to investing activities is as follows: receipt of the sales price: roughly 0.3 billion euros for Absolut Bank and 3 million euros for Nova Ljubljanska banka. Reduction in cash and cash equivalents belonging to disposal groups: 0.4 billion euros for Absolut Bank (amounts at 31 December 2012). As far as Kredyt Bank is concerned (see Note 8), the planned divestment in 2013 of the stake in the merged entity will have a positive impact of approximately 0.8 billion euros on net cash from or used in operating activities.
- More information on the main acquisitions and divestments of consolidated subsidiaries and activities already completed is provided below. All material acquisitions and divestments of group companies or activities were paid for in cash, except for Kredyt Bank (merger with Bank Zachodni WBK – see Note 8).

- More information on the main divestments can be found under ‘Group Centre’ in the ‘Report of the Board of Directors’ section (not audited by the statutory auditor).

Main acquisitions, divestments or changes in the ownership percentage of consolidated subsidiaries or operations		
	2011	**2012**
in millions of EUR	Centea	Kredyt Bank
Purchase or sale	Sale	Sale
Percentage of shares bought (+) or sold (-) in the relevant year	100.00%	80.00%
Total share percentage at the end of the relevant year	0.00%	0.00%
For business unit/segment	Group Centre	Group Centre
Deal date (month and year)	july 2011	december 2012
Incorporation of the result of the company in the result of the group until:	30-06-2011	31-12-2012
Purchase price or sale price	527	840
Cashflow for acquiring or selling companies less cash and cash equivalents acquired or sold	498	916
Assets & liabilities bought or sold		
Cash and cash balances with central banks	23	188
Financial assets	9 856	10 248
Held for trading	0	173
Designated at fair value through profit or loss	1 233	16
Available for sale	1 200	1 836
Loans and receivables	7 424	7 438
Held-to-maturity investments	0	769
Hedging derivatives	0	16
of which: cash and cash equivalents	*30*	*275*
Financial liabilities	8 637	8 064
Held for trading	0	241
Designated at fair value through profit or loss	0	0
Measured at amortised cost	8 637	7 823
Hedging derivatives	0	0
of which: cash and cash equivalents	*0*	*351*

Notes on the accounting policies

Note 1 a: Statement of compliance

The consolidated financial statements, including all the notes, were authorised for issue on 18 March 2013 by the Board of Directors of KBC Bank NV. The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted for use in the European Union ('endorsed IFRS') and present one year of comparative information. All amounts are shown in millions of euros and rounded to the million.

The following IFRS standards became effective on 1 January 2012 and have been applied by KBC in this report. The amendments in question do not have any material impact.

- Amendment to IFRS 7 (Financial Instruments: Disclosures – Transfers of Financial Assets). More detailed disclosures are required for transferred financial assets that are derecognised in their entirety, but where the entity has a continuing involvement in them (for instance, collateral provided for such assets) or for assets that have not been derecognised in their entirety. This information has been included in Note 14.

The following IFRS standards and IFRIC interpretations were issued but not yet effective for KBC Bank at year-end 2012. KBC will apply these standards and interpretations when they become mandatory.

- In November 2009, the IASB issued IFRS 9 (Financial Instruments) on the classification and measurement of financial instruments, as a replacement for the relevant requirements of the present IAS 39 (Financial Instruments: Recognition and Measurement). The mandatory effective date of this new standard has been postponed until 1 January 2015. However, the European Union has still to endorse the standard for use in its territory. An impact study is an inherent part of the IFRS 9 programme currently underway at KBC.
- Amendment to IAS 12 (Income tax – Deferred Tax: Recovery of Underlying Assets). No impact due to the fact that KBC measures investment property at cost.
- IFRS 10, 11 and 12 are the new consolidation standards that will become effective in the European Union on or after 1 January 2014. IFRS 10 includes a new definition of control, which could lead to changes in the scope of consolidation. Under IFRS 11 (Joint Arrangements), it is specified that *joint ventures* must be accounted for using the equity method and no longer by proportionate consolidation. IFRS 12 combines all the disclosure requirements for subsidiaries, joint arrangements, associates and *structured entities* (the new name for Special Purpose Entities). It is expected that this will not lead to any material change in KBC's scope of consolidation.
- IFRS 13 (Fair Value Measurement) provides guidance on how the fair value of an asset or liability should be measured when required by another IFRS standard. The standard will become effective on 1 January 2013. KBC expects that there will only be a minor change in the way that fair values are determined. The main consequence for KBC will be the requirement of expanded disclosures.
- Amendment to IAS 19 (Employee Benefits), which will become effective on or after 1 January 2013. The main change concerns the elimination of the corridor, which – under the current standard – permits actuarial gains and losses to be spread over several years. From that point on, such gains and losses will have to be recognised in other comprehensive income (with no recycling in profit or loss). The required disclosures will also be changed and expanded. Pre-tax unrecognised net actuarial gains came to -96 million euros (see Note 33).
- Amendment to IFRS 7 and IAS 32 (Offsetting Financial Assets and Financial Liabilities), which will become effective on or after 1 January 2013 and 1 January 2014, respectively. The main consequence for KBC will be the requirement of expanded disclosures.
- Amendment to IAS 1 (Presentation of Financial Statements), which will become effective on or after 1 January 2013. The main change concerns the grouping of items presented in other comprehensive income. Items that might be reclassified (or recycled) to profit or loss at a future point in time will be presented separately from items that will never be reclassified.

Note 1 b: Summary of significant accounting policies

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

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

b Effects of changes in foreign exchange rates

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

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

c Financial assets and liabilities (IAS 39)

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

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

The IAS 39 classifications are as follows:

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

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

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

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

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

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

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

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

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

KBC applies the following general rules:

Amounts receivable. These are classified under 'Loans and receivables'. They are measured on acquisition at fair value, including transaction costs. Loans with a fixed maturity are subsequently measured at amortised cost using the effective interest method, i.e. an interest rate is applied that exactly discounts all estimated future cashflows from the loans to the net carrying amount. This interest rate takes account of all related fees and transaction costs. Loans with no fixed maturity date are measured at amortised cost.
Impairment losses are recognised for loans and advances for which there is evidence – either on an individual or portfolio basis – of impairment at balance sheet date. Whether or not evidence exists is determined on the basis of the probability of default (PD). The characteristics of the loan, such as the type of loan, the borrower's line of business, the geographical location of the borrower and other characteristics key to a borrower's risk profile, are used to determine the PD. Loans with the same PD therefore have a similar credit risk profile.

- Loans and advances with a PD of 12 (individual problem loans with the highest probability of default) are individually tested for impairment (and written down on an individual basis if necessary). The impairment amount is calculated as the difference between the loans' carrying amount and their present value.
- Loans and advances with a PD of 10 or 11 are also considered to be individual problem loans. Material loans are tested individually. The impairment amount is calculated as the difference between the loans' carrying amount and their present value. Non-material loans are tested on a statistical basis. The impairment amount calculated according to the statistical method is based on IRB Advanced models (PD x LGD x EAD).
- Loans and advances with a PD lower than 10 are considered normal loans. Incurred-but-not-reported (IBNR) losses are recognised for loans with a PD of 1 through 9. IBNR losses are based on IRB Advanced models (PD x LGD x EAD), with all parameters being adjusted to reflect the point-in-time nature of these losses. The main adjustment relates to the PD, i.e. the time horizon of the PD is shortened on the basis of the emergence period. This is the period between the time an event occurs that will lead to an impairment and the time KBC identifies this event, and is dependent on the review frequency, the location and degree of involvement with the counterparties.
- When impairment is identified, the carrying amount of the loan is reduced via an impairment account and the loss recognised in the income statement. If, in a subsequent period, the estimated impairment amount increases or decreases due to an event that occurs after the impairment loss was recognised, the previously recognised impairment will be increased or reduced accordingly through adjustment of the impairment account. Loans and the related amounts included in the impairment accounts are written off when there is no realistic prospect of recovery in future or if the loan is forgiven. A renegotiated loan will continue to be tested for impairment, calculated on the basis of the original effective interest rate applying to the loan.
For off-balance-sheet commitments (commitment credit) classified as uncertain or irrecoverable and doubtful, provisions are recognised if the general IAS 37 criteria are satisfied and the *more-likely-than-not* criterion met. These provisions are recognised at their present value.
Interest on loans written down as a result of impairment is recognised using the contractual rate of interest used to measure the impairment loss.

Securities. Depending on whether or not securities are traded on an active market and depending on what the intention is when they are acquired, securities are classified as loans and receivables, held-to-maturity assets, held-for-trading assets, financial assets at fair value through profit or loss, or available-for-sale assets.
Securities classified as loans and receivables or held-to-maturity assets are initially measured at fair value, including transaction costs. They are subsequently measured at amortised cost. The difference between the acquisition cost and the redemption value is recognised as interest and recorded in the income statement on an accruals basis over the remaining term to maturity. It is taken to the income statement on an actuarial

basis, based on the effective rate of return on acquisition. Individual impairment losses for securities classified as loans and receivables or held-to-maturity are recognised – according to the same method as is used for amounts receivable as described above – if there is evidence of impairment at balance sheet date.

Held-for-trading securities are initially measured at fair value (excluding transaction costs) and subsequently at fair value, with all fair value changes being recognised in profit or loss for the financial year.

Securities classified initially as 'Financial assets at fair value through profit or loss' that are not held for trading are measured in the same way as held-for-trading assets.

Available-for-sale securities are initially measured at fair value (including transaction costs) and subsequently at fair value, with changes in fair value being recorded separately in equity until the sale or impairment of the securities. In this case, the cumulative fair value changes are transferred from equity to profit or loss for the financial year. Impairment losses are recognised if evidence of impairment exists on the balance sheet date. For listed equity and other variable-yield securities, a significant (more than 30%) or prolonged (more than one year) decline in their fair value below cost is evidence of impairment. For fixed-income securities, impairment is measured on the basis of the recoverable amount of the acquisition cost. Impairment losses are taken to the income statement for the financial year. For equity and other variable-yield securities, impairment is reversed through a separate equity heading. Reversals of impairment on fixed-income securities occur through profit or loss for the financial year. However, if it cannot be demonstrated objectively that the reason for prolonged impairment no longer exists (i.e. the loss event triggering impairment has not completely disappeared), any increases in fair value will be recorded in equity. This continues until there is no longer any evidence of impairment. At that moment, impairment is completely reversed through profit or loss and any difference in fair value recorded in equity.

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

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

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

Hedge accounting. KBC applies hedge accounting when all the requisite conditions (according to the hedge accounting requirements that have not been carved out in the IAS 39 version as approved by the EU) are fulfilled. These conditions are that the hedge relationship must be formally designated and documented on the inception of the hedge, the hedge must be expected to be highly effective and this effectiveness must be able to be measured reliably, and the measurement of hedge effectiveness must take place on a continuous basis during the reporting period in which the hedge can be considered to be effective.

For fair value hedges, both the derivatives hedging the risks and the hedged positions are measured at fair value, with all fair value changes being taken to the income statement. Accrued interest income from rate swaps is included in net interest income. Hedge accounting is discontinued once the hedge accounting requirements are no longer met or if the hedging instrument expires or is sold. In this case, the gain or loss recorded in equity on the hedged position (for fixed-income financial instruments) will be taken to profit or loss on an accruals basis until maturity.

KBC uses fair value hedges for a portfolio of interest rate risk to hedge the interest rate risk for a portfolio of loans and savings deposits using interest rate swaps. The interest rate swaps are measured at fair value, with fair value changes reported in profit or loss. Accrued interest income from these swaps is included in net interest income. The hedged amount of loans is measured at fair value as well, with fair value changes reported in profit or loss. The fair value of the hedged amount is presented as a separate line item of the assets on the balance sheet. KBC makes use of the 'carved-out' version of IAS 39, so that no ineffectiveness results from anticipated repayments, as long as underhedging exists. In case of hedge ineffectiveness, the cumulative change in the fair value of the hedged amount will be amortised through profit or loss over the remaining lifetime of the hedged assets or immediately removed from the balance sheet if the ineffectiveness is due to the fact that the corresponding loans have been derecognised.

For cashflow hedges, derivatives hedging the risks are measured at fair value, with those fair value gains or losses determined to be an effective hedge being recognised separately in equity. Accrued interest income from rate swaps is included in net interest income. The ineffective portion of the hedge is recognised in income for the financial year. Hedge accounting will be discontinued if the hedge accounting criteria are no longer met. In this case, the derivatives will be treated as held-for-trading derivatives and measured accordingly.
Foreign currency funding of a net investment in a foreign entity is accounted for as a hedge of that net investment. This form of hedge accounting is used for investments not denominated in euros. Translation differences (account taken of deferred taxes) on the funding are recorded in equity, along with translation differences on the net investment.

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

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

d Goodwill and other intangible assets

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

e Property and equipment (including investment property)

All property and equipment is recognised at cost (including directly allocable acquisition costs), less accumulated depreciation and impairment. The rates of depreciation are determined on the basis of the anticipated useful life of the assets and are applied according to the straight-line method from the moment the assets are available for use. Impairment is recognised if the carrying value of the asset exceeds its recoverable value (i.e. the higher of the asset's value in use and net selling price). Amounts written down can be reversed through the income statement. When property or equipment is sold, the realised gains or losses are taken directly to the income statement. If property or equipment is destroyed, the remaining amount to be written off is taken directly to the income statement.

The accounting policy outlined for property and equipment also applies to investment property.

External borrowing costs that are directly attributable to the acquisition of an asset are capitalised as part of the cost of that asset. All other borrowing costs are recognised as an expense in the period in which they are incurred. Capitalisation commences when expenses are incurred for the asset, when the borrowing costs are incurred and when activities that are necessary to prepare the asset for its intended use or sale are in progress. When development is interrupted, the *capitalisation* of borrowing costs is suspended. The *capitalisation* of borrowing costs ceases when all the activities necessary to prepare the asset for its intended use or sale are complete.

f Pension liabilities

Pension liabilities are included under the 'Other liabilities' item and relate to obligations for retirement and survivor's pensions, early retirement benefits and similar pensions or annuities.

Defined benefit plans are those under which KBC has a legal or constructive obligation to pay extra contributions to the pension fund if this last has insufficient assets to settle all the obligations to employees resulting from employee service in current and prior periods.

The pension obligations under these plans for employees are calculated according to IAS 19, based on the projected-unit-credit method, with each period of service granting additional entitlement to pension benefits.

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

g Tax liabilities

This heading includes current and deferred tax liabilities.

Current tax for the period is measured at the amount expected to be paid, using the rates of tax in effect for the balance sheet date.

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

h Provisions

Provisions are recognised in the balance sheet:

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

i Equity

Equity is the residual interest in the net assets after all liabilities have been deducted.
Equity instruments have been differentiated from financial instruments in accordance with the IAS 32 rules.

The revaluation reserve for available-for-sale assets is included in equity until disposal or impairment of the assets. At that time, the cumulative gain or loss is transferred to profit or loss for the period.

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

j Exchange rates used*

	Exchange rate at 31-12-2012		Exchange rate average in 2012	
	1 EUR = ... currency	Change from 31-12-2011 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)	1 EUR = ... currency	Change relative to average in 2011 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)
CZK	25.15	3%	25.17	-2%
GBP	0.816	2%	0.813	7%
HUF	292.3	8%	289.1	-3%
PLN	4.074	9%	4.184	-2%
USD	1.319	-2%	1.292	8%

* Rounded figures.

k Changes made to accounting policies in 2012

No material changes were made to the accounting policies compared with 2011.

Notes on segment reporting

Note 2 a: Segment reporting based on the management structure

The group's segments or business units (situation up to and including 2012)

The management structure of KBC Bank was – until the end of 2012 – built around a number of segments called 'business units', namely Belgium, Central & Eastern Europe, Merchant Banking, and Shared Services & Operations. This breakdown is based on a combination of geographic criteria (Belgium and Central and Eastern Europe, the group's two core markets) and business criteria (either retail banking or merchant banking). The Shared Services & Operations Business Unit includes a number of entities that provide support and products to the other business units (in the areas of ICT, leasing, etc.).

Segment reporting is based on this format, but:

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

For reporting purposes, therefore, the composition of the segments or business units was as follows until year-end 2012:

- Belgium (retail banking, asset management and private banking in Belgium; companies earmarked for divestment under the strategic plan are recognised under Group Centre).
- Central & Eastern Europe (retail banking, asset management, private banking and merchant banking in the Czech Republic, Slovakia, Hungary and Bulgaria; companies in other countries that have been earmarked for divestment are recognised under Group Centre).
- Merchant Banking (corporate banking and market activities in Belgium and in a selection of countries in Europe, North America and Southeast Asia; companies earmarked for divestment are recognised under Group Centre).
- Group Centre (all companies earmarked for divestment and certain allocated results for KBC Bank NV (that cannot reliably be allocated to the segments)).

It should be noted that:

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

Situation from 2013 on

2013 saw the launch of a new management structure. The first financial report in this format will be the earnings statement for the first quarter of 2013. Consequently, this annual report still uses the old format in dealing with the activities and results.

The new group structure comprises three building blocks and eight pillars.

The *'generate'* building block has four business units:

- The Belgium Business Unit and the Czech Republic Business Unit have the remit of ensuring that increasingly stable profitability is maintained at high levels.
- The international Markets Business Unit encompasses the other core countries in Central and Eastern Europe (Slovakia, Hungary and Bulgaria). These countries have been designated as growth generators for the group. KBC Bank Ireland also belongs to this business unit, as do the remaining non-core entities earmarked for divestment.
- The International Product Factories Business Unit comprises a number of entities and activities, including Asset Management, Trade Finance, Consumer Finance, Markets and KBC Securities.

The *'improve'* building block is made up of the Corporate Change & Support, CRO Services and CFO Services pillars, which act as an internal regulator, but whose main role is to support the business units.

The *'develop'* building block comprises the Corporate Staff pillar, which is a competence centre for strategic know-how and best practices in corporate organisation and communication. It supports both the Group Executive Committee and the business units and is tasked to stimulate co-operation within the organisation.

The main differences between the old and new structures are discussed in the sections devoted to the individual business units, under 'Report of the Board of Directors'.

Underlying results by segment (situation up to and including 2012)

The figures in the segment reporting presentation have been prepared in accordance with the general accounting method used at KBC (see Note 1) and, therefore, comply with the International Financial Reporting Standards, as adopted for use in the European Union (endorsed IFRS). A number of changes have been made to this methodology in order to provide a better insight into the underlying business activities. The results generated in this way are referred to as 'underlying results' and these form an important element for the internal assessment and management of the business units.

The differences between the IFRS figures and the underlying figures are as follows:

- Exceptional items that do not regularly occur during the normal course of business are eliminated in the underlying results. This includes losses and gains relating to investments in CDOs and the results for divestments (realised gains or losses and impairment). In view of their exceptional nature and materiality, it is important to separate out these items in order to gain a full understanding of the results trend.
- The fair value changes (due to marking-to-market) of a large proportion of ALM hedging instruments (that are treated as trading instruments) appear under 'Net result from financial instruments at fair value', whereas most of the related assets are not recognised at fair value. The volatility stemming from the fair value changes of these ALM hedging derivatives is excluded from the underlying results.
- In the IFRS figures, income from professional market activities is divided up among different components. While trading profit is recognised under 'Net result from financial instruments at fair value', the funding costs and the fees and commission paid to realise this trading profit are recognised under 'Net interest income' and 'Net fee and commission income', respectively. Moreover, a portion of the other income items also relates to market activities. In the underlying figures, all market-activity-related components have been moved to 'Net result from financial instruments at fair value'.
- The IFRS figures take into account the effect of changes in own credit risk when measuring the fair value of financial liabilities designated at fair value through profit or loss. The resultant valuation adjustments have an impact on the net result. Since this is a non-operating item, its impact is excluded from the underlying figures.

The results per business unit are dealt with below. A reconciliation of the figures for KBC Bank is given in the table below.

Reconciliation of IFRS results and underlying results

Reconciliation of IFRS results and underlying results (in millions of EUR)	Foot note	Main heading(s) concerned in the income stateme	FY2011	FY2012
Result after tax, attributable to equity holders of the parent (underlying)			**635**	**1 178**
+ Changes in fair value of ALM hedging instruments	1	Net result from financial instruments at fair value, Income tax expense	- 268	- 40
+ Gains/losses relating to CDOs, including fair value of CDO-related guarantee and commitment fees	2	Net result from financial instruments at fair value, Income tax expense	- 331	161
+ Impairment on goodwill and associated companies	3	Impairment on goodwill and on other	- 81	- 9
+ Result from legacy structured derivatives business (KBC Financial Products)		Net result from financial instruments at fair value, Income tax expense	50	- 6
+ Changes in fair value of own debt instruments (due to own credit risk)	4	Net result from financial instruments at fair value, Income tax expense	359	- 531
+ Results on divestments	5	Other net income, Impairment on goodwill and on other	- 18	- 1 058
Result after tax, attributable to equity holders of the parent (IFRS)			347	- 306

1 See explanation in the second bullet point under 'Underlying results by segment (situation up to and including 2012)'.

2 Relates primarily to changes in the fair value of CDO exposures (see Notes 5 and 22), changes in provisions for and payment of CDO-related claims, and the fee related to the CDO guarantee agreement concluded with the Belgian State in 2009 (see 'Additional information').

3 In 2011, Bulgaria among other countries.

4 The positive figure in 2011 relates to heightened risk aversion to European banks (hence including KBC), which caused the market value of own debt instruments designated at fair value through profit or loss, to decline. KBC's credit spread improved in 2012, which resulted in a negative figure for that year.

5 The figure for 2012 includes primarily the positive impact of the merger of Kredyt Bank (Poland) (0.1 billion euros) and the impairment charges taken on Absolut Bank (Russia), Antwerp Diamond Bank (Belgium), KBC Bank Deutschland (Germany) and Nova Ljubljanska banka (Slovenia) – an aggregate -1.2 billion euros.

Underlying results by segment (business unit)

In millions of EUR	Belgium Business unit	CEE Business unit	Merchant Banking Business unit	Group Centre excluding intersegment eliminations	Intersegment eliminations	KBC Bank
UNDERLYING INCOME STATEMENT - 2011						
Net interest income	1 530	1 473	663	593	0	4 258
Dividend income	6	2	7	1	0	15
Net result from financial instruments at fair value through profit or loss	41	70	405	- 15	0	502
Net realised result from available-for-sale assets	23	27	35	- 1	0	85
Net fee and commission income	852	413	202	121	- 2	1 587
Other net income	- 131	36	- 84	22	- 11	- 167
TOTAL INCOME	**2 322**	**2 021**	**1 228**	**721**	**- 13**	**6 280**
Operating expenses	- 1 456	- 1 084	- 564	- 531	13	- 3 622
Impairment	- 110	- 611	- 768	- 89	0	- 1 578
on loans and receivables	- 59	- 477	- 725	- 69	0	- 1 331
on available-for-sale assets	- 51	- 125	- 6	- 1	0	- 182
on goodwill	0	0	0	0	0	0
on other	0	- 9	- 37	- 19	0	- 66
Share in results of associated companies	0	7	0	- 59	0	- 52
RESULT BEFORE TAX	**756**	**333**	**- 104**	**43**	**0**	**1 028**
Income tax expense	- 230	- 36	6	3	0	- 257
Net post-tax result from discontinued operations	0	0	0	0	0	0
RESULT AFTER TAX	**527**	**297**	**- 98**	**46**	**0**	**771**
attributable to minority interests	104	0	15	18	0	136
attributable to equity holders of the parent	**422**	**298**	**- 113**	**28**	**0**	**635**
[a] Of which non-cash expenses:	- 42	- 81	- 25	- 36	0	- 183
Depreciation and amortisation of fixed assets	- 41	- 74	- 18	- 34	0	- 166
Other	0	- 7	- 8	- 2	0	- 17
Acquisitions of non current assets*	48	197	343	44	0	632
UNDERLYING INCOME STATEMENT - 2012						
Net interest income	1 471	1 336	543	354	- 1	3 703
Dividend income	2	1	6	0	0	10
Net result from financial instruments at fair value through profit or loss	50	204	580	68	0	901
Net realised result from available-for-sale assets	17	7	17	18	0	59
Net fee and commission income	905	385	199	114	- 1	1 602
Other net income	55	94	58	18	- 6	219
TOTAL INCOME	**2 501**	**2 027**	**1 402**	**572**	**- 8**	**6 494**
Operating expenses	- 1 409	- 1 170	- 578	- 461	8	- 3 611
Impairment	- 70	- 137	- 751	- 172	0	- 1 130
on loans and receivables	- 67	- 123	- 704	- 169	0	- 1 063
on available-for-sale assets	0	- 1	- 1	0	0	- 3
on goodwill	- 2	0	0	0	0	- 2
on other	0	- 13	- 46	- 3	0	- 62
Share in results of associated companies	0	7	0	- 33	0	- 26
RESULT BEFORE TAX	**1 021**	**727**	**73**	**- 94**	**0**	**1 727**
Income tax expense	- 311	- 85	- 79	41	0	- 434
Net post-tax result from discontinued operations	0	0	0	0	0	0
RESULT AFTER TAX	**710**	**642**	**- 7**	**- 53**	**0**	**1 293**
attributable to minority interests	87	0	13	16		115
attributable to equity holders of the parent	**623**	**642**	**- 19**	**- 68**	**0**	**1 178**
[a] Of which non-cash expenses:	- 43	- 82	- 21	- 14	0	- 160
Depreciation and amortisation of fixed assets	- 41	- 74	- 15	- 27	0	- 157
Other	- 1	- 8	- 6	12	0	- 3
Acquisitions of non current assets*	114	151	355	0	0	621

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

Review of underlying results by business unit

Belgium Business Unit

Underlying net profit in this business unit came to 623 million euros, compared with 422 million euros in 2011. The 201-million-euro increase was due almost entirely to the fact that, in 2011, impairment was recorded on Greek government bonds and a provision recognised for the 5-5-5 investment product.

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Net interest income totalled 1 471 million euros, down 4% year-on-year owing chiefly to reduced income as a result of the run-down of the (high-yield) GIIPS government bond portfolio and generally lower level of interest rates. Although the net interest margin at KBC Bank fell – by 16 basis points to 1.26% – loan and deposit volumes went up, each by 5% in the space of a year.

Net fee and commission income amounted to 905 million euros, up 6% on the figure for 2011. This increase was attributable to several factors, including a rise in fee and commission *income* from asset management activities (cf. higher entry and management fees for investment funds), and reflects the slightly improved investment climate. Assets managed by this business unit went up by 5% year-on-year to 144 billion euros, due mainly to a positive price effect.

As regards the other income items, the net realised result from available-for-sale assets totalled 17 million euros (-6 million euros compared to 2011), dividend income amounted to 2 million euros, the net result from financial instruments at fair value through profit or loss stood at 50 million euros, and other net income came to 55 million euros. The latter was 186 million euros more than in 2011, due to the fact that 2011 was negatively influenced by the recognition of -167 million euros for the 5-5-5 investment product.

Operating expenses totalled 1 409 million euros in 2012, some 3% less than the year-earlier figure owing primarily to a decrease in general administrative charges (+ 41 million euros). The underlying cost/income ratio ended the year at 56%, compared with 63% at year-end 2011 (excluding the provision set aside for the 5-5-5 product in that year, the figure was 59%).

Impairment recorded on loans and receivables amounted to a low 67 million euros in 2012. As in previous years, this resulted in a very favourable credit cost ratio of 11 basis points (10 basis points in 2011). Approximately 1.6% of the Belgian retail loan portfolio was non-performing at year-end 2012, unchanged from the year-earlier figure. Unlike in 2011 when a provision had to be constituted for Greek government bonds, no impairment was recorded on available-for-sale assets in 2012.

Central & Eastern Europe Business Unit

The Central & Eastern Europe Business Unit generated a net profit of 642 million euros in 2012, more than double the 298 million euros recorded a year earlier. This was the result chiefly of lower loan loss provisioning in Hungary and Bulgaria and the fact that 2011 had been negatively impacted (to the tune of 125 million euros) by impairment on Greek government bonds.

Net interest income at this business unit came to 1 336 million euros in 2012, down 7% on its level in 2011 (excluding the effects of currency exchange), a decline owing primarily to Hungary (-28%). The business unit's loan portfolio grew by 4% on an organic basis, characterised by a significant expansion in the Czech Republic and Slovakia and sharp contraction in Hungary (due, among other things, to the measures taken there relating to mortgage loans). The total volume of deposits in the region went up by 2% in 2012 (attributable mainly to the Czech Republic). The average interest margin fell to 3.03% (compared with 3.29% in 2011).

Net fee and commission income came to 385 million euros. That is 5% less than the previous year (excluding the effect of exchange rates) accounted for by various factors, including a write-down of deferred acquisition costs relating to the Stabilita Pension Fund in the Czech Republic. Assets managed at this business unit totalled around 11 billion euros at year-end 2012, 3% more than the year-earlier figure.

As regards the other income items, the net realised result from available-for-sale assets totalled 7 million euros, dividend income amounted to 1 million euros, the net result from financial instruments at fair value through profit or loss stood at 204 million euros (a sharp increase compared with the previous year), and other net income came to 94 million euros.

Operating expenses amounted to 1 170 million euros, which, excluding the impact of exchange rates, represents an increase of 10%. The expense item also included the special bank tax in Hungary, which had an adverse effect of 51 million euros in 2012 and 2 million euros in 2011 (the latter figure was lower because it was possible that year to set off some of the loan loss provisions for foreign-currency mortgages against the special bank tax). The underlying cost/income ratio ended the year at 58%, compared with 54% in 2011.

Impairment on loans and receivables (loan loss provisions) came to 123 million euros, significantly lower than the 477 million euros recorded in 2011. The loan loss provisions were low in all countries, with a sharp drop in Hungary (the high level in 2011 was due mainly to a new law which made it possible for customers to repay foreign-currency loans in local currency at a favourable exchange rate) and Bulgaria. Consequently, the credit cost ratio for the business unit fell to 40 basis points in 2012 (159 basis points in 2011). At year-end 2012, around 5.2% of the loan portfolio in the four core markets combined was non-performing, compared with 5.6% a year earlier.

Merchant Banking Business Unit

In 2012, the Merchant Banking Business Unit generated a net result of -19 million euros, compared with -113 million euros a year earlier. Whereas 2011 had been adversely affected by provisioning for the 5-5-5 investment product in Belgium, 2012 was positively impacted by better results from the dealing room and the recovery of an amount related to a former fraud case. Relatively high loan loss provisions were set aside for Ireland in both years.

Total income amounted to 1 402 million euros, 14% more than its 2011 level.

Net interest income totalled 543 million euros in 2012, 18% lower than the year-earlier figure, attributable in part to the sale of GIIPS government bonds and a contraction of 6% in the loan portfolio. The decline in the size of the loan portfolio reflects the group's strategy of refocusing on its core markets, which resulted in a run-down of the international loan portfolios not related to those markets. Following a sharp decline at the end of 2011, deposit volumes recovered in 2012, rising by 23% year-on-year.

The net result from financial instruments at fair value through profit or loss came to 580 million euros, an increase of 43% compared with 2011 that was due chiefly to stronger dealing room results and a positive change in credit value adjustments for derivatives in 2012.

Net fee and commission income amounted to 199 million euros, slightly less than the year-earlier figure owing in part to the deconsolidation of a number of smaller companies. As regards the other income items, the net realised result from available-for-sale assets totalled 17 million euros, dividend income amounted to 6 million euros, and other net income came to 58 million euros – much better than in 2011 which had been adversely affected by the recognition of -167 million euros for the 5-5-5 investment product and also attributable to the fact that 2012 was positively impacted by the recovery of an amount related to a former fraud case.

Operating expenses totalled 578 million euros, 2% higher than the year-earlier figure (with the impact of a reduction in activities, slightly higher staff expenses and a number of other factors offsetting each other). The cost/income ratio ended the year at 41%, compared with 46% in 2011 (41% excluding the impact of the provision for the 5-5-5 product).

Impairment recorded on loans and receivables amounted to 704 million euros in 2012, slightly lower than the 725 million euros recorded for the previous year. Most of the impairment related to Ireland, where relatively high impairment charges were again taken on the loan portfolio (547 million euros in 2012; 510 million euros in 2011). The credit cost ratio for the business unit went up slightly to 142 basis points, compared with 136 basis points in 2011. Excluding Ireland, this ratio would have been 48 basis points and 59 basis points for 2012 and 2011, respectively. At year-end 2012, around 9.8% of the business unit's loan portfolio was non-performing, compared with 7.8% a year earlier. Other impairment came to 46 million euros in 2012 and related primarily to investment property.

Group Centre

The Group Centre generated an underlying net result of -68 million euros, compared with 28 million euros in 2011.
A large part of the result of Group Centre was attributable to companies scheduled for divestment under the strategic plan. Together, they accounted for an underlying result of 33 million euros in 2012, compared with 108 million euros in 2011. This can be broken down by former business unit as follows:

Result of the group companies that are divested according to the strategic plan; in millions of EUR	2011	2012
Result of the group companies that are divested according to the strategic plan	108	33
ex- Belgium Business unit (Centea (included in result until sale mid 2011)	23	0
ex- CEE Business unit (mainly Absolut Bank, NLB Bank, Kredyt Bank)	67	79
ex- Merchant Banking Business unit (Antwerpse Diamantbank, KBC Bank Deutschland etc.)	18	-47

The net result from the (ex) Central & Eastern Europe Business Unit came to 79 million euros, compared with 67 million euros a year earlier. This increase was due entirely to a slightly higher result at Kredyt Bank. The less negative result at Nova Ljubljanska banka (-33 million euros in 2012 compared with -59 million euros in 2011) was offset completely by lower reversals of the loan loss provisions at Absolut Bank (18 million euros in 2012; 41 million euros in 2011).

The lower result from the (ex) Merchant Banking Business Unit was attributable mainly to higher loan loss provisions at KBC Finance Ireland (-79 million euros in 2012; -15 million euros in 2011).

The change in the (ex) Belgium Business Unit was characterised by the sale of Centea in 2011 (only 6 months were included in the results that year).

Balance-sheet information by segment (business unit)

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

In millions of EUR	Belgium Business unit	CEE Business unit	Merchant Banking Business unit	Group Centre	KBC Bank
Balance sheet information 31-12-2011					
Total loans to customers	55 431	25 648	45 669	13 330	140 078
Of which mortgage loans	29 359	10 533	12 288	5 116	57 296
Of which reverse repos	0	16	3 250	0	3 266
Customer deposits	76 665	38 434	47 833	8 674	171 605
Of which repos	0	3 209	14 035	0	17 243
Balance sheet information 31-12-2012					
Total loans to customers	57 795	27 364	41 789	1 525	128 474
Of which mortgage loans	30 794	11 394	11 594	27	53 810
Of which reverse repos	53	54	1 874	0	1 981
Customer deposits	78 269	40 806	43 731	302	163 107
Of which repos	0	3 741	2 437	0	6 178

Note 2 b: Segment reporting based on geographic area

This segment reporting format is based on geographic areas, reflecting KBC's focus on its core markets – Belgium and Central and Eastern Europe – and its selective presence in the rest of the world (mainly the US, Southeast Asia and Western Europe excluding Belgium).

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

This segment reporting format differs considerably from segment reporting based on business units, partly due to the fact that different allocation methodologies are used and that the Belgium geographic segment includes not only the Belgium Business Unit, but also the Belgian activities of the Merchant Banking Business Unit.

In millions of EUR	Belgium	Central and Eastern Europe	Rest of the world	KBC Bank
2011				
Total income from external customers (underlying)	2 641	2 723	915	6 280
31-12-2011				
Total assets (period-end)	156 129	56 888	28 058	241 076
Total liabilities (period-end)	148 804	51 853	28 326	228 983
Acquisitions of non-current assets* (period end)	358	239	35	632
2012				
Total income from external customers (underlying)	3 416	2 305	773	6 494
31-12-2012				
Total assets (period-end)	149 133	52 734	22 956	224 824
Total liabilities (period-end)	143 943	47 626	21 281	212 851
Acquisitions of non-current assets* (period end)	417	151	53	621

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

Notes to the income statement

Note 3: Net interest income

In millions of EUR	2011	2012
Total	**4 484**	**3 838**
Interest income	**10 942**	**9 389**
Available-for-sale assets	1 062	695
Loans and receivables	6 572	6 026
Held-to-maturity investments	495	750
Other assets not at fair value	32	26
Subtotal, interest income from financial assets not measured at fair value through profit or loss	*8 162*	*7 497*
of which : impaired financial assets	84	95
Financial assets held for trading	1 749	1 165
Hedging derivatives	518	564
Other financial assets at fair value through profit or loss	513	162
Interest expense	**- 6 458**	**- 5 551**
Financial liabilities measured at amortised cost	- 3 325	- 3 159
Other	- 3	- 3
Subtotal, interest expense for financial liabilities not measured at fair value through profit or loss	*- 3 328*	- 3 162
Financial liabilities held for trading	- 1 997	- 1 402
Hedging derivatives	- 766	- 790
Other financial liabilities at fair value through profit or loss	- 368	- 197

Note 4: Dividend income

In millions of EUR	2011	2012
Total	33	13
Breakdown by type	33	13
Held-for-trading shares	13	2
Shares initially recognised at fair value through profit or loss	2	1
Available-for-sale shares	18	10

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

In millions of EUR	2011	2012
Total	2	37
Breakdown by type		
Trading instruments (including interest* and fair value changes in trading derivatives)	- 318	258
Other financial instruments initially recognised at fair value through profit or loss	43	245
Of which: gains/losses own credit risk	484	- 709
Foreign exchange trading	356	- 448
Fair value adjustments in hedge accounting	- 80	- 18
Microhedge	3	0
Fair value hedges	0	- 1
Changes in the fair value of the hedged item	- 117	108
Changes in the fair value of the hedging derivatives, including discontinuation	117	- 110
Cashflow hedges	3	1
Changes in the fair value of the hedging derivatives, ineffective portion	3	1
Hedges of net investments in foreign operation, ineffective portion	0	0
Portfolio hedge of interest rate risk	0	- 1
Fair value hedges of interest rate risk	0	- 1
Changes in the fair value of the hedged item	- 25	- 30
Changes in the fair value of the hedging derivatives, including discontinuation	25	29
Cashflow hedges of interest rate risk	0	0
Changes in the fair value of the hedging instrument, ineffective portion	0	0
Discontinuation of hedge accounting in the case of a cash flow hedge	- 82	- 16

- Changes in the value of CDOs: the ‘Net result from financial instruments at fair value through profit or loss’ also includes the effect of changes in the value of CDOs held in portfolio. In 2012, the market price for corporate credit improved – reflected in credit default swap spreads – and we increased coverage of the counterparty risk for MBIA from 70% to 80%. On balance, that led to a positive adjustment of roughly 0.4 billion euros. There had been a deterioration in the market price for corporate credit in 2011 which resulted in a negative value adjustment of approximately -0.3 billion euros.
- CDO guarantee agreement concluded with the Belgian State: in May 2009, KBC Group signed an agreement with the Belgian State regarding a guarantee for a substantial part of its structured credit portfolio. More details in this regard can be found in ‘Additional information’. The total fee to be paid by KBC Group to the Belgian State for the third tranche (*the cash guarantee*) is approximately 1.1 billion euros (present value at the time the agreement entered into effect and recognised upfront in 2009). There was also a positive effect on the mark-to-market value of the guaranteed positions. In addition, KBC Group has to pay a commitment fee of roughly 60 million euros per half year for the second tranche (*the equity guarantee*). The contract, including the fee due, is measured at fair value through profit or loss. The fair value model is described in Note 22. The increase in the cost of the equity guarantee in 2012 was attributable in part to the sharp narrowing of the subordinated credit default swap spread of KBC Group and to the improved fair value of the hedged super senior exposure during 2012.

Impact on the income statement of the cost associated with the CDO guarantee agreement concluded with the Belgian State (in millions of EUR, before tax)	2011	2012
Cash guarantee (for the third tranche)	- 21	- 13
Equity guarantee (for the second tranche)	- 45	- 238
Total recognised in the income statement	- 66	- 250

- The impact of changes in the fair value of government bonds of selected European countries is dealt with in more detail under ‘Credit risk’ in the ‘Value and risk management’ section.
- ‘Foreign exchange trading’ results in the table comprise total exchange differences, excluding those recognised on financial instruments at fair value through profit or loss.

- For more information on the impact of changes in own credit risk, see Note 23.
- For ALM derivatives, their interest income component is recognised under ‘Net interest income’. Fair value changes in ALM derivatives, excluding those for which an effective cashflow hedge relationship exists, are recognised under ‘Net result from financial instruments at fair value through profit or loss’. However, it should be noted that, under fair value hedge accounting, changes in the fair value of hedged assets are also recognised under this heading, and offsetting takes place insofar as the hedge is effective.
- The effectiveness of the hedge is determined according to the following methods:
  - For fair value micro hedging, we use the *dollar offset method* 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, we compare the designated hedging instrument 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.
  - We use the rules set out in the European version of IAS 39 (carve-out) to assess the effectiveness of fair value hedges for a portfolio of interest rate risk. 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, we make sure that the volume of assets (or liabilities) in each maturity bucket is greater than the volume of hedging instruments allocated to the same bucket.
- Day 1 profit: when the transaction price in a non-active market differs from the fair value of other observable market transactions in the same instrument or the fair value based on a valuation technique whose variables include only data from observable markets, the difference between the transaction price and the fair value (day 1 profit) is taken to profit or loss. If this is not the case (i.e. the variables do not include only data from observable markets), day 1 profit is reserved and is released in profit or loss during the life and until the maturity of the financial instrument. However, the impact in of this is negligible for KBC.

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

In millions of EUR	2011	2012
Total	85	90
Breakdown by portfolio		
Fixed-income securities	54	78
Shares	31	12

- The figure for 2012 includes the dual impact of the settlement of events concerning Greece in the first quarter and the continued reduction throughout the year in holdings of sovereign bonds issued by other GIIPS countries (an aggregate impact of -41 million euros). Information on KBC's exposure to sovereign bonds is provided in the 'Value and risk management' section.

Note 7: Net fee and commission income

In millions of EUR	2011	2012
Total	1 565	1 589
Fee and commission income	2 098	2 046
Securities and asset management	895	871
Commitment credit	301	290
Payments	576	569
Other	326	316
Fee and commission expense	- 533	- 457
Commission paid to intermediaries	- 109	- 103
Other	- 424	- 355

- 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	2011	2012
Total	- 50	370
Of which net realised result following		
The sale of loans and receivables	- 31	- 96
The sale of held-to-maturity investments	- 6	- 1
The repurchase of financial liabilities measured at amortised cost	- 1	0
Other: of which:	- 12	467
KBC Lease UK	15	126
Income concerning leasing at the KBC Lease-group	96	86
Income from consolidated private equity participations	48	15
5/5/5 loans	- 334	- 56
Realised gains or losses on divestments	68	158

- In 2012, 'Sale of loans and receivables' included -59 million euros related to the sale of assets previously attributable to Atomium, which led to a reduction in risk-weighted assets of approximately 2 billion euros.
- In 2012, 'Sale of held-to-maturity investments' concerned primarily the impact of the transaction relating to Greek bonds.
- 'Gains and losses on divestments' in 2011 related mainly to Centea (a gain of 63 million euros) and in 2012 chiefly to Dynaco (a KBC Private Equity participation, 21 million euros) and Kredyt Bank (136 billion euros). More information on the divestment of Kredyt Bank can be found under 'Group Centre' in the 'Report of the Board of Directors' section (which has not been audited by the statutory auditor).
- 'Irregularities at KBC Lease UK' concerns the amounts recovered in relation to the fraud case at that company. Internal audits conducted at KBC Lease UK in 2010 revealed irregularities in a significant number of contracts that had been introduced by a particular broker. KBC recognised the necessary amounts to cover the maximum potential net cost of these irregularities. KBC Lease UK has engaged in a number of actions to recover amounts from various sources. This resulted in a total of 126 million euros being recovered in 2012.
- 'The 5-5-5-product' related to the commercial concession that KBC itself decided to make for structured 5-5-5 bonds that KBC Bank and its Belgian subsidiaries sold to clients in April and May 2008. These bonds had a life of five years, a coupon of 5% and were linked to the creditworthiness of five countries (Belgium, France, Spain, Italy and Greece). All retail clients holding these bonds had been informed in March 2011 that KBC would voluntarily indemnify them should a credit event occur in one of these countries. The ISDA Determination Committee decided that a Greek sovereign CDS credit event occurred on 9 March 2012. As a result, the bonds were settled in the way described in the prospectus. Besides the settled amount, KBC also made a commercial concession to retail bond holders that was based on the amount they had initially invested less the gross coupons paid by the issuer. To cover this, KBC had set aside provisions of 334 million euros in 2011. The figure ultimately paid could only be calculated after the value had been set at the ISDA auction of 19 March 2012. That led to an additional negative impact of 56 million euros in the first quarter of 2012.

Note 9: Operating expenses

In millions of EUR	2011	2012
Total	- 3 709	- 3 666
Breakdown by type		
Staff expenses	- 1 807	- 1 780
Share based payment: equity settled	0	0
Share based payment: cash settled	- 3	- 1
General administrative expenses	- 1 734	- 1 727
Depreciation and amortisation of fixed assets	- 168	- 160

- General administrative expenses include repair and maintenance expenses, advertising costs, rent, professional fees, various (non-income) taxes, utilities and other such expenses. They also include expenses related to the special tax imposed on financial institutions in Hungary (2 million euros for 2011 and 51 million euros for 2012; the amount was lower in 2011, because a portion of the losses incurred by the group as a result of the new law on foreign-currency mortgages could be set off against the bank tax due in Hungary (see below)).
- Share-based payments are included under staff expenses.

  The main equity-settled share-based payments are described below.

  Since 2000, KBC Group has launched a number of stock option plans for all or certain members of staff of the company and various subsidiaries. The stock 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 stock 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.

  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. The largest stock option plans have now expired.

An overview of the number of stock options for staff is shown in the table.

Number and weighted average exercise prices of share options for staff

Options	Number of options[1]	2011 Average exercise price	Number of options[1]	2012 Average exercise price
Outstanding at beginning of period	609 630	50.70	578 302	51.17
Granted during period	0	0.00	0	0.00
Exercised during period	0	0.00	0	0.00
Expired during period	- 31 328	41.98	- 393 976	41.18
Outstanding at end of period [2]	578 302	51.17	184 326	72.53
Exercisable at end of period	571 002	50.87	177 026	72.43

[1] In share equivalents

2011: Range of exercise prices 27,8-97,94 euros; weighted average residual term to maturity: 14 months.

2012: Range of exercise prices 34,91-97,94 euros; weighted average residual term to maturity: 33 months.

- The main cash-settled share-based payment arrangements for 2011 concerned 4 million euros in costs related to a phantom stock plan (included under 'Staff expenses'). This item came to less than 1 million euros for 2012.

Note 10: Personnel

	2011	2012
Total average number of persons employed (in full-time equivalents)	**37 663**	**35 938**
Breakdown by employee classification		
Blue-collar staff	623	411
White-collar staff	36 822	35 331
Senior management	218	196

Note 11: Impairment (income statement)

In millions of EUR	2011	2012
Total	- 1 659	- 2 323
Impairment on loans and receivables	- 1 331	- 1 063
Breakdown by type		
Specific impairments for on-balance-sheet lending	- 1 314	- 1 105
Provisions for off-balance-sheet credit commitments	16	- 39
Portfolio-based impairments	- 33	80
Impairment on available-for-sale assets	- 182	- 10
Breakdown by type		
Shares	- 14	- 10
Other	- 168	0
Impairment on goodwill	- 81	- 386
Impairment on other	- 66	- 863
Intangible assets, other than goodwill	- 2	0
Property and equipment and investment property	- 29	- 62
Held-to-maturity assets	- 34	- 2
Associated companies	0	- 433
Other	- 1	- 365

- 'Impairment on loans and receivables' are accounted for primarily by loans and advances to customers. Impairment charges in the Merchant Banking Business Unit included loan loss provisioning in Ireland, due to the economic situation in that country, especially on the real estate market (0.5 billion euros in both 2011 and 2012). In the Central & Eastern Europe Business Unit, impairment charges amounted to 63 million euros in the Czech Republic (2011: 72 million euros), 11 million euros in Slovakia (2011: 10 million euros), 44 million euros in Hungary (2011: 288 million euros; the figure was adversely affected by the law on foreign-currency mortgages), 7 million euros in Bulgaria (2011: 106 million euros; the figure was negatively impacted by additional provisioning for the legacy portfolio). Impairment in the Group Centre included a net reversal of 18 million euros at Absolut Bank (2011: a net reversal of 41 million euros), and net allocations of 38 million euros at Kredyt Bank (2011: 39 million euros), 47 million euros at KBC Bank Deutschland (2011: 31 million euros), 22 million euros at Antwerp Diamond Bank (2011: 25 million euros) and 79 million euros at KBC Finance Ireland (2011: 15 million euros).
- Impairment on available-for-sale assets and on held-to-maturity assets. In 2011, these headings included mainly impairment on Greek sovereign bonds (203 million euros).

- Impairment on goodwill, on associated companies and on other. In 2011, this heading included *inter alia* 53 million euros in relation to Bulgaria (due to the deteriorated economic situation and the lower estimated cashflows from Bulgarian activities discounted at a higher discount rate). In 2012, these headings included 1.2 billion euros in relation to companies falling within the scope of IFRS 5 (at the time the results for the second quarter were published), i.e. Absolut Bank, KBC Bank Deutschland, Antwerp Diamond Bank and Nova Ljubljanska banka. The impairment reflects the difference between the carrying value before impairment and the value in use. For companies falling within the scope of IFRS 5, however, it is the estimated sales value less costs to sell. For more information on goodwill, see Note 30.
- For information on total impairment recognised in the balance sheet, see Note 17.

Note 12: Share in results of associated companies

In millions of EUR	2011	2012
Total	- 52	8
of which NLB	- 59	1

- Impairment on (goodwill on) associated companies is included in ‘Impairment’ (see Note 11). The share in results of associated companies does not therefore take this impairment into account.
- Note that KBC signed an agreement to sell its stake in Nova Ljubljanska banka in December 2012 (see Note 41; Nova Ljubljanska banka was only recognised in the income statement for the first nine months of 2012).

Note 13: Income tax expense

In millions of EUR	2011	2012
Total	- 216	- 147
Breakdown by type	- 216	- 147
Current taxes on income	- 232	- 192
Deferred taxes on income	16	44
Tax components		
Profit before tax	699	- 44
Income tax at the Belgian statutory rate	33,99%	33,99%
Income tax calculated	- 237	15
Plus/minus tax effects attributable to	22	- 162
Differences in tax rates, Belgium - abroad	91	50
Tax-free income	300	358
Adjustments related to prior years	13	26
Adjustments, opening balance of deferred taxes due to change in tax rate	- 5	24
Unused tax losses and unused tax credits to reduce current tax expense	0	43
Unused tax losses and unused tax credits to reduce deferred tax expense	72	54
Reversal of previously recognised deferred tax due to tax losses	- 1	- 1
Other (mainly non-deductible expenses)	- 447	- 718
Aggregate amount of temporary differences associated with investments in subsidiaries, branches and associated companies and interests in joint ventures, for which deferred tax liabilities have not been recognized*	319	329

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

- For information on tax assets and tax liabilities, see Note 27.
- In the fourth quarter of 2012, the income tax expense was adversely affected (to the tune of 43 million euros) by an amendment to the law on notional interest deduction in Belgium.

Notes on the financial assets and liabilities on the balance sheet

We group financial assets and liabilities into categories. These categories are defined and relevant valuation rules provided under the heading ‘Financial assets and liabilities (IAS 39)’ in Note 1b.

Whenever we refer in this section to the category ‘Designated at fair value’, we mean ‘*Designated at fair value through profit or loss’* (fair value option).

We have reallocated the various balance sheet items of companies subject to IFRS 5 (see Note 41) to the relevant headings in the balance sheet (under ‘Non-current assets held for sale and disposal groups’ on the assets side and under ‘Liabilities associated with disposal groups’ on the liabilities side). However, we have not restated the reference figures, which means that comparability of the figures has been slightly affected. The entities concerned at the end of 2012 were Absolut Bank, KBC Bank Deutschland, Antwerp Diamond Bank and Nova Ljubljanska banka. For comparison purposes, we have added a separate column in Note 14, containing figures for reference date 31 December 2011 that exclude the divestments concluded in 2012 and those that fall under the scope of IFRS 5 at year-end 2012.

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

In millions of EUR	Held for trading	Designated at fair value[1]	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Measured at amortised cost	Total	*Total excluding IFRS 5 companies and divestments in 2012 [2]*
FINANCIAL ASSETS, 31-12-2011									
Loans and advances to credit institutions and investment firms [a]	4 600	305	0	14 394	-	-	-	19 299 [c]	*18 841*
Loans and advances to customers [b]	203	3 716	0	136 159	-	-	-	140 078	*128 337*
Excluding reverse repos								*136 812*	*125 071*
Discount and acceptance credit	0	0	0	137	-	-	-	137	*136*
Consumer credit	0	0	0	3 909	-	-	-	3 909	*3 268*
Mortgage loans	0	178	0	57 118	-	-	-	57 296	*52 207*
Term loans	203	3 368	0	61 867	-	-	-	65 438	*61 281*
Finance leasing	0	11	0	4 647	-	-	-	4 658	*4 173*
Current account advances	0	0	0	4 981	-	-	-	4 981	*3 709*
Securitised loans	0	0	0	0	-	-	-	0	*0*
Other	0	159	0	3 500	-	-	-	3 660	*3 563*
Equity instruments	1 027	26	479	-	-	-	-	1 532	*1 522*
Debt instruments issued by	4 300	3 948	23 387	2 881	10 693	-	-	45 208	*42 496*
Public bodies	3 101	3 594	20 600	224	10 512	-	-	38 031	*35 686*
Credit institutions and investment firms	648	196	1 857	203	154	-	-	3 059	*2 722*
Corporates	551	157	930	2 454	27	-	-	4 119	*4 087*
Derivatives	17 530	-	-	-	-	618	-	18 148	*17 869*
Total carrying value excl. accrued intrest income	27 660	7 995	23 865	153 434	10 693	618	0	224 266	*209 065*
Accrued interest income	70	81	429	546	265	158	0	1 548	*1 438*
Total carrying value incl. accrued interest income	27 730	8 076	24 295	153 981	10 958	776	0	225 814	*210 503*
[a] *Of which reverse repos [3]*								*5 982*	*5 982*
[b] *Of which reverse repos [3]*								*3 266*	*3 266*
[c] *Of which loans and advances to banks repayable on demand and term loans to banks at not more than three months*								*11 821*	*11 429*
FINANCIAL ASSETS, 31-12-2012									
Loans and advances to credit institutions and investment firms [a]	3 802	915	0	11 622	-	-	-	16 339 [c]	
Loans and advances to customers [b]	600	2 197	0	125 677	-	-	-	128 474	
Excluding reverse repos								*126 492*	
Discount and acceptance credit	0	0	0	131	-	-	-	131	
Consumer credit	0	0	0	3 364	-	-	-	3 364	
Mortgage loans	0	184	0	53 626	-	-	-	53 810	
Term loans	600	2 013	0	56 674	-	-	-	59 286	
Finance leasing	0	0	0	4 110	-	-	-	4 110	
Current account advances	0	0	0	3 446	-	-	-	3 446	
Securitised loans	0	0	0	0	-	-	-	0	
Other	0	0	0	4 327	-	-	-	4 327	
Equity instruments	451	50	1 243	-	-	-	-	1 745	
Investment contracts (insurance)		0	-	-	-	-	-	0	
Debt instruments issued by	4 213	1 282	15 485	2 162	23 343	-	-	46 485	
Public bodies	3 390	811	13 144	190	23 224	-	-	40 758	
Credit institutions and investment firms	361	199	1 533	153	104	-	-	2 350	
Corporates	461	272	808	1 819	16	-	-	3 376	
Derivatives	12 427	-	-	-	-	1 075	-	13 502	
Total carrying value excl. accrued interest income	21 493	4 444	16 728	139 461	23 343	1 075	0	206 544	
Accrued interest income	0	0	0	- 1	0	0	0	- 1	
Total carrying value incl.accrued interest income	21 493	4 444	16 728	139 460	23 343	1 075	0	206 543	
[a] *Of which reverse repos [3]*								*5 160*	
[b] *Of which reverse repos [3]*								*1 981*	
[c] *Of which loans and advances to banks repayable on demand and term loans to banks at not more than three months*								*9 194*	

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

[2] Total excluding divestments completed in 2012 and announced divestments that already fall under the scope of IFRS 5 in 2012 (to enable comparison with the figures for 31 December 2011).

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

In millions of EUR	Held for trading	Designated at fair value	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Measured at amortised cost	Total	*Total excluding IFRS 5 companies and divestments in 2012* [1]
FINANCIAL LIABILITIES, 31-12-2011									
Deposits from credit institutions and investment firms [a]	853	3 831	-	-	-	-	21 277	25 961	*24 870*
Deposits from customers and debt certificates [b]	4 289	18 967	-	-	-	-	148 349	171 605	*163 163*
Excluding repos								*154 362*	*145 919*
Deposits from customers	3 774	14 680	-	-	-	-	122 015	140 469	*132 100*
Demand deposits	0	0	-	-	-	-	38 184	38 184	*33 663*
Time deposits	3 774	14 680	-	-	-	-	45 895	64 348	*60 738*
Savings deposits	0	0	-	-	-	-	32 633	32 633	*32 633*
Special deposits	0	0	-	-	-	-	3 887	3 887	*3 886*
Other deposits	0	0	-	-	-	-	1 417	1 417	*1 180*
Debt certificates	514	4 288	-	-	-	-	26 334	31 136	*31 062*
Certificates of deposit	0	20	-	-	-	-	5 398	5 417	*5 417*
Customer savings certificates	0	0	-	-	-	-	710	710	*710*
Convertible bonds	0	0	-	-	-	-	0	0	*0*
Non-convertible bonds	514	4 167	-	-	-	-	12 014	16 695	*16 636*
Convertible subordinated liabilities	0	0	-	-	-	-	0	0	*0*
Non-convertible subordinated liabilities	0	101	-	-	-	-	8 212	8 313	*8 298*
Derivatives	21 666	0	-	-	-	1 602	-	23 267	*23 025*
Short positions	497	0	-	-	-	-	-	497	*497*
in equity instruments	4	0	-	-	-	-	-	4	*4*
in debt instruments	493	0	-	-	-	-	-	493	*493*
Other	0	0	-	-	-	-	2 421	2 421	*2 421*
Total carrying value excl. accrued interest expense	27 304	22 799	-	-	-	1 602	172 047	223 751	*213 975*
Accrued interest expense	27	96	-	-	-	328	813	1 264	*1 235*
Total carrying value incl. accrued interest expense	27 332	22 895	-	-	-	1 929	172 860	225 016	*215 211*
[a] *Of which repos* [2]								*6 574*	*6 563*
[b] *Of which repos* [2]								*17 243*	*17 243*
[c] *Of which deposits from banks repayable on demand*								*8 511*	*8 177*
FINANCIAL LIABILITIES, 31-12-2012									
Deposits from credit institutions and investment firms [a]	375	884	-	-	-	-	21 661	22 920 [c]	
Deposits from customers and debt certificates [b]	4 162	8 782	-	-	-	-	150 163	163 107	
Excluding repos								*156 929*	
Deposits from customers	3 777	3 420	-	-	-	-	123 865	131 062	
Demand deposits	0	0	-	-	-	-	38 380	38 380	
Time deposits	3 777	3 336	-	-	-	-	45 391	52 504	
Savings deposits	0	0	-	-	-	-	34 904	34 904	
Special deposits	0	0	-	-	-	-	3 941	3 941	
Other deposits	0	84	-	-	-	-	1 250	1 334	
Debt certificates	385	5 362	-	-	-	-	26 298	32 045	
Certificates of deposit	0	27	-	-	-	-	6 442	6 469	
Customer savings certificates	0	0	-	-	-	-	524	524	
Convertible bonds	0	0	-	-	-	-	0	0	
Non-convertible bonds	385	4 705	-	-	-	-	13 100	18 189	
Convertible subordinated liabilities	0	0	-	-	-	-	0	0	
Non-convertible subordinated liabilities	0	630	-	-	-	-	6 232	6 862	
Liabilities under investment contracts	-	0	-	-	-	-	0	0	
Derivatives	14 351	0	-	-	-	2 430	-	16 781	
Short positions	491	0	-	-	-	-	-	491	
in equity instruments	17	0	-	-	-	-	-	17	
in debt instruments	475	0	-	-	-	-	-	475	
Other	0	0	-	-	-	-	2 470	2 470	
Total carrying value excl. accrued interest expense	19 380	9 666	-	-	-	2 430	174 294	205 770	
Accrued interest expense	0	0	-	-	-	0	0	0	
Total carrying value incl. accrued interest expense	19 380	9 666	-	-	-	2 430	174 294	205 770	
[a] *Of which repos* [2]								*1 589*	
[b] *Of which repos* [2]								*6 178*	
[c] *Of which deposits from banks repayable on demand*								*12 659*	

[1] Total excluding divestments completed in 2012 and announced divestments that already fall under the scope of IFRS 5 in 2012 (to enable comparison with the figures for 31 December 2011).

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

- Unlike in previous years when accrued interest income and accrued interest expense were presented under separate headings in Note 14, these items will be included under the relevant products in the breakdown of financial assets and financial liabilities from 2012 on. The reference figures have not been restated.

- For reclassifications, see Note 24. Transferred financial assets that continue to be recognised in their entirety: KBC regularly lends and/or sells securities with the commitment to buy them back at a later date (repo transactions). Securities lent or sold with such a commitment are transferred to the counterparty, and, in exchange, KBC receives cash or other financial assets. However, KBC retains the main risks and income relating to these securities, and, therefore, continues to recognise them on its balance sheet. In addition, a financial liability is recognised equalling the cash collateral received.

- At year-end 2012, KBC had transferred financial assets which continue to be recognised in their entirety in the form of repo transactions with a carrying value of 3 173 million euros (debt instruments classified as 'held for trading (296 million euros); 'designated at fair value' (195 million euros); 'available for sale' (780 million euros); and 'held to maturity' (1 904 million euros)) and an associated financial liability with a carrying value of 3 254 million euros (293 million euros classified as 'held for trading', 192 million euros as 'designated at fair value', 770 million euros as 'available for sale' and 1 998 million euros as 'held to maturity').

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

in millions of EUR	Held for trading	Designated at fair value	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Measured at amortised	Total
FINANCIAL ASSETS, 31-12-2011								
Belgium	3 031	6 132	12 644	72 901	1 088	548	-	96 344
Central and Eastern Europe	7 908	566	6 422	37 300	8 194	228	-	60 616
Rest of the world	16 791	1 379	5 229	43 779	1 676	0	-	68 855
Total carrying value, including accrued interest income	27 730	8 076	24 295	153 981	10 958	776	-	225 814
FINANCIAL ASSETS, 31-12-2012								
Belgium	2 430	1 546	8 532	75 950	13 232	792	-	102 482
Central and Eastern Europe	7 420	381	5 141	30 613	8 136	282	-	51 973
Rest of the world	11 642	2 518	3 056	32 897	1 975	0	-	52 088
Total carrying value, including accrued interest income	21 493	4 444	16 728	139 460	23 343	1 075	-	206 543
FINANCIAL LIABILITIES, 31-12-2011								
Belgium	1 289	4 059	-	-	-	1 750	82 868	89 966
Central and Eastern Europe	5 892	741	-	-	-	128	43 521	50 282
Rest of the world	20 151	18 095	-	-	-	52	46 471	84 768
Total carrying value, including accrued interest expense	27 332	22 895	-	-	-	1 929	172 860	225 016
FINANCIAL LIABILITIES, 31-12-2012								
Belgium	534	706	-	-	-	2 190	90 712	94 141
Central and Eastern Europe	5 358	958	-	-	-	143	39 048	45 507
Rest of the world	13 488	8 002	-	-	-	97	44 535	66 122
Total carrying value, including accrued interest expense	19 380	9 666	-	-	-	2 430	174 294	205 770

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

In millions of EUR	Held for trading	Designa-ted at fair value	Available for sale	Loans and receiva-bles	Held to maturity	Hedging derivatives	Measured at amortised cost	Total
FINANCIAL ASSETS, 31-12-2011								
Not more than one year	6 778	3 846	3 810	52 760	862	-	-	68 056
More than one year	2 394	4 150	20 006	97 156	10 095	-	-	133 801
Not specified*	18 558	80	479	4 065	0	776	-	23 957
Total carrying value, incl.accrued interest	27 730	8 076	24 295	153 981	10 958	776	-	225 814
FINANCIAL ASSETS, 31-12-2012								
Not more than one year	6 230	2 938	3 696	46 493	1 367	-	-	60 724
More than one year	2 370	1 470	11 787	86 231	21 976	-	-	123 834
Not specified*	12 893	36	1 245	6 737	0	1 075	-	21 985
Total carrying value, incl.accrued interest	21 493	4 444	16 728	139 460	23 343	1 075	-	206 543
FINANCIAL LIABILITIES, 31-12-2011								
Not more than one year	5 379	18 239	-	-	-	-	102 846	126 464
More than one year	284	4 656	-	-	-	-	35 016	39 956
Not specified*	21 669	0	-	-	-	1 929	34 997	58 596
Total carrying value, incl.accrued interest	27 332	22 895	-	-	-	1 929	172 860	225 016
FINANCIAL LIABILITIES, 31-12-2012								
Not more than one year	4 854	4 052	-	-	-	-	93 299	102 205
More than one year	163	5 614	-	-	-	-	43 382	49 159
Not specified*	14 362	0	-	-	-	2 430	37 613	54 405
Total carrying value, incl.accrued interest	19 380	9 666	-	-	-	2 430	174 294	205 770

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

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

Note 17: Financial assets, breakdown by portfolio and quality

Financial assets for which impairments have been recorded

in millions of EUR	Held for trading	Designa-ted at fair value	Available for sale	Loans and receiva-bles	Held to maturity	Hedging derivatives	Total
FINANCIAL ASSETS, 31-12-2011							
Unimpaired assets	27 730	8 076	24 131	148 334	10 947	776	219 994
Impaired assets	-	-	617	10 782	44	-	11 444
Impairment	-	-	- 454	- 5 136	- 33	-	- 5 623
Total carrying value incl.accrued interest	27 730	8 076	24 295	153 981	10 958	776	225 814
FINANCIAL ASSETS, 31-12-2012							
Unimpaired assets	21 493	4 444	16 695	133 786	23 342	1 075	200 834
Impaired assets	-	-	125	10 419	9	-	10 553
Impairment	-	-	- 91	- 4 745	- 8	-	- 4 844
Total carrying value incl.accrued interest	21 493	4 444	16 728	139 460	23 343	1 075	206 543

- The concept of 'impairment' is relevant for all financial assets that are not designated at fair value through profit or loss. Fixed-income financial assets are impaired when impairment is identified on an individual basis. In the case of loans, they are impaired when they have a probability of default (or PD, see explanation below) rating of 10, 11 or 12. Impairment is recognised based on an estimate of the net present value of the recoverable amount. In addition, for credit in PD classes 1 to 9, impairment losses are recorded on a portfolio basis, using a formula based on the internal rating based (IRB) advanced models (or an alternative method if an IRB advanced model is not yet available).
- KBC has developed various rating models to determine the PD class. The output generated by these models is used to split the normal loan portfolio into internal rating classes ranging from PD 1 (lowest risk) to PD 9 (highest risk). More information on PD is provided under 'Credit risk' in the 'Value and risk management' section.

Details on impairments

in millions of EUR	Available for sale		Held to maturity	Loans and receivables		Provision, off-balance-sheet credit commit-ments
	Fixed-income securities	Shares	Fixed-income securities	Specific impairment	Portfolio-based impairment	
IMPAIRMENTS 31-12-2011						
Opening balance	8	265	0	4 585	325	115
Movements with an impact on results						
Impairment recognised	169	14	34	2 486	348	90
Impairment reversed	- 1	0	0	- 1 172	- 306	- 116
Movements without an impact on results						
Write-offs	0	- 40	0	- 642	0	0
Change in the scope of consolidation	- 3	- 1	0	- 75	- 3	0
Transfer to or from non-current assets held for sale and disposal groups	0	0	0	0	0	0
Other	- 1	44	0	- 398	- 12	- 1
Closing balance	172	281	33	4 783	352	89
IMPAIRMENTS 31-12-2012						
Opening balance	172	281	33	4 783	352	89
Movements with an impact on results						
Impairment recognised	0	10	2	2 208	252	155
Impairment reversed	- 1	0	0	- 1 103	- 336	- 112
Movements without an impact on results						
Write-offs	- 169	- 12	0	- 486	0	- 4
Change in the scope of consolidation	0	- 9	0	- 345	- 33	- 9
Transfer to or from non-current assets held for sale and disposal groups	0	0	- 18	- 412	- 23	- 7
Other	- 2	- 180	- 10	- 130	17	- 20
Closing balance	0	91	8	4 515	230	92

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

Past due, but not impaired assets

in millions of EUR	less then 30 days past due	30 days or more, but less then 90 days past due
FINANCIAL ASSETS, 31-12-2011		
Loans & advances	3 643	2 019
Debt instruments	0	0
Derivatives	0	0
Total	3 643	2 019
FINANCIAL ASSETS, 31-12-2012		
Loans & advances	3 482	1 469
Debt instruments	0	0
Derivatives	0	0
Total	3 482	1 469

* Financial assets that are 90 days or more past due are alw ays 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.
- Financial assets that are 90 days or more past due are always considered ‘impaired’.

Guarantees received

- See Notes 18 and 35.

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

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

Note 18: Maximum credit exposure

in millions of EUR	31-12-2011			31-12-2012		
Maximum credit exposure	Gross amount	Collateral received to mitigate the maximum exposure to credit risk	Net amount	Gross amount	Collateral received to mitigate the maximum exposure to credit risk	Net amount
Equity	1 532	0	1 532	1 745	0	1 745
Debt instruments	45 208	0	45 208	46 485	54	46 431
Loans & advances	159 378	79 995	79 383	144 813	72 246	72 567
Of which designated at fair value through profit or loss	4 022	3 743	279	3 112	3 013	99
Derivatives	18 148	1 485	16 663	13 502	2 039	11 463
Other (including accrued interest)	35 441	7 936	27 505	27 698	5 141	22 557
Total	259 707	89 416	170 291	234 242	79 480	154 762

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

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

Note 19: Fair value of Financial assets and liabilities - general

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

Fair value of financial instruments which are not recognised at fair value in the balance sheet, in millions of eur	Loans and advances		Financial assets held to maturity		Financial liabilities at amortised cost	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
FINANCIAL ASSETS, 31-12-2011						
Loans and advances to credit institutions and investment firms	14 394	14 645	-	-	-	-
Loans and advances to customers	136 159	140 855	-	-	-	-
Debt instruments	2 881	2 860	10 693	10 829	-	-
Accrued interest	546	546	265	265	-	-
Total, incl.accrued interest	153 981	158 905	10 958	11 093	-	-
FINANCIAL ASSETS, 31-12-2012						
Loans and advances to credit institutions and investment firms	11 622	11 362	-	-	-	-
Loans and advances to customers	125 677	131 999	-	-	-	-
Debt instruments	2 162	2 079	23 343	25 638	-	-
Accrued interest	- 1	- 1	0	0	-	-
Total, incl.accrued interest	139 460	145 440	23 343	25 638	-	-
FINANCIAL LIABILITIES, 31-12-2011						
Deposits from credit institutions and investment firms	-	-	-	-	21 277	21 223
Deposits from customers and debt certificates	-	-	-	-	148 349	154 536
Other	-	-	-	-	2 421	2 421
Accrued interest	-	-	-	-	813	813
Total, incl.accrued interest	-	-	-	-	172 860	178 993
FINANCIAL LIABILITIES, 31-12-2012						
Deposits from credit institutions and investment firms	-	-	-	-	21 661	21 543
Deposits from customers and debt certificates	-	-	-	-	150 163	155 184
Liabilities under investment contracts	-	-	-	-	0	0
Other	-	-	-	-	2 470	2 470
Accrued interest	-	-	-	-	0	0
Total, incl.accrued interest	-	-	-	-	174 294	179 197

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

In millions of EUR				31-12-2011				31-12-2012
Fair value hierarchy	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value								
Held for trading								
Loans and advances to credit institutions	0	4 600	0	4 600	0	3 802	0	3 802
Loans and advances to customers	0	203	0	203	0	600	0	600
Equity instruments	170	108	749	1 027	220	34	197	451
Debt instruments	2 994	1 108	198	4 300	2 036	1 654	523	4 213
Derivatives	22	12 033	5 475	17 530	33	9 072	3 322	12 427
Accrued interest				70				0
Designated at fair value								
Loans and advances to credit institutions	0	305	0	305	0	915	0	915
Loans and advances to customers	0	3 689	27	3 716	0	2 170	27	2 197
Equity instruments	0	18	8	26	0	0	50	50
Debt instruments	3 642	169	136	3 948	836	177	269	1 282
Accrued interest				81				0
Available for sale								
Equity instruments	223	70	187	479	161	62	1 020	1 243
Debt instruments	20 893	2 316	178	23 387	12 826	2 123	535	15 485
Accrued interest				429				0
Hedging derivatives								
Derivatives	0	618	0	618	0	1 075	0	1 075
Accrued interest				158				0
Total, incl.accrued interest	27 945	25 236	6 957	60 876	16 112	21 684	5 944	43 740
Financial liabilities measured at fair value								
Held for trading								
Deposits from credit institutions	0	853	0	853	0	375	0	375
Deposits from customers and debt certificates	0	4 285	4	4 289	0	3 981	181	4 162
Derivatives	55	12 240	9 370	21 666	16	9 426	4 909	14 351
Short positions	493	4	0	497	483	8	0	491
Other	0	0	0	0	0	0	0	0
Accrued interest				27				0
Designated at fair value								
Deposits from credit institutions	0	3 831	0	3 831	0	884	0	884
Deposits from customers and debt certificates	0	17 615	1 352	18 967	0	7 416	1 366	8 782
Other	0	0	0	0	0	0	0	0
Accrued interest				96				0
Hedging derivatives								
Derivatives	0	1 602	0	1 602	0	2 430	0	2 430
Accrued interest				328				0
Total, incl.accrued interest	548	40 430	10 726	52 156	499	24 520	6 456	31 475

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

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

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

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

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

  Unobservable inputs are also referred to as ‘level 3 inputs’ and reflect the reporting entity’s own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions regarding the risks involved). Unobservable inputs reflect a market that is not active. For example, proxies and correlation factors can be considered to be unobservable in the market.
- When the inputs used to measure the fair value of an asset or a liability can be categorised into different levels of the fair value hierarchy, the fair value measurement is classified in its entirety into the same level as the lowest level input that is significant to the entire fair value measurement. For example, if a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement.
- The valuation methodology and the corresponding classification in the fair value hierarchy of the most commonly used financial instruments are summarised in the table. This table provides an overview of the level in which the instruments are generally classified, but exceptions are possible. In other words, whereas the majority of instruments of a certain type are within the level indicated in the table, a small portion may actually be classified in another level.
- Transfers between the various levels are dealt with below.
- The significant increase in available-for-sale equity instruments classified in level 3 is attributable to the stake still held in Bank Zachodni WBK after the merger with Kredyt Bank. KBC believes that the market for these shares on the reporting date was not active enough (as evidenced by the very limited volume of shares traded) to base the valuation on the most recent market price. Instead, a historical price has been used that provides a more accurate estimate of the actual value of the shareholding. Since this price is not sufficiently recent, the shareholding has been classified as a level 3 valuation in accordance with IFRS rules.

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

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

In 2011, KBC reclassified a number of bond positions from level 1 to level 2, due to the decrease in traded volumes. These positions totalled 0.7 billion euros, 0.2 billion euros of which related to Greek bonds. KBC believed that the fair value of Greek sovereign bonds could still be determined on the basis of observable inputs, due to the fact that prices were still being set by various market participants and those prices were in line with each other. In addition, the prices were updated regularly and bid and offer sizes were still being quoted. In addition, a small volume of bonds (approximately 0.1 billion euros' worth) was transferred out of level 2 and into level 1.

In 2012, KBC transferred a significant amount in debt instruments (the vast majority of which were classified as 'available for sale') out of level 1 and into level 2. More specifically, roughly 1 billion euros was transferred from level 1 to level 2 due to a reduction in market activity for various types of debt instrument. KBC also reclassified around 0.05 billion euros' worth of bonds from level 2 to level 1 because the market for these instruments became more active in 2012.

Note 22: Fair value of Financial assets and liabilities - focus on level 3

Movements table of assets and liabilities valued in level 3 of the fair value hierarchy – situation at **31-12-2011**, in millions of EUR

LEVEL 3 FINANCIAL ASSETS	Held for trading				Designated at fair value			Available for sale		Hedging derivatives
	Loans and advances	Equity instruments	Debt instruments	Derivatives	Loans and advances	Equity instruments	Debt instruments	Equity instruments	Debt instruments	Derivatives
Opening balance	10	993	614	2 458	26	1	274	210	332	0
Total gains/losses	0	-183	47	1 767	3	-1	-91	-3	13	0
in profit and loss*	0	-183	47	1 767	3	-1	-91	0	5	0
in other comprehensive income	0	0	0	0	0	0	0	-3	8	0
Acquisitions	0	9	3	309	0	0	58	20	0	0
Sales	-10	-72	-321	-428	-2	0	-1	-81	0	0
Settlements	0	0	-132	-1 245	0	0	-173	0	-19	0
Transfers into level 3	0	0	0	14	0	0	68	41	46	0
Transfers out of level 3	0	0	0	0	0	0	-5	0	-4	0
Tranfers from/to non-current assets held for sale	0	0	0	0	0	8	0	0	-4	0
Translation differences	0	10	-14	92	1	1	5	0	0	0
Changes in scope	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	2 506	0	0	0	0	-186	0
Closing balance	0	757	198	5 475	27	8	136	187	178	0
Total gains/losses for the period included in profit and loss for assets held at the end of the period	0	-127	-46	2 041	3	-1	0	0	0	0

LEVEL 3 FINANCIAL LIABILITIES	Held for trading					Designated at fair value			Hedging derivatives
	Deposits from credit institutions	Deposits from customers and debt certificates	Derivatives	Short positions	Other	Deposits from credit institutions	Deposits from customers and debt certificates	Other	Derivatives
Opening balance	21	24	6 369	0	0	0		0	0
Total gains/losses	0	-14	471	0	0	0	-237	0	0
in profit and loss*	0	-14	471	0	0	0	-237	0	0
in other comprehensive income	0	0	0	0	0	0	0	0	0
Issues	0	0	1 089	0	0	0	856	0	0
Repurchases/disposals	0	0	-1 528	0	0	0	0	0	0
Settlements	-20	-6	-411	0	0	0	-267	0	
Transfers into level 3	0	0	0	0	0	0	0	0	0
Transfers out of level 3	0	0	0	0	0	0	-2 806	0	0
Tranfers from/to financial liabilities regarding disposal groups	0	0	0	0	0	0	0	0	0
Translation differences	-1	-1	150	0	0	0	0	0	0
Changes in scope	0	0	0	0	0	0	0	0	0
Other	0	0	3 231	0	0	0	0	0	
Closing balance	0	4	9 370	0	0	0	1 352	0	0
Total gains/losses for the period included in profit and loss for liabilities held at the end of the period	0	-1	834	0	0	0	0	0	0

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

Movements table of assets and liabilities valued in level 3 of the fair value hierarchy – situation at **31-12-2012**, in millions of EUR										
LEVEL 3 FINANCIAL ASSETS	Held for trading				Designated at fair value			Available for sale		Hedging derivatives
	Loans and advances	Equity instruments	Debt instruments	Derivatives	Loans and advances	Equity instruments	Debt instruments	Equity instruments	Debt instruments	Derivatives
Opening balance	0	757	198	5 475	27	8	136	187	178	0
Total gains/losses	0	- 239	- 77	- 1 507	0	35	141	- 8	- 6	0
in profit and loss*	0	- 239	- 77	- 1 507	0	35	141	4	0	0
in other comprehensive income	0	0	0	0	0	0	0	- 12	- 6	0
Acquisitions	0	0	7	204	0	0	0	72	0	0
Sales	0	- 367	- 14	- 604	0	0	- 55	- 70	- 1	0
Settlements	0	0	0	- 296	0	0	0	0	0	0
Transfers into level 3	0	55	411	77	0	8	51	0	373	0
Transfers out of level 3	0	0	- 1	- 7	0	0	0	- 5	- 8	0
Tranfers from/to non-current assets held for sale	0	- 6	0	0	0	0	0	840	0	0
Translation differences	0	- 3	- 2	- 21	- 1	- 1	- 4	5	0	0
Changes in scope	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0
Closing balance	0	197	523	3 322	27	50	269	1 020	535	0
Total gains/losses for the period included in profit and loss for assets held at the end of the period	0	- 130	- 81	- 1 300	0	- 2	141	- 1	0	0

LEVEL 3 FINANCIAL LIABILITIES	Held for trading					Designated at fair value			Hedging derivatives
	Deposits from credit institutions	Deposits from customers and debt certificates	Derivatives	Short positions	Other	Deposits from credit institutions	Deposits from customers and debt certificates	Other	
Opening balance	0	4	9 370	0	0	0	1 352	0	0
Total gains/losses	0	40	- 3 136	0	0	0	365	0	0
in profit and loss*	0	40	- 3 136	0	0	0	365	0	0
in other comprehensive income	0	0	0	0	0	0	0	0	0
Issues	0	0	244	0	0	0	0	0	0
Repurchases	0	0	0	0	0	0	0	0	0
Settlements	0	- 145	- 1 727	0	0	0	- 349	0	0
Transfers into level 3	0	286	68	0	0	0	0	0	0
Transfers out of level 3	0	0	0	0	0	0	0	0	0
Tranfers from/to financial liabilities regarding disposal groups	0	0	0	0	0	0	0	0	0
Translation differences	0	- 4	- 34	0	0	0	- 2	0	0
Changes in scope	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0
Closing balance	0	181	4 787	0	0	0	1 366	0	0
Total gains/losses for the period included in profit and loss for liabilities held at the end of the period	0	17	- 2 202	0	0	0	243	0	0

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

- KBC uses a Gaussian Copula Mixture model to value all the remaining CDOs and CDO notes of KBC Financial Products. This model models the distribution of default moments and probabilities of the underlying corporate and ABS names. The asset default trigger in the model is derived from the credit default spreads in the market. The correlation between defaults is modelled through Gaussian Copulas and is, therefore, simulated. The value for a CDO tranche is determined by discounting the cashflows associated with the various default curves. The model also ensures that the inner tranches are valued in line with the market, through calibration with CDX and iTraxx credit spread indices.
- Results of profit/loss sensitivity tests on the current model for CDOs originated by KBC Financial Products, in which credit spreads of the underlying assets are shifted are given in the table below. Correlation changes have not been included. This test takes into account the full guarantee agreement with the Belgian State (see below) and a counterparty value adjustment of 80% for MBIA (70% in 2011). The scope includes the entire remaining (hedged and unhedged) portfolio of CDOs structured by KBC Financial Products. CDOs that have reached maturity or been sold or unwound are not included.

Profit/loss sensitivity test based on corporate and ABS credit spread indices (in billions of EUR)	Spreads -50%	Spreads -20%	Spreads -10%	Spreads +10%	Spreads +20%	Spreads +50%
31-12-2011	0.55	0.19	0.09	-0.08	-0.216	-0.36
31-12-2012	0.25	0.10	0.05	-0.04	-0.09	-0.20

- The above profit/loss sensitivity test does not take account of correlation changes. Given that correlation (of both the inner and outer tranches) is an important input in the Gaussian Copula Mixture model, a test was also carried out to calculate the combined influence of changes in the current valuation model's correlation and credit spread inputs on CDOs issued by KBC Financial Products. This test takes into account the full guarantee agreement with the Belgian State (see below) and a counterparty value adjustment of 80% for MBIA (70% in 2011). The scope of this test is the same as in the above table. A widening of 50% in the credit spreads combined with an increase in correlation would lead to an additional loss of 0.22 billion euros (0.24 billion euros in 2011) whereas a narrowing of 50% and a reduction in correlation would result in an additional gain of 0.40 billion euros (0.63 billion euros in 2011).
- The next table depicts the results of the profit/loss sensitivity tests performed on a counterparty value adjustment for MBIA in which not only the credit spreads of the underlying assets of the CDOs issued by KBC Financial Products change, but also the counterparty value adjustment for MBIA. The adjustment is currently 80% (in 2011, it was 70%). The scope comprises only the portion of the CDOs structured by KBC Financial Products that are insured by MBIA. The impact of credit spread movements on the CDO positions structured by KBC Financial Products and held by KBC Bank is not included.

Profit/loss sensitivity tests based on corporate and ABS credit spread indices and on changes in the counterparty value adjustment for MBIA (in billions of EUR)	Spreads -50%	Spreads -20%	Spreads -10%	Spreads +10%	Spreads +20%	Spreads +50%
31-12-2011						
MBIA 70%	0.45	0.15	0.07	-0.07	-0.13	-0.29
MBIA 80%	0.38	0.04	-0.05	-0.21	-0.28	-0.46
MBIA 90%	0.31	-0.07	-0.18	-0.36	-0.44	-0.64
MBIA 100%	0.24	-0.19	-0.30	-0.51	-0.59	-0.82
31-12-2012						
MBIA 70%	0.19	0.11	0.09	0.04	0.02	-0.05
MBIA 80%	0.16	0.07	0.03	-0.03	-0.06	-0.14
MBIA 90%	0.14	0.02	-0.02	-0.10	-0.13	-0.23
MBIA 100%	0.12	-0.03	-0.08	-0.17	-0.21	-0.32

- For more information on the structured credit portfolio (CDOs and other ABS), see the 'Value and risk management' section.
- Information on the guarantee agreement with the Belgian State to cover CDO exposure is provided in the 'Additional information' section. The fair value of the equity guarantee with the Belgian State (and the corresponding commitment fee) is measured using a level 3 model that reflects, among other things, movements in the subordinated credit default swap spread of KBC and in the fair value of the hedged super senior exposure since the guarantee agreement was signed. If the fair value of the super senior positions were to improve by 10% on its year-end 2012 and year-end 2011 levels, this would lead to an additional charge of 6 million euros and 2 million euros, respectively, while a similar improvement in KBC's subordinated credit spread would lead to an additional charge of 7 million euros and 5 million euros respectively.

Note 23: Changes in own credit risk

In millions of EUR (+: gain, -: loss, amounts before tax)	
OWN EMISSIONS VALUED AT FAIR VALUE, 31-12-2011	
Impact of change in own creditspread on the income statement	484
Total cumulated impact on date of balance sheet	742
OWN EMISSIONS VALUED AT FAIR VALUE, 31-12-2012	
Impact of change in own creditspread on the income statement	- 709
Total cumulated impact on date of balance sheet	33

- The fair value of financial liabilities designated at fair value through profit or loss takes account of own credit risk. Most of the financial liabilities designated at fair value through profit or loss relates to KBC IFIMA issues. The own credit risk of KBC IFIMA issues designated at fair value through profit or loss is measured using KBC's own funding spread. Taking into account this own credit risk, the total fair value of KBC IFIMA issues designated at fair value through profit or loss amounted to some 3.7 billion euros on 31 December 2012. The results of sensitivity tests – in which the funding spread is shifted – on the total fair value of KBC IFIMA issues is given in the table below.

Profit/loss sensitivity based on a relative shift in the funding spread (in billions of EUR)						
	Spreads -50%	Spreads -20%	Spreads -10%	Spreads +10%	Spreads +20%	Spreads +50%
31-12-2011	-0.38	-0.15	-0.08	+0.08	+0.15	+0.38
31-12-2012	-0.06	-0.02	-0.01	+0.01	+0.02	+0.06

- The main difference in profit/loss sensitivity between the end of 2011 and the end of 2012 was caused by the width of the spreads. The senior spread averaged 480 basis points at year-end 2011, whereas it was around 110 basis points at year-end 2012. Consequently, the impact of a certain percentage increase or decrease in these spreads was much less in 2012 than in 2011.

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

Note 24: Reclassification of financial assets and liabilities

Financial assets reclassified out of 'available for sale' to 'loans and receivables' on 31-12-2008 (in millions of EUR) - situation at **31-12-2012**			
Carrying value			1 684
Fair value			1 576
	If not reclassifed (available for sale)	After reclassifica-tion (loans and receivables)	Impact
Impact on revaluation reserve (available-for-sale assets), before taxes	- 261	- 216	45
Impact on income statement, before taxes	0	2	2

- In October 2008, the International Accounting Standards Board (IASB) issued amendments to IAS 39 and IFRS 7 under 'Reclassification of financial assets'. Following the implementation of these amendments, the KBC group reclassified a number of assets out of the 'available for sale' category to the 'loans and receivables' category because they had become less liquid. On the date of reclassification, the assets in question met the definition of loans and receivables, and the group has the intention and ability to hold these assets for the foreseeable future or until maturity. KBC reclassified these assets on 31 December 2008. On the reclassification date (31 December 2008), the estimated recoverable amount of these assets came to 5 billion euros and the effective interest rate varied between 5.88% and 16.77%.
- In 2011, 0.2 billion euros' worth of Hungarian municipal bonds were reclassified out of the 'available for sale' category into the 'loans and receivables' category.
- The above reclassifications had a combined positive impact of 45 million euros on equity and 2 million euros on the income statement (where – besides reversals of specific impairment – 7 million euros was also reversed for portfolio-based impairment on loans and receivables).
- Other reclassifications (not included in the table):
  - In 2011, 1.1 billion euros' worth of high-rated government bonds were reclassified out of the 'available for sale' category into the 'held to maturity' category.
  - In 2012, 2.9 billion euros were reclassified out of the 'available for sale' category and into the 'held to maturity' category.

Note 25: Derivatives

in millions of EUR 31-12-2011	Held for trading: Carrying value: Assets	Held for trading: Carrying value: Liabilities	Held for trading: Notional amount: Bought	Held for trading: Notional amount: Sold	Microhedge: Fair value hedge: Carrying value: Assets	Microhedge: Fair value hedge: Carrying value: Liabilities	Microhedge: Fair value hedge: Notional amount: Bought	Microhedge: Fair value hedge: Notional amount: Sold	Microhedge: Cash flow hedge *: Carrying value: Assets	Microhedge: Cash flow hedge *: Carrying value: Liabilities	Microhedge: Cash flow hedge *: Notional amount: Bought	Microhedge: Cash flow hedge *: Notional amount: Sold	Portfolio hedge: Carrying value: Assets	Portfolio hedge: Carrying value: Liabilities	Portfolio hedge: Notional amount: Bought	Portfolio hedge: Notional amount: Sold
Total	17 530	21 666	597 354	578 531	212	350	6 209	6 209	399	1 058	24 345	24 340	6	194	4 497	4 497
Breakdown by type																
Interest rate contracts	9 055	9 728	369 140	353 421	212	350	6 209	6 209	374	1 054	24 094	24 109	6	194	4 497	4 497
Interest rate swaps	7 956	9 116	289 140	289 223	212	350	6 209	6 209	374	1 054	24 094	24 109	6	194	4 497	4 497
Forward rate agreements	8	11	8 681	12 644	0	0	0	0	0	0	0	0	0	0	0	0
Futures	13	0	10 179	7 676	0	0	0	0	0	0	0	0	0	0	0	0
Options	1 078	521	61 140	43 507	0	0	0	0	0	0	0	0	0	0	0	0
Forwards	0	80	0	370	0	0	0	0	0	0	0	0	0	0	0	0
Foreign exchange contracts	1 686	1 449	153 345	155 252	0	0	0	0	26	4	251	232	0	0	0	0
Forward foreign exchange operations/Currency forwards	419	314	72 808	72 809	0	0	0	0	2	0	25	25	0	0	0	0
Currency and interest rate swaps	1 012	903	62 244	62 858	0	0	0	0	24	4	226	206	0	0	0	0
Futures	0	0	170	170	0	0	0	0	0	0	0	0	0	0	0	0
Options	255	233	18 123	19 416	0	0	0	0	0	0	0	0	0	0	0	0
Equity contracts	2 633	3 542	40 703	43 509	0	0	0	0	0	0	0	0	0	0	0	0
Equity swaps	1 404	1 890	35 299	35 670	0	0	0	0	0	0	0	0	0	0	0	0
Forwards	4	1	4	4	0	0	0	0	0	0	0	0	0	0	0	0
Futures	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Options	1 224	1 640	5 399	7 343	0	0	0	0	0	0	0	0	0	0	0	0
Warrants	1	12	1	492	0	0	0	0	0	0	0	0	0	0	0	0
Credit contracts	4 127	6 928	33 648	25 835	0	0	0	0	0	0	0	0	0	0	0	0
Credit default swaps	4 127	6 928	33 648	25 835	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	29	19	517	514	0	0	0	0	0	0	0	0	0	0	0	0

* including hedges of a net investment in a foreign operation

in millions of EUR 31-12-2012	Held for trading				Microhedge: Fair value hedge				Microhedge: Cash flow hedge *				Portfolio hedge			
	Carrying value		Notional amount		Carrying value		Notional amount		Carrying value		Notional amount		Carrying value		Notional amount	
	Assets	Liabilities	Bought	Sold	Assets	Liabilities	Bought	Sold	Assets	Liabilities	Bought	Sold	Assets	Liabilities	Bought	Sold
Total	12 427	14 351	463 200	430 071	400	341	12 552	12 537	659	1 856	25 884	25 932	15	232	3 535	3 535
Breakdown by type																
Interest rate contracts	7 783	8 697	260 098	238 987	400	341	12 552	12 537	633	1 787	25 240	25 240	15	232	3 535	3 535
Interest rate swaps	6 593	8 093	189 979	190 448	400	341	12 552	12 537	633	1 787	25 240	25 240	15	232	3 535	3 535
Forward rate agreements	3	4	2 609	4 829	0	0	0	0	0	0	0	0	0	0	0	0
Futures	2	0	6 090	4 698	0	0	0	0	0	0	0	0	0	0	0	0
Options	1 185	480	61 172	38 736	0	0	0	0	0	0	0	0	0	0	0	0
Forwards	0	119	247	276	0	0	0	0	0	0	0	0	0	0	0	0
Foreign exchange contracts	949	736	137 796	138 162	0	0	0	0	26	69	644	692	0	0	0	0
Forward foreign exchange operations/Currency forwards	162	152	78 047	78 002	0	0	0	0	0	0	51	51	0	0	0	0
Currency and interest rate swaps	726	526	44 977	44 809	0	0	0	0	26	69	593	641	0	0	0	0
Futures	0	0	155	155	0	0	0	0	0	0	0	0	0	0	0	0
Options	61	59	14 616	15 195	0	0	0	0	0	0	0	0	0	0	0	0
Equity contracts	1 817	2 152	35 545	33 579	0	0	0	0	0	0	0	0	0	0	0	0
Equity swaps	1 322	1 411	30 289	30 288	0	0	0	0	0	0	0	0	0	0	0	0
Forwards	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Futures	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Options	495	741	5 255	3 290	0	0	0	0	0	0	0	0	0	0	0	0
Warrants	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Credit contracts	1 857	2 746	29 393	18 978	0	0	0	0	0	0	0	0	0	0	0	0
Credit default swaps	1 857	2 746	29 393	18 978	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	20	20	368	366	0	0	0	0	0	0	0	0	0	0	0	0

* including hedges of a net investment in a foreign operation

- The carrying values given in the tables are dirty prices for all derivatives in 2012, but dirty prices for derivatives held for trading and clean prices for hedging derivatives in 2011 (the accrued interest income on hedging derivatives amounted to 158 million euros and the accrued interest expense to 328 million euros in 2011).
- One way in which the group's ALM department manages the interest rate risk is to conclude derivatives contracts. The accounting mismatches attributable to these hedging activities (derivatives as opposed to assets or liabilities) are dealt with in two ways:
  - Portfolio hedges of interest rate risk: used to hedge the interest rate risk on a particular loan portfolio (term loans, home loans, instalment loans and straight loans) with interest rate swaps. The hedge is set up in accordance with the requirements of the carved-out version of IAS 39.
  - Financial assets and liabilities designated at fair value through profit or loss (the fair value option): used to reduce a measurement or recognition inconsistency ('an accounting mismatch' that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases). This method is used specifically to avoid the remaining accounting mismatches relating to the loan portfolio (measured at amortised cost) and the interest rate swaps (measured at fair value) in ALM. For this purpose, a (government) bond portfolio was classified as a financial asset at fair value through profit or loss. This portfolio was reduced in 2012. The fair value option is also used for certain financial liabilities with embedded derivatives whose economic risk and characteristics are closely related to those of the host contract (some KBC IFIMA issues), which would otherwise give rise to an accounting mismatch with the hedging instruments.
- In addition, KBC uses micro-hedge accounting permitted under IAS 39 to limit the volatility of results in the following cases:
  - Fair value hedges: used in certain asset-swap constructions, where KBC buys a bond on account of the credit spread. The interest rate risk of the bond is hedged by means of an interest rate swap. This technique is also applied to certain fixed-term debt instruments issued by KBC Bank.
  - Cashflow hedges: used primarily to swap floating-rate liabilities for a fixed rate.
  - Hedges of net investments in foreign operations: the exchange risk attached to foreign-currency investments is hedged by attracting funding in the currency concerned at the level of the investing entity.
- Usually one of the micro-hedging techniques that must be documented individually is used for large individual transactions that can clearly be separated out. For the purposes of ALM, which by definition is macro-management, use is made of the possibilities specifically provided for under IAS 39, namely the 'fair value option' and the 'portfolio hedge of interest rate risk' according to the carved-out version.
- As regards the relationship between risk management and hedge accounting policy, 'economic' management is given priority and the risks have to be hedged in accordance with the general ALM framework. It is then decided what the most efficient option is for limiting (any) resulting accounting mismatch using one of the above hedging techniques.
- For information on fair value adjustments in hedge accounting, see Note 5.
- The estimated cashflows from the cashflow hedging derivatives per time bucket break down is given in the table.

Estimated cashflows from the cashflow hedging derivatives (in millions of EUR)	Inflow	Outflow
Not more than three months	20	- 22
More than three but not more than six months	45	- 70
More than six months but not more than one year	98	- 153
More than one but not more than two years	246	- 408
More than two but not more than five years	566	- 1 017
More than five years	2 124	- 2 701

Notes on other balance sheet items

We have reallocated the various balance sheet items of companies subject to IFRS 5 (see Note 41) to the relevant headings in the balance sheet (under 'Non-current assets held for sale and disposal groups' on the assets side and under 'Liabilities associated with disposal groups' on the liabilities side). However, we have not restated the reference figures, which means that comparability of the figures has been slightly affected.

Note 26: Other assets

in millions of EUR	31-12-2011	31-12-2012
Total	1 605	915
Breakdown by type	1 605	915
Income receivable (other than interest income from financial assets)	503	231
Other	1 102	683

Note 27: Tax assets and tax liabilities

in millions of EUR	31-12-2011	31-12-2012
CURRENT TAXES		
Current tax assets	122	141
Current tax liabilities	233	167
DEFERRED TAXES	**2 070**	**1 853**
Tax assets by type of temporary difference	3 387	2 762
Employee benefits	173	148
Losses carried forward	957	875
Tangible and intangible fixed assets	74	28
Provisions for risks and charges	173	167
Impairment for losses on loans and advances	394	380
Financial instruments at fair value through profit or loss and fair value hedges	670	393
Fair value adjustments, available-for-sale assets, cash flow hedges and hedges of net investments in foreign entities	887	707
Other	59	63
Deferred tax liabilities by type of temporary difference	1 317	908
Employee benefits	15	15
Losses carried forward	1	0
Tangible and intangible fixed assets	107	98
Provisions for risks and charges	36	36
Impairment for losses on loans and advances	116	126
Financial instruments at fair value through profit or loss and fair value hedges	578	227
Fair value adjustments, available-for-sale assets, cash flow hedges and hedges of net investments in foreign entities	324	276
Other	140	131
Recognised in the balance sheet as follows:		
Deferred tax assets	2 284	1 963
Deferred tax liabilities	214	110
Unused tax losses and unused tax credits	1 441	1 183

- Unused tax losses and unused tax credits concern tax losses of group companies which are not capitalised due to insufficient proof of future taxable profit. Most unused tax losses and unused tax credits can be carried forward for 20 years or more.
- Deferred tax assets relating to tax losses carried forward are justified by the fact that – based on macroeconomic forecasts and the use of conservative scenarios – enough taxable profit will be available in the quite near future.
- The net change in deferred taxes (-217 million euros in 2012) breaks down as follows:
  - decrease in deferred tax assets: -625 million euros;
  - decrease in deferred tax liabilities: -408 million euros.
- The change in deferred tax assets is accounted for chiefly by:
  - the decrease in deferred tax assets via the income statement: -134 million euros (owing primarily to losses carried forward (-53 million euros); impairment relating to losses on loans and advances (+42 million euros); financial instruments at fair value through profit or loss (-105 million euros); employee benefits (-23 million euros));
  - the decrease in deferred tax assets following changes in the revaluation reserve for available-for-sale financial assets: -349 million;
  - the increase in deferred tax assets consequent on the fall in the market value of cashflow hedges: +173 million euros;
  - the decrease in deferred tax assets due to changes in the scope of consolidation: -305 million euros.

  The change in deferred tax liabilities is accounted for chiefly by:
  - the decrease in deferred tax liabilities via the income statement: -178 million euros (owing primarily to financial instruments at fair value through profit or loss (-185 million euros); impairment relating to losses on loans and advances +12 million euros));
  - the increase in deferred tax liabilities consequent on the rise in the market value of cashflow hedges: +18 million euros;

- the decrease in deferred tax liabilities on account of changes in the scope of consolidation: -185 million euros;
- the increase in deferred tax liabilities due to currency exchange differences: +10 million euros;
- the decrease in deferred tax liabilities attributable to other items: -61 million euros.

Note 28: Investments in associated companies

in millions of EUR	31-12-2011	31-12-2012
Total	**475**	**8**
Overview of investments including goodwill		
NLB	424	0
Other	51	8
Goodwilll on associated companies		
Gross amount	210	210
Accumulated impairment	- 31	- 210
Breakdown by type		
Unlisted	475	8
Listed	0	0
Fair value of investments in listed associated companies	0	0
MOVEMENTS TABLE	**2011**	**2012**
Opening balance (1 January)	542	475
Acquisitions	0	0
Carrying value, transfers	0	0
Share in the result for the period	- 52	8
Capital increase	18	0
Dividends paid	- 19	0
Share of gains and losses not recognized in the income statement	- 12	10
Translation differences	- 2	- 2
Changes in goodwill	0	- 179
Transfer to or from non-current assets held for sale and disposal groups	0	- 3
Other movements	0	- 302
Closing balance (31 December)	475	8

- 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. In 2011, associated companies related primarily to Nova Ljubljanska banka (NLB). An agreement for the sale of the stake in NLB was reached in December 2012. As a result, the figures for NLB have been recognised at year-end under ‘Non-current assets held for sale and disposal groups’ (see Note 41).
- 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).
- Most of the figure for ‘Other movements’ in 2012 was accounted for by impairment relating to NLB due to the fact that the price was below the carrying value.

Note 29: Property and equipment and investment property

in millions of EUR	31-12-2011	31-12-2012
Property and equipment	**2 357**	**2 286**
Investment property	**552**	**412**
Rental income	41	50
Direct operating expenses from investments generating rental income	24	30
Direct operating expenses from investments not generating rental income	3	3

MOVEMENTS TABLE	Land and buildings	IT equipment	Other equipment	Total property and equipment	Investment property
2011					
Opening balance	1 386	45	927	2 358	457
Acquisitions	119	22	415	556	31
Disposals	- 18	- 1	- 147	- 166	- 13
Depreciation	- 72	- 25	- 35	- 132	- 18
Impairment					
recognised	0	0	0	0	- 29
reversed	0	0	0	0	0
Transfer to or from non-current assets held for sale and disposal groups	3	0	1	4	- 2
Translation differences	- 24	- 2	- 11	- 37	- 7
Changes in the scope of consolidation	- 16	0	- 25	- 41	113
Other movements	- 20	0	- 166	- 185	21
Closing balance	1 359	39	959	2 357	552
of which accumulated depreciation and impairment	948	217	682	1 847	135
of which expenditure on items in the course of construction	1	0	7	8	
of which finance lease as a lessee	0	0	0	0	
Fair value 31-12-2011					638
2012					
Opening balance	1 359	39	959	2 357	552
Acquisitions	148	21	377	546	26
Disposals	- 13	0	- 164	- 177	- 5
Depreciation	- 80	- 20	- 26	- 126	- 16
Impairment					
recognised	- 9	- 1	- 1	- 11	- 52
reversed	0	0	0	0	0
Transfer to or from non-current assets held for sale and disposal groups	- 78	- 3	- 4	- 85	- 31
Translation differences	22	1	7	31	4
Changes in scope of consolidation	- 28	- 3	- 53	- 85	- 59
Other movements	0	0	- 166	- 166	- 7
Closing balance	1 322	34	929	2 286	412
of which accumulated depreciation and impairment	999	136	598	1 733	242
of which expenditure on items in the course of construction	2	0	0	2	
of which finance lease as a lessee	0	0	0	0	
Fair value 31-12-2012					495

- KBC applies the following annual rates of depreciation to property, equipment and investment property: mainly 3% for buildings (including investment property), 33% for IT equipment, between 5% and 33% for other equipment. No depreciation is charged for land.
- There are no material obligations to acquire property or equipment. Nor are there any material restrictions on title, and property and equipment pledged as security for liabilities.
- Most investment property is valued by an independent expert on a regular basis and by in-house specialists on an annual basis, based primarily on:
  - the capitalisation of the estimated rental value;
  - unit prices of similar real property, with account being taken of all the market inputs available on the date of the assessment (including location and market situation, type of building and construction, state of repair, use, etc.).
- Certain other investment property is valued annually by in-house specialists based on:
  - the current annual rental per building and expected rental developments;
  - an individual capitalisation rate per building.

Note 30: Goodwill and other intangible assets

in millions of EUR	Goodwill	Software developed inhouse	Software developed externally	Other	Total
2011					
Opening balance	1 611	5	59	36	1 711
Acquisitions	0	2	27	16	46
Disposals	0	0	0	- 7	- 7
Adjustment resulting from subsequent identification	0	0	0	0	0
Amortisation	0	- 2	- 26	- 9	- 37
Impairment					
recognised	- 81	0	0	- 1	- 83
reversed	0	0	0	0	0
Transfer to or from non-current assets held for sale and disposal groups	0	0	0	0	0
Translation differences	- 41	0	- 4	- 3	- 48
Changes in the scope of consolidation	- 2	0	0	0	- 2
Other movements	- 38	1	- 3	3	- 37
Closing balance	1 449	6	53	36	1 543
of which accumulated amortisation and impairment	587	3	339	0	929
2012					
Opening balance	1 449	6	53	36	1 543
Acquisitions	0	0	33	15	48
Disposals	- 132	0	0	- 13	- 145
Adjustment resulting from subsequent identification	0	0	0	0	0
Amortisation	0	- 1	- 24	- 10	- 34
Impairment					
recognised	- 386	0	0	0	- 387
reversed	0	0	0	0	0
Transfer to or from non-current assets held for sale and disposal groups	0	- 5	0	- 4	- 8
Translation differences	37	0	2	2	41
Changes in the scope of consolidation	0	0	- 3	- 10	- 13
Other movements	1	0	- 9	7	- 1
Closing balance	969	0	52	24	1 045
of which accumulated amortisation and impairment	973	0	282	0	1 255

- ‘Goodwill’ includes the goodwill paid on companies included in the scope of consolidation and relating to the acquisition of activities. Goodwill paid on associated companies is included in the nominal value of ‘Investments in associated companies’ shown on the balance sheet.
- An impairment test has been performed and the necessary impairment losses on goodwill have been recognised (see table and Note 11). This test is performed at least once a year and on a quarterly basis for investments where there is an indication of impairment. In the test, each entity is regarded as a separate cash-generating unit. Each entity has a specific risk profile and it is rare to have different profiles within a single entity.
- Impairment on goodwill under IAS 36 is recognised in profit or loss if the recoverable amount of an investment is lower than its carrying value. The recoverable amount is defined as the higher of the value in use (calculated based on discounted cashflow analysis) and the fair value (calculated based on multiple analysis, etc.) less costs to sell.
- The discounted cashflow method calculates the recoverable amount of an investment as the present value of all future free cashflows of the business. This method is based on long-term projections about the company’s business and the resulting cashflows (i.e. projections for a number of years ahead (usually 20 years), and the terminal value of the business at the end of the specific projection period). These long-term projections are the result of an assessment of past and present performances combined with external sources of information on future performances in the respective markets and the global macroeconomic environment. The terminal growth rate is determined using a long-term average market growth rate. The present value of these future cashflows is calculated using a post-tax compound discount rate which is based on the Capital Asset Pricing Model (CAPM). A risk-free rate, a market-risk premium (multiplied by an activity beta), and a country risk premium (to reflect the impact of the economic situation of the country where KBC is active) are also used in the calculation. KBC has developed a distinct discounted cashflow model, in which free cashflows are the dividends that can be paid out to the company’s shareholders, account taken of the minimum capital requirements.
- The multiple-analysis method calculates the recoverable amount of an investment relative to the value of comparable companies. The value is determined on the basis of relevant ratios between the value of the comparable company and the carrying value, or profit, for instance, of that company. For the purposes of comparison, account is taken of listed companies (where value is equated to market capitalisation) and of companies involved in mergers or acquisitions (where the value is equated to the sales price).

- The main group companies to which goodwill relates are listed in the table (the consolidated entity in each case, i.e. including subsidiaries).

Goodwill outstanding (in millions of EUR)	31-12-2011	31-12-2012	Discount rates throughout the specific period of cashflow projections 31-12-2011	31-12-2012
Absolut Bank	358	–	16.9% – 10.3%	–
K&H Bank	219	236	16.6% – 10.3%	17.4%-9.5%
ČSOB (Czech Republic)	288	287	*	10.1%-9.8%
ČSOB (Slovakia)	188	188	12.2% – 10.1%	11.6%-9.8%
CIBANK	117	117	14.4% – 10.3%	11.1%-9.4%
Kredyt Bank	66	–	*	–
Rest	213	141	–	–
Total	1 449	969	–	–

* Via fair value analysis.

- The period to which the cashflow budgets and projections relate is 20 years in most cases. This longer period is used to reflect the dynamism of the Central and Eastern European economies.
- The growth rate used to extrapolate the cashflow projections after the 20-year period is 2%, which is equal to the rate of inflation forecast for that time. This rate of growth was the same as in 2011.
- No sensitivity analysis was carried out for entities where the recoverable amount exceeded the carrying amount to such a large extent that no reasonably possible change in the key assumptions would result in the recoverable amount being less than or equal to the carrying amount. The following change in key assumptions would cause the recoverable amounts for ČSOB in Slovakia and CIBANK in Bulgaria to equal the carrying amount (see table).

Change in key assumptions[1]	Increase in discount rate[2]	Decrease in terminal growth rate[3]	Increase in targeted solvency ratio[4]	Decrease in annual net profit
ČSOB (Slovakia)	1.9%	-	2.3%	-9.0%
CIBANK	2.2%	-	3.2%	-11.6%

1 Needless to say account should be taken of the fact that a change in these assumptions could affect other assumptions used to calculate the recoverable amount.
2 The discount rate for the first year was increased in absolute terms by the percentage shown. Pursuant to the way in which discount rates (or changes in discount rates) are modelled, the increase in the discount rate for the first year is gradually and diminishingly carried forward as (higher) discount rates for the years ahead.
3 The valuation for banking entities is hardly affected by changes in the terminal growth rate.
4 Presented as the absolute increase in the tier-1 capital ratio.

Note 31: Provisions for risks and charges

in millions of EUR	Provision for restructuring	Provision for taxes and pending legal disputes	Other	Subtotal	Provision, off-balance-sheet credit commit-ments	Total
2011						
Opening balance	27	386	26	439	115	554
Movements with an impact on result						
Amounts allocated	24	381	25	430	90	520
Amounts used	- 20	- 38	- 2	- 60	0	- 60
Unused amounts reversed	- 3	- 9	- 2	- 14	- 116	- 130
Transfer to or from non-current liabilities regarding disposal groups	0	0	0	0	0	0
Change in consolidation scope	0	0	0	0	0	0
Other movements	- 1	- 26	- 4	- 32	- 1	- 33
Closing balance	27	693	42	763	89	852
2012						
Opening balance	27	693	42	762	89	852
Movements with an impact on result						
Amounts allocated	18	32	17	67	155	222
Amounts used	- 8	- 379	- 6	- 393	- 4	- 397
Unused amounts reversed	- 7	- 21	- 2	- 30	- 112	- 143
Transfer to or from non-current liabilities regarding disposal groups	0	0	0	0	0	0
Change in consolidation scope				0		0
Other movements	- 9	- 21	14	- 16	- 35	- 51
Closing balance	22	303	65	390	92	482

- For most of the provisions recorded, no reasonable estimate can be made of when they will be used.

- Restructuring provisions were set aside mainly for: KBC Bank (3 million euros in 2012; 1 million euros in 2011), KBC Financial Products (4 million euros in 2012; 16 million euros in 2011), the Central and Eastern European subsidiaries of KBC Bank (combined total of 10 million euros in 2012 and 1 million euros in 2011) and KBC Lease Deutschland (0 million euros in 2012; 6 million euros in 2011).
- As regards provisions for taxes and pending legal disputes:
  - the remaining amount of the provision for commercial disputes involving CDOs came to 0.04 billion euros at the end of 2012;
  - see Note 8 for information relating to the 5-5-5 product;
  - see the information on legal disputes in the bullet points below.
- 'Other provisions' included those set aside for miscellaneous risks and future expenditure.
- As regards the most significant legal disputes pending, claims filed against KBC group companies are – in keeping with IFRS rules – treated on the basis of an assessment of whether they will lead to an outflow of resources (i.e. 'probable outflow', 'possible outflow' or 'remotely probable outflow'). Provisions are set aside for 'probable outflow' cases (see 'Notes on the accounting policies'). No provisions are constituted for 'possible outflow' cases, but information is provided in the financial statements if such cases might have a material impact on the balance sheet (i.e. when the claim could lead to a possible outflow of more than 25 million euros). All other claims ('remotely probable outflow'), of whatever magnitude, that represent a minor or no risk at all do not have to be reported. Nonetheless, for reasons of transparency, KBC also provides information on the current status of the most important cases in this category. The most important cases are listed below. The information provided is limited in order not to prejudice the position of the group in ongoing litigation.
- Possible outflow:
  - When Lehman Brothers went bankrupt in September 2008, KBC Bank had derivative transactions outstanding with Lehman Brothers Finance AG (LBF) under an ISDA Master Agreement. The bankruptcy triggered an event of default and early termination of all outstanding transactions. LBF is disputing a number of matters in this regard, including the valuation method used by KBC Bank and – in a letter of claim dated 21 December 2012 – asserts that the net amount payable to LBF under the ISDA agreement is 58.1 million US dollars plus 52.8 million US dollars in interest accruing since September 2008. KBC Bank believes it has various arguments to defend the valuation method used and is also strongly disputing the interest rate applied by LBF. No provision has been set aside for these amounts. KBC will determine its position based on the findings of a further investigation into the valuation of the transactions terminated and a legal assessment of the situation.
- Probable outflow:

- KBC Diversified Fund, a segregated portfolio of KBC AIM Master Fund spc., filed a claim against Lehman Brothers International Europe (LBIE) in relation to derivatives amounting to 44.3 million US dollars. Provisions have been set aside for this amount. KBC is negotiating with the administrator of LBIE regarding the valuation of a number of terminated transactions. KBC Bank calculated an ISDA close-out amount of 29.2 million US dollars payable by Lehman Brothers Special Financing Inc. (LBSF). Provisions have been set aside for this amount. LBSF's administrator is contesting the valuation of some of the derivative transactions. An initial meeting to discuss the disputed valuation took place on a without prejudice basis on 17 December 2012, during which the administrator requested additional information on KBC's valuation process.
- In 2003, a major case of fraud at K&H Equities Hungary was uncovered. Numerous customers suffered substantial losses on their securities portfolios as a result of unauthorised speculative transactions and possible misappropriations of funds. Instructions and portfolio overviews were forged or tampered with. In August 2008, criminal sentences were handed down. An appeal is pending. Almost all claims have already been settled either amicably or following an arbitral decision. Appropriate provisions have been set aside for the claims still outstanding, taking into account compensation provided by an external insurer.
- From the end of 1995 until the beginning of 1997, KBC Bank and KB Consult were involved in the transfer of cash companies. KBC Bank and/or KB Consult were joined to proceedings in a number of cases. In addition, KB Consult, together with KBC Bank and KBC Group NV, was summoned to appear in the proceedings before the Bruges court sitting in chambers. On 9 November 2011, this court dismissed the charges against KBC Group NV, but KB Consult and KBC Bank were referred to the criminal court. However, the Belgian State has since lodged an appeal with the Indictment Division. A provision of 30.8 million euros has been constituted to deal with the potential impact of claims for damages in this respect. The transfer of a cash company is in principle completely legitimate. Nevertheless, it later transpired that certain purchasers were acting in bad faith since they did not make any investments at all and did not file tax returns for the cash companies they had purchased. KBC Bank and KB Consult immediately took the necessary measures to preclude any further involvement with these parties.
- In March 2000, Rebeo and Trustimmo, two subsidiaries of Almafin (a subsidiary of KBC Bank), together with four former directors of Broeckdal Vastgoedmaatschappij (a real estate company) were summoned by the Belgian Ministry of Finance to appear before the civil court in Brussels regarding non-payment of 16.7 million euros in taxes owed by Broeckdal. However, Broeckdal contested this claim and in December 2002 initiated court proceedings against the Belgian Ministry of Finance before the civil court in Antwerp. The civil case pending before the Brussels court has been suspended until final judgment has been passed in the tax-related proceedings pending before the Antwerp court. Broeckdal was wound up by court order on 2 November 2010 and was declared properly wound up and dissolved on 13 September 2011. A provision of 29.6 million euros has been set aside to cover potential damages.
- In 1991, a syndicate of banks (including KBC Bank NV's London branch) refinanced the Bell Group. Some Bell Group companies granted security. When the group collapsed in April 1991, the banks recovered the outstanding amounts by enforcing their security rights. The Bell Group liquidators started legal proceedings, claiming repayment of all amounts recovered by the banks by alleging that the banks' security rights had been granted unlawfully. In a judgment delivered on 28 October 2008, the Supreme Court of Western Australia ordered the banks to repay all the amounts recovered and also to pay compound interest. The syndicate of banks appealed this decision. In a ruling on 17 August 2012, the Supreme Court of Western Australia Court of Appeal increased the amount payable following the recalculation of interest. In view of that decision and pending the decision of the High Court of Australia, KBC Bank has set aside a provision of some 64 million euros. Even if the banks are granted leave for appeal, the debate before the High Court will be limited to the amount of interest payable.

Note 32: Other liabilities

in millions of EUR	31-12-2011	31-12-2012
Total	2 665	2 689
Breakdown by type		
Retirement benefit plans or other employee benefits	820	702
Accrued charges (other than from interest expenses on financial liabilities)	666	487
Other	1 179	1 500

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

Note 33: Retirement benefit obligations

in millions of EUR	31-12-2011	31-12-2012
DEFINED BENEFIT PLANS		
Reconciliation of defined benefit obligations		
Defined benefit obligations at the beginning of the period	1 527	1 708
Current service Cost	82	88
Interest cost	75	69
Plan amendments	0	0
Actuarial gain/(loss)	126	320
Benefits paid	- 110	- 122
Exchange differences	4	4
Curtailment	- 2	- 5
Transfer due to IFRS 5	0	- 16
Changes in the scope of consolidation	- 2	0
Other	9	0
Defined benefit obligation at end of the period	1 708	2 046
Reconciliation of the fair value of plan assets		
Fair value of plan assets at the beginning of the period	1 253	1 363
Actual return on plan assets	82	196
Employer contributions	112	100
Plan participant contributions	18	20
Benefits paid	- 105	- 118
Exchange differences	1	3
Settlements	- 2	- 2
Transfer due to IFRS 5	0	0
Changes in the scope of consolidation	- 1	0
Other	5	- 9
Fair value of plan assets at the end of the period	1 363	1 552
of which financial instruments issued by the group	4	0
Funded Status		
Plan assets in excess of defined benefit obligations	- 294	- 440
Unrecognised net actuarial gains	- 100	96
Unrecognised transaction amount	0	0
Unrecognised past service cost	0	0
Unrecognised assets	0	- 5
Unfunded accrued/prepaid pension cost	- 396	- 350
Movement in net liabilities or net assets		
Unfunded accrued/prepaid pension cost at the beginning of the period	- 456	- 396
Net periodic pension cost	- 48	- 62
Employer contributions	114	102
Exchange differences	0	0
Transfer due to IFRS 5	0	1
Changes in the scope of consolidation	0	0
Other	- 5	6
Unfunded accrued/prepaid pension cost at the end of the period	- 396	- 350
Amounts recognised in the balance sheet		
Prepaid pension cost	30	34
Accrued pension liabilities	- 426	- 384
Unfunded accrued/prepaid pension cost	- 396	- 350

Amounts recognised in the income statement	31-12-2011	31-12-2012
Current service cost	82	88
Interest cost	75	69
Expected return on plan assets	- 73	- 73
Adjustments to limit prepaid pension cost	- 1	2
Amortisation of unrecognized prior service costs	0	0
Amortisation of unrecognized net (gains)/losses	- 15	- 2
Employee contributions	- 18	- 20
Curtailments	- 2	- 4
Settlements	- 1	2
Changes in the scope of consolidation	0	63
Actuarially determined net periodic pension cost*	47	125
Actual return on plan assets (in %)	6.5%	14.4%
Principal actuarial assumptions used (based on weighted averages)		
Discount rate (during the year)	4.6%	4.1%
Discount rate (at year-end)	4.1%	2.4%
Expected rate of return on plan assets	5.5%	5.4%
Expected rate of salary increase	3.1%	3.1%
Rate of pension increase	0.4%	0.4%
DEFINED CONTRIBUTION PLANS		
Expenses for defined contribution plans	0	1

(*) included under 'staff expenses' (see 'Note 9: operating expenses)

- The pension claims of the staff of the various KBC group companies are covered by pension funds and group insurance schemes, the most important of which are defined benefit plans. The main defined benefit plans are those managed by the OFP Pensioenfonds KBC and the OFP Pensioenfonds Senior Management KBC which cover KBC Bank, KBC Insurance (since 2007) and most of their Belgian subsidiaries, and the KBC Insurance group insurance scheme (for staff employed prior to 1 January 2007). The assets of these first two plans are managed chiefly by KBC Asset Management. The benefits are dependent on, among other things, the employee's years of service, as well as on his/her remuneration in the years leading up to his/her retirement. The annual funding requirements for these plans are determined based on standard actuarial cost methods.
- The expected return on plan assets (ROA) is calculated on the basis of the rate applying to specific investments, account taken of the new detailed strategy for allocating assets under management.
  ROA = (W x LDI rate T) + (X x corp rate T) + (Y x (govt rate T + 3%)) + (Z x (govt rate T +1.75%)), where:
  LDI rate = 2 x euro swap rate T – 1 x 6-month euro swap rate;
  Govt rate = OLO rate T;
  Corp rate = euro swap rate T + corporate spread;
  T = average duration of the liabilities;
  W = percentage of liability driven investments;
  X = percentage of corporate bonds;
  Y = percentage of shares;
  Z = percentage of real estate.

  The risk premiums of 3% and 1.75%, respectively, are based on the anticipated long-term returns from shares and real estate.

Additional information retirement benefit obligations, in millions of eur							
Evolution main items shown in the table	2006	2007	2008	2009	2010	2011	2012
Defined benefit obligations	1 717	1 786	1 884	1 997	1 645	1 708	2 046
Fair value of plan assets	1 497	1 520	1 293	1 529	1 439	1 363	1 552
Unfunded accrued or prepaid pension cost	-474	-508	-512	-512	- 437	- 396	- 350
Composition of the main defined benefit plans of the group			shares	bonds	real estate	cash	
31-12-2011							
KBC Pension fund			33.0%	52.0%	9.0%	6.0%	
31-12-2012							
KBC Pension fund			36.0%	48.0%	10.0%	6.0%	
Impact of changes in the assumptions used in the actuarial calculation of plan assets and gross liabilities*	2006	2007	2008	2009	2010	2011	2012
Impact on plan assets	1	-1	0	0	0	0	0
Impact on gross liabilities	-40	-7	-88	-18	-84	- 76	213
Expected contributions in 2013							
KBC Pension fund							95

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

Note 34: Parent shareholders’ equity and non-voting core-capital securities

in number of shares	31-12-2011	31-12-2012
Ordinary shares	915 228 482	915 228 482
of which ordinary shares that entitle the holder to a dividend payment	*915 228 482*	*915 228 482*
of which treasury shares	*0*	*0*
Other information		
Par value per ordinary share (in euros)	9.78	9.78
Number of shares issued but not fully paid up	0	0

MOVEMENTS TABLE, in number of shares	Ordinary shares
2011	
Opening balance	915 228 482
Issue of shares/core-capital securities	0
Conversion of mandatorily convertible bonds into shares	0
Other movements	0
Closing balance	915 228 482
2012	
Opening balance	915 228 482
Issue of shares/core-capital securities	0
Conversion of mandatorily convertible bonds into shares	0
Other movements	0
Closing balance	915 228 482

- The share capital of KBC Bank NV consists of ordinary shares of no nominal value. All ordinary shares carry voting rights and each share represents one vote. No participation certificates or non-voting shares have been issued.
- On 31 December 2012, 915 228 482 ordinary shares were in circulation, of which 915 228 481 shares belonged to KBC Group NV and 1 share belonged to KBC Insurance NV.
- For information on stock option plans, see Note 9; for information on the authorisation to increase capital, see the ‘Company annual accounts’ section.
- Preference shares (367 million euros at year-end 2012; 370 million euros at year-end 2011) are not included in 'Parent shareholders’ equity’, but in ‘Minority interests’. These instruments meet the IAS 32 definition of equity instruments. As they are not owned by the shareholders, they are presented under ‘Minority interests’.
- Non-voting core-capital securities: since the end of 2008, KBC Group NV (KBC Bank’s parent company) has issued 7 billion euros in perpetual, non-transferable, non-voting core-capital securities that have equal ranking (*pari passu*) with ordinary shares upon liquidation. These have been subscribed by the Belgian State (the Federal Holding and Investment Company) and the Flemish Region (each in the amount of 3.5 billion euros). The other features of the transactions are dealt with under ‘Capital transactions and guarantee agreements with the government in 2008 and 2009’ in the 'Additional information' section. On 2 January 2012, KBC Group NV repaid 0.5 billion euros (plus a 15% penalty) to the Belgian State, recognising the amount in the balance sheet at year-end 2011. On 17 December 2012, KBC Group NV repaid 3 billion euros (plus a 15% penalty) to the Belgian State, recognising the amount in the balance sheet at year-end 2012. KBC Group NV is aiming to reimburse 1.17 billion euros (plus a 50% penalty) to the Flemish Regional Government in the first half of 2013, a repayment that will be subject to the customary approval of the National Bank of Belgium.

Other notes

Note 35: Commitments and guarantees granted and received

in millions of EUR	31-12-2011	31-12-2012
Credit commitments - undrawn amount		
Given	33 669	28 216
Irrevocable	21 338	16 501
Revocable	12 331	11 715
Received	186	503
Financial guarantees		
Given	12 411	11 082
Guarantees received / collateral	47 776	37 607
For impaired and past due assets	3 981	2 716
For assets that are not impaired or past due assets	43 795	34 891
Other commitments		
Given	143	116
Irrevocable	143	116
Revocable	0	0
Received	0	0
Carrying value of financial assets pledged as collateral for		
Liabilities	45 223	21 441
Contingent liabilities	4 682	5 413

- The fair value of financial guarantees is based on the available market value.
- KBC Group NV irrevocably and unconditionally guarantees all of the liabilities referred to in Section 5 (c) of the Irish Companies (Amendment) Act 1986 of the following Irish companies in respect of the financial year ending on 31 December 2012 allowing these companies to be eligible for exemption from certain disclosure requirements, pursuant to Section 17 of the Irish Companies (Amendment) Act 1986:
  - KBC Financial Services (Ireland) Limited;
  - KBC Fund Management Limited.

  Since these companies are included in the scope of consolidation, this is an intragroup transaction and the guarantee is not included in the above table.
- There is an obligation to return collateral received (which may be sold or repledged in the absence of default by the owner; see table) in its original form, or possibly in cash. Collateral can be called in if loans are terminated for various reasons such as default or bankruptcy. In the event of bankruptcy, the collateral will be sold by the receiver. In other cases, the bank will organise the foreclosure itself or take possession of the collateral. Collateral received that relates to OTC derivatives is primarily cash, which is recognised by KBC on the balance sheet (and is not included in the table).

Collateral held (which may be sold or repledged in the absence of default by the owner)	Fair value of collateral held		Fair value of collateral sold or repledged	
in millions of EUR	31-12-2011	31-12-2012	31-12-2011	31-12-2012
Financial assets	10 470	8 248	7 018	4 755
Equity instruments	12	7	0	0
Debt instruments	10 255	8 046	7 018	4 755
Loans & advances	202	195	0	0
Cash	1	0	0	0
Non-financial assets	4	3	0	0
Property and equipment	4	3	0	0
Investment property	0	0	0	0
Other	0	0	0	0

Collateral obtained by taking possession during the period	31-12-2011	31-12-2012
Non-current assets held-for-sale	0	0
Property and equipment	0	0
Investment property	170	2
Equity and debt instruments	0	0
Cash	237	167
Other	8	29
Total	414	197

Note 36: Leasing

In millions of EUR	31-12-2011	31-12-2012
Finance lease receivables		
Gross investment in finance leases, receivable	5 489	4 792
At not more than one year	1 464	1 208
At more than one but not more than five years	2 690	2 342
At more than five years	1 335	1 241
Unearned future finance income on finance leases	826	678
Net investment in finance leases	4 659	4 110
At not more than one year	1 277	1 054
At more than one but not more than five years	2 340	2 060
At more than five years	1 043	996
Of which unguaranteed residual values accruing to the benefit of the lessor	10	33
Accumulated impairment for uncollectable lease payments receivable	191	174
Contingent rents recognised in income	104	119
Operating lease receivables		
Future aggregate minimum rentals receivable under non-cancellable leases	432	429
Not more than one year	148	137
More than one but not more than five years	261	272
More than five years	23	21
Contingent rents recognised in income	0	0

- 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: KBC provides most finance leases through separate companies operating mainly in Belgium and Central Europe. It offers finance lease products ranging from equipment and vehicle leasing to real estate leasing. In Belgium, finance leasing is typically sold through KBC group's branch network, and that channel is becoming increasingly important in Central Europe, too.
- Operational leasing involves primarily full service car leasing, which the group sells through its network of KBC Bank and CBC Banque branches and through an internal sales team. Full service car leasing activities are being further developed in Central Europe, too.

Note 37: Related-party transactions

Transactions with related parties, excluding key management personnel (in millions of EUR)	31-12-2011								31-12-2012							
	Parent enitities with joint control	Subsi-diaries	Associa-ted com-panies	Joint Ventures	Belgian State	Flemish region	Other	Total	Parent enitities with joint control	Subsi-diaries	Associa-ted com-panies	Joint Ventures	Belgian State	Flemish region	Other	Total
Assets	254	160	200	119	18 679	1 016	4 118	24 546	4	219	176	120	24 272	464	1 971	27 225
Loans and advances	0	58	144	85	762	0	3 352	4 401	0	98	132	83	0	0	1 527	1 841
Current accounts	0	2	1	0	0	0	527	530	0	1	1	0	0	0	595	597
Term loans	0	56	143	85	762	0	2 824	3 870	0	97	131	83	0	0	932	1 244
Finance leases	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Consumer credit	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Mortgage loans	0	0	0	0	0	0	1	1	0	0	0	0	0	0	0	0
Equity instruments	43	82	34	25	0	0	0	184	0	69	25	23	0	0	0	117
Trading securities	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Investment securities	43	82	34	25	0	0	0	184	0	69	25	23	0	0	0	117
Other receivables	211	19	22	9	17 917	1 016	766	19 961	4	52	19	14	24 272	464	443	25 267
Liabilities	1 992	718	145	30	70	0	6 009	8 965	1 057	636	134	35	95	0	3 241	5 198
Deposits	1 723	710	132	30	0	0	4 524	7 120	790	635	126	35	0	0	2 125	3 712
Deposits	1 716	709	131	30	0	0	4 518	7 105	784	635	126	35	0	0	2 125	3 706
Other	7	1	1	0	0	0	6	15	6	0	1	0	0	0	0	6
Other financial liabilities	250	5	0	0	0	0	1 160	1 415	250	0	0	0	0	0	923	1 173
Debt certificates	0	0	0	0	0	0	1 160	1 160	0	0	0	0	0	0	923	923
Subordinated liabilities	250	5	0	0	0	0	0	256	250	0	0	0	0	0	0	250
Share based payments, granted	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Share based payments, exercised	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other liabilities (including accrued expense)	20	3	12	0	70	0	325	430	18	0	8	0	95	0	192	313
Income statement	- 2	19	1	4	680	28	- 743	- 13	- 15	2	- 2	6	659	19	- 705	- 36
Net interest income	- 6	17	- 1	2	680	28	- 81	638	- 10	1	- 1	2	659	19	- 67	604
Earned premiums, insurance (before reinsurance)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Dividend income	3	2	4	1	0	0	0	10	0	1	3	4	0	0	0	7
Net fee and commission income	0	0	- 1	0	0	0	155	154	1	1	- 2	0	0	0	170	169
Other income	3	2	0	0	0	0	7	12	0	0	0	0	0	0	2	2
Other expenses	- 1	- 2	- 1	0	0	0	- 824	- 828	- 7	0	- 1	0	0	0	- 811	- 819
Guarantees																
Guarantees issued by the group								0								0
Guarantees received by the group								0								0

Transactions with key management personnel (members of the Board of Directors and the Executive Committee of KBC Group), in millions of EUR	31-12-2011	31-12-2012
Total[1]	9	1
Breakdown by type of remuneration		
Short-term employee benefits	4	1
Post-employment benefits	5	0
Defined benefit plans	5	0
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	35 100	20 300
Granted	0	0
Exercised	0	0
Expired	0	- 3 000
Changes in composition of directors	- 14 800	- 17 300
At the end of the period	20 300	0
Advances and loans granted to the directors and partners	2	1

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

- The 'Other' heading in the first table comprises primarily KBC Ancora, Cera, MRBB and KBC Insurance Group. The recoverability of the claims outstanding in respect of Cera and KBC Ancora depends in part on the performance of the KBC group.
- All related-party transactions occur at arm's length.
- The Belgian State and Flemish Region are considered in the strict sense only (i.e. excluding companies controlled by these parties).
- There were no material transactions with associated companies other than shown in the table.
- Key management comprises the members of the Board of Directors and Group Executive Committee. More detailed information on remuneration paid to key management staff is provided in the 'Corporate governance statement' section.
- In 2009, KBC entered into a guarantee agreement with the Belgian State to cover most of its potential downside risk exposure to CDOs. Included in the 2012 results is the related cost which is recognised in 'Net result from financial instruments at fair value through profit or loss'. The guarantee agreement was reviewed at the end of 2012 (for more details, see the 'Additional information' section).

Note 38: Auditor's remuneration

In 2012, KBC Bank NV and its subsidiaries paid Ernst & Young Bedrijfsrevisoren BCVBA fees amounting to a total of 10 169 181 euros for standard audit services (10 677 580 euros in 2011). Remuneration paid for other services came to 2 381 989 euros in 2012 (3 338 400 euros in 2011), and comprised 1 045 859 euros for other certifications, 183 927 euros for tax advice and 1 152 203 euros for other non-audit assignments (920 561, 174 338 and 2 243 501 euros, respectively, in 2011).

Note 39: Principal subsidiaries and associated companies, 31-12-2012

Name	Registered office	National identification number	Share of capital held at group (%)
KBC Bank: subsidiaries that are fully consolidated			
KBC Bank NV	Brussels - BE	0462.920.226	100
Commercial bank "Absolut Bank" (ZAO)	Moscow - RU	--	99
Limited liability company "Absolut Leasing"	Moscow - RU	--	99
Limited liability company Leasing company "Absolut"	Moscow - RU	--	99
Almafin Real Estate NV	Brussels - BE	0403.355.494	100
Almafin Real Estate Services NV	Brussels - BE	0416.030.525	100
Immo Arenberg NV	Brussels - BE	0471.901.337	100
Antwerpse Diamantbank NV	Antwerp - BE	0404.465.551	100
ADB Asia Pacific Limited	Singapore - SG	--	100
Banque Diamantaire (Suisse) SA	Geneva - CH	--	100
CBC BANQUE SA	Brussels - BE	0403.211.380	100
Československá Obchodná Banka a.s.	Bratislava - SK	--	100
ČSOB Asset Management, správ. spol., a.s.	Bratislava - SK	--	100
ČSOB Factoring a.s.	Bratislava - SK	--	100
ČSOB Leasing a.s.	Bratislava - SK	--	100
ČSOB Leasing Poisťovaci Maklér s.r.o.	Bratislava - SK	--	100
ČSOB Stavebná Sporitel'na a.s.	Bratislava - SK	--	100
Československá Obchodní Banka a.s.	Prague - CZ	--	100
Bankovní Informační Technologie s.r.o.	Prague - CZ	--	100
Centrum Radlická a.s.	Prague - CZ	--	100
ČSOB Advisory, a.s.	Prague - CZ	--	100
ČSOB Factoring a.s.	Prague - CZ	--	100
ČSOB Leasing a.s.	Prague - CZ	--	100
ČSOB Leasing Pojisťovaci Maklér s.r.o.	Prague - CZ	--	100
ČSOB Penzijní společnost, a. s.	Prague - CZ	--	100
ČSOB Property Fund a.s.	Prague - CZ	--	62.87
Merrion Properties a.s.	Prague - CZ	--	62.87
Property Skalika s.r.o.	Bratislava - SK	--	62.87
Hypoteční Banka a.s.	Prague - CZ	--	100
CIBANK EAD	Sofia - BG	--	100
Management of Assets for Sale - 2 EOOD	Sofia - BG	--	100
Katarino Spa Hotel EAD	Sofia - BG	--	100
IIB Finance Ireland	Dublin - IE	--	100
KBC Finance Ireland	Dublin - IE	--	100
Julienne Holdings S.à.r.l.	Luxembourg - LU	--	93
Julie LH BVBA	Brussels - BE	0890.935.201	93
Juliette FH BVBA	Brussels - BE	0890.935.397	93
KBC Asset Management NV	Brussels - BE	0469.444.267	51.86
KBC Asset Management SA	Luxembourg - LU	--	51.86
KBC Fund Management Limited	Dublin - IE	--	51.86
KBC Participations Renta B	Luxembourg - LU	--	51.86
KBC Participations Renta C	Luxembourg - LU	--	51.86
KBC Participations Renta SA	Luxembourg - LU	--	51.86
ČSOB Asset Management, a.s. Investiční Společnost	Prague - CZ	--	71.15
KBC Towarzystwo Funduszy Inwestycyjnych a.s.	Warszawa - PL	--	51.86
KBC Bank Deutschland AG	Bremen - DE	--	100
KBC Bank Funding LLC II	New York - US	--	100
KBC Bank Funding LLC III	New York - US	--	100
KBC Bank Funding LLC IV	New York - US	--	100
KBC Bank Funding Trust II	New York - US	--	100
KBC Bank Funding Trust III	New York - US	--	100
KBC Bank Funding Trust IV	New York - US	--	100

Name	Registered office	National identification number	Share of capital held at group (%)
KBC Bank Ireland Plc.	Dublin - IE	--	100
Bencrest Properties Limited	Dublin - IE	--	100
Boar Lane Nominee (Number 1) Limited	Dublin - IE	--	100
Boar Lane Nominee (Number 2) Limited	Dublin - IE	--	100
Boar Lane Nominee (Number 3) Limited	Dublin - IE	--	100
Danube Holdings Limited	Dublin - IE	--	100
Fermion Limited	Dublin - IE	--	100
Glare Nominee Limited	Dublin - IE	--	100
IIB Finance Limited	Dublin - IE	--	100
IIB Asset Finance Limited	Dublin - IE	--	100
IIB Commercial Finance Limited	Dublin - IE	--	100
IIB Leasing Limited	Dublin - IE	--	100
Lease Services Limited	Dublin - IE	--	100
IIB Homeloans and Finance Limited	Dublin - IE	--	100
Cluster Properties Limited	Dublin - IE	--	100
Demilune Limited	Dublin - IE	--	100
KBC Homeloans and Finance Limited	Dublin - IE	--	100
Premier Homeloans Limited	Surrey - GB	--	100
Intercontinental Finance	Dublin - IE	--	100
Irish Homeloans and Finance Limited	Dublin - IE	--	100
KBC ACS Limited	Dublin - IE	--	100
KBC Mortgage Finance	Dublin - IE	--	100
KBC Nominees Limited	Dublin - IE	--	100
Linkway Developments Limited	Dublin - IE	--	100
Maurevel Investment Company Limited	Dublin - IE	--	100
Merrion Commercial Leasing Limited	Surrey - GB	--	100
Merrion Equipment Finance Limited	Surrey - GB	--	100
Merrion Leasing Assets Limited	Surrey - GB	--	100
Merrion Leasing Finance Limited	Surrey - GB	--	100
Merrion Leasing Industrial Limited	Surrey - GB	--	100
Merrion Leasing Limited	Surrey - GB	--	100
Merrion Leasing Services Limited	Surrey - GB	--	100
Monastersky Limited	Dublin - IE	--	100
Needwood Properties Limited	Dublin - IE	--	100
Phoenix Funding 2 Limited	Dublin - IE	--	100
Phoenix Funding 3 Limited	Dublin - IE	--	100
Phoenix Funding 4 Limited	Dublin - IE	--	100
Phoenix Funding 5 Limited	Dublin - IE	--	100
Quintor Limited	Dublin - IE	--	100
Rolata Limited	Douglas - IM	--	100
KBC Commercial Finance NV	Brussels - BE	0403.278.488	100
KBC Consumer Finance NV	Brussels - BE	0473.404.540	100
KBC Credit Investments NV	Brussels - BE	0887.849.512	100
KBC Financial Products UK Limited	London - GB	--	100
Baker Street Finance Limited	Jersey - GB	--	100
Baker Street USD Finance Limited	Jersey - GB	--	100
Dorset Street Finance Limited	Jersey - GB	--	100
Hanover Street Finance Limited	Jersey - GB	--	100
KBC Financial Products Hong Kong Limited	Hong Kong - HK	--	100
Pembridge Square Finance Limited	Jersey - GB	--	100
Regent Street Finance Limited	Jersey - GB	--	100
Sydney Street Finance Limited	Jersey - GB	--	100
KBC Financial Holding Inc.	Wilmington - US	--	100
KBC Financial Products (Cayman Islands) Limited "Cayman I"	George Town - KY	--	100
Pacifica Group LLC	New York - US	--	100
Equity Key LLC	Wilmington - US	--	100
Equity Key Real Estate Option LLC	San Diego - US	--	100
EK002 LLC	San Diego - US	--	100
EK003 LLC	San Diego - US	--	100
EK045 LLC	San Diego - US	--	100
Lonsdale LLC	Wilmington - US	--	100
Midas Life Settlements LLC	Delaware - US	--	100
Reverse Mortgage Loan Trust 2008-1	New York - US	--	100
Upright Holdings FP Inc.	New York - US	--	100
World Alliance Financial Corporation	New York - US	--	100

Name	Registered office	National identification number	Share of capital held at group (%)
KBC Financial Products International Limited "Cayman III"	George Town - KY	--	100
KBC Investments Cayman Islands V Limited	George Town - KY	--	100
KBC Investments Hong Kong Limited	Hong Kong - HK	--	100
KBC Investments Asia Limited	Hong Kong - HK	--	100
KBC Investments Cayman Islands Limited "Cayman IV"	George Town - KY	--	100
KBC Investments Limited	London - GB	--	100
KBC Internationale Financieringsmaatschappij NV	Rotterdam - NL	--	100
KBC Lease Holding NV	Leuven - BE	0403.272.253	100
Fitraco NV	Leuven - BE	0425.012.626	100
KBC Autolease NV	Leuven - BE	0422.562.385	100
KBC Bail France II sas	Lyon - FR	--	100
KBC Bail Immobilier France sas	Lille - FR	--	100
KBC Immolease NV	Leuven - BE	0444.058.872	100
KBC Lease Belgium NV	Leuven - BE	0426.403.684	100
KBC Lease France SA	Lyon - FR	--	100
KBC Lease (Nederland) BV	Almere - NL	--	100
KBC Lease (UK) Limited	Surrey - GB	--	100
KBC Lease (Luxembourg) SA	Bertrange - LU	--	100
RSL Leasing IFN SA	Boekarest - RO	--	100
Securitas sam	Monaco - MC	--	100
KBC North American Finance Corporation	Delaware - US	--	100
KBC Private Equity NV	Brussels - BE	0403,226,228	100
KBC Real Estate Luxembourg SA	Luxembourg - LU	--	100
KBC Vastgoedinvesteringen NV	Brussels - BE	0455.916.925	100
KBC Vastgoedportefeuille België NV	Brussels - BE	0438.007.854	100
KBC Rusthuisvastgoed NV	Brussels - BE	0864.798.253	100
KBC Securities NV	Brussels - BE	0437.060.521	100
Patria Finance a.s.	Prague - CZ	--	100
Patria Direct a.s.	Prague - CZ	--	100
K&H Bank Zrt.	Budapest - HU	--	100
K&H Befektetési Alapkezelő Zrt.	Budapest - HU	--	100
K&H Csoportszolgáltató Központ Kft.	Budapest - HU	--	100
K&H Equities Tanácsadó Zrt.	Budapest - HU	--	100
K&H Factor Zrt.	Budapest - HU	--	100
K&H Alkusz Kft.	Budapest - HU	--	100
K&H Autófinanszirozó Pénzügyi Szolgáltató Zrt.	Budapest - HU	--	100
K&H Autópark Bérleti és Szolgáltató Kft	Budapest - HU	--	100
K&H Eszközfinanszírozó Zrt	Budapest - HU	--	100
K&H Eszközlizing Gép-és Thrgj. Bérleti Kft	Budapest - HU	--	100
K&H Ingatlanlizing Zrt	Budapest - HU	--	100
K&H Lizing Zrt.	Budapest - HU	--	100
Loan Invest NV "Institutionele VBS naar Belgisch recht"	Brussels - BE	0889.054.884	100
Novoli Investors BV	Amsterdam - NL	--	83.33
Old Broad Street Invest NV	Brussels - BE	0871.247.565	100
111 OBS Limited Partnership	London - GB	--	100
111 OBS (General Partner) Limited	London - GB	--	100
Poelaert Invest NV	Brussels - BE	0478.381.531	100
Vastgoed Ruimte Noord NV	Brussels - BE	0863.201.515	100
KBC Bank: subsidiaries that are not fully consolidated			
111 OBS (Nominee) Limited (1)	London - GB	--	100
2 B Delighted Italia Srl (1)	Torino - IT	--	99.58
2 B Delighted NV (1)	Roeselare - BE	0891.731.886	99.58
Wever & Ducré NV (1)	Roeselare - BE	0412.881.191	99.58
Asia Pacific Trading & Investment Co Limited (1)	Hong Kong - HK	--	99.58
Dark NV (1)	Roeselare - BE	0472.730.389	99.58
Limis Beyond Light NV (1)	Roeselare - BE	0806.059.310	99.58
Wever & Ducré BV (1)	The Hague - NL	--	99.58
Wever & Ducré GmbH (1)	Herzogenrath - DE	--	99.58
Wever & Ducré Iluminación SL (1)	Madrid - ES	--	99.58

Name	Registered office	National identification number	Share of capital held at group (%)
Almaloisir & Immobilier sas (1)	Nice - FR	--	100
Apicinq NV (1)	Brussels - BE	0469.891.457	100
Apitri NV (1)	Brussels - BE	0469.889.873	100
Applied Maths Inc. (1)	Austin - US	--	69.94
Applied Maths NV (1)	St Martens Latem - BI	0453.444.712	69.94
Brussels North Distribution NV (1)	Brussels - BE	0476.212.887	100
Clifton Street Finance Limited (1)	Jersey - GB	--	100
ČSOB Nadácia (1)	Bratislava - SK	--	100
Dala Beheer BV (1)	Amsterdam - NL	--	100
Dala Property Holding III BV (1)	Amsterdam - NL	--	100
Dala Property Holding XV BV (1)	Amsterdam - NL	--	100
DLI International NV (1)	Genk - BE	0892.881.535	62.50
Di Legno Interiors NV (1)	Genk - BE	0462.681.783	62.50
Eurincasso s.r.o. (1)	Prague - CZ	--	100
Gulliver Kereskedelmi és Szolgáltató Kft.(1)	Budapest - HU	--	100
Immo-Antares NV (2)	Brussels - BE	0456.398.361	100
Immo-Basilix NV (2)	Brussels - BE	0453.348.801	100
Immo-Beaulieu NV (2)	Brussels - BE	0450.193.133	50
Immobilière Distri-Land NV (2)	Brussels - BE	0436.440.909	87.52
Immo Genk-Zuid NV (2)	Brussels - BE	0464.358.497	100
Immo Kolonel Bourgstraat NV (2)	Brussels - BE	0461.139.879	50
Immolease-Trust NV (1)	Brussels - BE	0406.403.076	100
Immo Lux-Airport SA (2)	Luxembourg - LU	--	100
Immo-Marcel Thiry NV (2)	Brussels - BE	0450.997.441	100
Immo NamOtt NV (2)	Brussels - BE	0840.412.849	100
Immo NamOtt Tréfonds NV (1)	Brussels - BE	0840.620.014	100
Immo-Quinto NV (1)	Brussels - BE	0466.000.470	100
Immo-Zénobe Gramme NV (2)	Brussels - BE	0456.572.664	100
IPCOS BV (1)	Boxtel - NL	--	59.47
IPCOS NV (1)	Heverlee - BE	0454.964.840	59.47
IPCOS (UK) Ltd (1)	Cambridge - GB	--	59.47
IPCOS ENGINEERING SOLUTIONS Pvt. Ltd (1)	Chandigarh - India	--	59.47
KB-Consult NV (1)	Brussels - BE	0437.623.220	100
KBC Clearing NV (1)	Amsterdam - NL	--	100
KBC Diversified Fund (part of KBC AIM Master Fund) (1)	George Town - KY	--	100
KBC Financial Services (Ireland) Limited (1)	Dublin - IE	--	100
KBC International Finance NV (1)	Rotterdam - NL	--	100
KBC Life Harvest Capital Fund (1)	Dublin - IE	--	34.93
KBC Securities USA, Inc. (1)	New York - US	--	100
KBC Venture Capital Fund Manager (1)	Budapest - HU	--	100
Lancier LLC (1)	Delaware - US	--	100
Luxembourg North Distribution SA (1)	Luxembourg - LU	--	100
Mechelen City Center NV (1)	Brussels - BE	0471.562.332	100
Motokov a.s. (1)	Prague - CZ	--	69.10
Newcourt Street Finance Limited (1)	Jersey - GB	--	100
NV ACTIEF NV (1)	Brussels - BE	0824.213.750	57.14
Oxford Street Finance Limited (1)	Jersey - GB	--	100
Patria Finance CF a.s. (1)	Prague - CZ	--	100
Patria Online a.s. (1)	Prague - CZ	--	100
Patria Finance Slovakia a.s. (1)	Bratislava - SK	--	100
Pericles Invest NV (1)	Brussels - BE	0871.593.005	50.00
Property LM s.r.o. (1)	Bratislava - SK	--	71.94
Quercus Scientific NV (1)	Sint-Martens-Latem -	0884.920.310	69.94
Risk Kft. (1)	Budapest - HU	--	100
Servipolis Management Company NV (1)	Zaventem - BE	0442.552.206	70
Sicalis BV (1)	Amsterdam - NL	--	100
TEE Square Limited (1)	Maagdeneilanden - V	--	100
Vermögensverwaltungsgesellschaft Merkur mbH (1)	Bremen - DE	--	100
Weyveld Vastgoedmaatschappij NV (1)	Brussels - BE	0425.517.818	100
Willowvale Company (1)	Dublin - IE	--	100
Zipp Skutery Sp.z.o.o. (1)	Przasnysz - PL	--	100
KBC Bank: joint subsidiaries that are proportionally consolidated			
Českomoravská Stavební Spořitelna (CMSS)	Prague - CZ	--	55
Immobiliare Novoli SpA	Firenze - IT	--	45
Union KBC Asset Management Private Limited	Mumbai - IN	--	25.41

Name	Registered office	National identification number	Share of capital held at group (%)
KBC Bank: joint subsidiaries that are not proportionally consolidated (1)			
Atrium Development SA	Luxembourg - LU	--	25
Covent Garden Development NV	Brussels - BE	0892.236.187	25
Covent Garden Real Estate NV	Zaventem - BE	0872.941.897	50
Flex Park Prague s.r.o.	Prague - CZ	--	50
Jesmond Amsterdam B.V.	Amsterdam - NL	--	50
Miedziana Sp z.o.o.	Warszawa - PL	--	47.75
Panton Kortenberg Vastgoed NV - "Pako Vastgoed"	St Niklaas - BE	0437.938.766	50
Amdale Holdings Limited NV	Diegem - BE	0452.146.563	50
Pakobo NV	Diegem - BE	0474.569.526	50
Rumst Logistics NV	Diegem - BE	0862.457.583	50
Perifund NV	Brussels - BE	0465.369.673	50
Real Estate Participation NV	Zaventem - BE	0473.018.817	50
Rumst Logistics II NV	Diegem - BE	0880.830.076	50
Rumst Logistics III NV	Diegem - BE	0860.829.383	50
Sandonato Parcheggi Srl	Firenze - IT	--	44.98
Sandonato Srl	Firenze - IT	--	44.98
UNION KBC Trustee Company Private Limited	Mumbai - IN	--	25.41
Val d'Europe Holding NV	Zaventem - BE	0808.932.092	45
Val d'Europe Invest sas	Paris - FR	--	45
Xiongwei Lighting (Guangzhou) Co., Ltd.	Guangzhou - CY	--	49.79
KBC Bank: companies accounted for using the equity method			
Giro Elszámolásforgáltátó Rt.	Budapest - HU	--	20.99
HAGE Hajdúsági Agráripari Részvénytársaság	Nádudvar - HU	--	25
K&H Lizingház Zrt. (in vereffening)	Budapest - HU	--	100
Nova Ljubljanska banka d.d.	Ljubljana - SI	--	22.04
KBC Bank: companies not accounted for using the equity method (1)			
Bancontact-MisterCash NV	Brussels - BE	0884.499.250	20.00
Banking Funding Company NV	Brussels - BE	0884.525.182	20.93
Bedrijvencentrum Regio Roeselare NV	Roeselare - BE	0428.378.724	22.22
Bedrijvencentrum Rupelstreek NV	Aartselaar - BE	0427.329.936	33.33
Brussels I3 Fund NV	Brussels - BE	0477.925.433	36.36
Cofely Ren s.r.o.	Prague - CZ	--	42.82
Consorzio Sandonato Est	Firenze - IT	--	20.32
Czech Banking Credit Bureau a.s.	Prague - CZ	--	20
Etoiles d'Europe sas	Paris - FR	--	45
Gemma Frisius-Fonds K.U. Leuven	Leuven - BE	0477.960.372	40.00
Isabel NV	Brussels - BE	0455.530.509	25.33
Justinvest NV	Antwerp - BE	0476.658.097	33.33
První Certifikační Autorita a.s.	Prague - CZ	--	23.25
Qbic Feeder Fund NV	Brussels - BE	846.493.561	22.26
Rabot Invest NV	Antwerp - BE	0479.758.733	25
Xenarjo cvba	Mechelen - BE	0899.749.531	22.57

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

Companies qualifying for consolidation are also effectively included in the consolidated accounts if tw o of the follow ing criteria are met:
if the Group interest in capital and reserves exceed 2,5 million euro
if the Group interest in the result exceeds 1 million euro
if the balance sheet total exceed 100 million euro
The aggregated total balance sheet of the companies excluded from consolidation may not exceed 1 % of the consolidated balance sheet total.

- As set out in the accounting policies, all (material) entities (including special purpose entities) over which the consolidating entity exercises, directly or indirectly, exclusive control are consolidated according to the method of full consolidation. To assess whether or not special purpose entities have to be consolidated, KBC uses the principles set out in SIC 12, as well as materiality thresholds. Companies eligible for consolidation are effectively included in the consolidated accounts if two of the following criteria are met: (a) the group's share in equity exceeds 2.5 million euros (b) the group's share in the results exceeds 1 million euros (c) the balance sheet total exceeds 100 million euros. The combined balance sheet total of the companies excluded from consolidation may not amount to more than 1% of the consolidated balance sheet total. A number of special purpose entities meet only one of these criteria, which means that (as long as the combined balance sheet total of the companies excluded from consolidation is not more than 1% of the consolidated balance sheet total) these entities are not effectively consolidated. This relates chiefly to the special purpose entities set up for CDO activities. Please note that these special purpose entities only exceed one of the materiality thresholds (balance sheet total) since their equity and net results are always very limited. However, the CDO-related results are recorded under KBC Financial Products, which is, of course, consolidated. Consequently, excluding these special purpose entities from the consolidated accounts only impacts presentation of the consolidated balance sheet, and not equity, the results or solvency.

Note 40: Main changes in the scope of consolidation

Company	Consolidation method	Ownership percentage at KBC Group level 2011	Ownership percentage at KBC Group level 2012	Comments
Additions				
None				
Exclusions				
Centea NV	Full	------	------	Sold in 3Q 2011
KBC Clearing NV	Full	100.00%	------	Deconsolidated in 2Q12 due to immateriality
Kredyt Bank SA	Full	80.00%	------	Deconsolidated on 31 December 2012 due to sale
Name Changes				
None				
Changes in ownership percentage and internal mergers				
KBC Real Estate NV	Full	100.00%	------	Merger with KBC Bank on 1 July 2012
Nova Ljubljanska banka d.d. (group)	Equity	25.00%	22.04%	Decrease with 2,96% (3Q 2012)

Note 41: Non-current assets held for sale and discontinued operations (IFRS 5)

- IFRS 5 specifies that a non-current asset (or disposal group) is to be classified as held for sale if its carrying amount will be recovered primarily through a sales transaction rather than through continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. To assess whether a sale is highly probable, IFRS 5 sets out a number of conditions that have to be met before it can be applied, viz.:
  1 Management is committed to a plan to sell;
  2 An active programme to locate a buyer and complete the plan is initiated;
  3 The target price is reasonable in relation to its current fair value;
  4 The sale is within 12 months of classification;
  5 It is unlikely that the plan will be significantly changed or withdrawn.
- If all five of the above conditions are met, the assets and liabilities of the divestments are presented under a separate heading in the balance sheet (under 'Non-current assets held for sale and disposal groups' on the assets side and under 'Liabilities associated with disposal groups' on the liabilities side). As permitted under IFRS, the reference figures have not been restated. If the disposal groups are also classified as discontinued operations, their results (and the reference figures) are recognised under a single heading in the income statement, i.e. 'Net post-tax result from discontinued operations'.
- The following companies fell under the scope of IFRS 5:
- At year-end 2012: primarily Absolut Bank, Antwerp Diamond Bank, KBC Bank Deutschland, and Nova Ljubljanska banka (NLB). None of these entities is classified as a 'discontinued operation'. An agreement to sell Absolut Bank and NLB was reached at the end of December 2012. Antwerp Diamond Bank and KBC Bank Deutschland were added in 2012 to the list of entities that fall under IFRS 5, due to the ongoing negotiations and specific progress being made in the sales processes (and new insight being acquired into the prices), the approach of the sales deadline under the restructuring plan agreed with the European

Commission, and KBC management's aim of carrying out the divestments as soon as possible.

- The following information relates to the divestment agreements that had already been signed, but not yet completed, on 31 December 2012.

Company (activity, country)	Description
Absolut Bank (banking, Russia)	On 24 December 2012, KBC reached an agreement to sell Absolut Bank to a group of Russian companies that manage the assets of the BLAGOSOSTOYANIE pension fund. This deal – for a total consideration of 0.3 billion euros plus repayment of all KBC funding (0.7 billion euros) that is currently placed within Absolut Bank – will free up around 0.3 billion euros of capital for KBC, primarily by reducing risk-weighted assets by 2 billion euros. When finalised, the deal is expected to have an impact of some -0.1 billion euros on net profit. It has yet to be approved by the regulator.
Nova Ljubljanska banka (NLB) (banking, Slovenia)	On 27 December 2012, KBC reached an agreement with the Republic of Slovenia regarding the sale of its 22% stake in Nova Ljubljanska banka for around 2.8 million euros. This deal has had a negative impact of 0.1 billion euros on 2012 earnings, while its effect on capital is negligible. The sale was finalised on 11 March 2013.

NON-CURRENT ASSETS HELD FOR SALE AND ASSETS ASSOCIATED WITH DISPOSAL GROUPS AND LIABILITIES ASSOCIATED WITH DISPOSAL GROUPS

	31-12-2011	*of which: Discon-tinued operations*	31-12-2012	*of which: Discon-tinued operations*
Assets				
Cash and cash balances with central banks	0	*0*	434	*0*
Financial assets	0	*0*	6 212	*0*
Fair value adjustments of hedged items in portfolio hedge of interest rate	0	*0*	0	*0*
Tax assets	0	*0*	82	*0*
Investments in associated companies	0	*0*	3	*0*
Investment property and property and equipment	3	*0*	106	*0*
Goodwill and other intangible assets	0	*0*	13	*0*
Other assets	0	*0*	33	*0*
Total assets	3	*0*	6 883	*0*
Liabilities				
Financial liabilities	0	*0*	3 486	*0*
Tax liabilities	0	*0*	12	*0*
Provisions for risks and charges	0	*0*	8	*0*
Other liabilities	0	*0*	58	*0*
Total liabilities	0	*0*	3 565	*0*
Other comprehensive income				
Available-for-sale reserve	0	*0*	22	*0*
Deferred tax on available-for-sale reserve	0	*0*	- 5	*0*
Cash flow hedge reserve	0	*0*	7	*0*
Translation differences	0	*0*	5	*0*
Total other comprehensive income	0	*0*	29	*0*

Note 42: Risk management

The information required in relation to the nature and amount of risks (in accordance with IFRS 4 and IFRS 7) and the information regarding capital (pursuant to IAS 1) is provided in those parts of the 'Value and risk management' section that have been audited by the statutory auditor. The section also includes information on exposure to the sovereign bonds of a selection of countries and on the portfolio of structured credit (see under 'Credit risk').

Note 43: Post-balance-sheet events

Events after balance sheet date are those events, favourable and unfavourable, that occur between the balance sheet date (31 December 2012) and the date when the financial statements are authorised for issue by the Board of Directors. They include both adjusting events after balance sheet date (events that provide evidence of conditions that existed at the balance sheet date) and non-adjusting events after balance sheet date (events that are indicative of conditions that arose after the balance sheet date). Adjusting events in principle lead to an adjustment of the financial statements for the financial period preceding the event, whereas non-adjusting events in principle only influence the financial statements for the following period.

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

- On 18 January 2013, KBC successfully placed 1 billion US dollars' worth of contingent capital notes. The issue was targeted at institutional and high-net-worth investors. The notes, which qualify as tier-2 capital under Basel III, have a maturity of 10 years with an optional call at five years.
- On 25 January 2013, KBC decided to repay its three-year Long Term Refinancing Operation (LTRO) to the European Central Bank in the first quarter of 2013. The total amount involved comes to 8.3 billion euros.
- As part of the divestment of Kredyt Bank, KBC's ultimate aim was always to divest its shareholding in the entity created by the merger of Bank Zachodni WBK and Kredyt Bank. On 18 March 2013, through a secondary offering, the sale of the shares KBC holds in Bank Zachodni WBK was launched (for more details, see the press release of 18 March 2013 and the disclaimer in it).

Note 44: General information (IAS 1)

Name	KBC Bank NV.
Incorporated	17 March 1998.
Country of incorporation	Belgium.
Registered office	Havenlaan 2, 1080 Brussels, Belgium.
VAT BE	0462.920.226.
RLP	Brussels.
Legal form	*Naamloze vennootschap* (company with limited liability) under Belgian law, which solicits or has solicited savings from the public; the company is a credit institution that is subject to the prudential supervision of the National Bank of Belgium.
Life	Indefinite.
Object	In Belgium or abroad, for its own account or for account of third parties, the company has as object the execution of all banking operations in the widest sense, as well as the exercise of all other activities which banks are or shall be permitted to pursue (Article 2 of the Articles of Association).

Documents open to public inspection

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

General Meeting of Shareholders

A General Meeting is held every year at the company's registered office or at any other place indicated in the convening notice, at 11 a.m. on the Wednesday immediately prior to the last Thursday of April, or, if this day is a statutory public holiday or bank holiday, at 11 a.m. on the business day immediately before it. Every share gives entitlement to one vote. 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. Holders of registered bonds, warrants or certificates issued in co-operation with the company must also notify the registered office of KBC Bank NV in writing, at least four business days prior to the meeting, of their intention to attend the General Meeting. Holders of book-entry bonds, warrants or certificates issued in co-operation with the company must, within the same timeframe, submit to the registered office or to another location if specified in the convening notice a certificate drawn up by a recognised account holder or clearing house and attesting to the fact that the bonds, warrants or certificates are unavailable until the date of the General Meeting. Holders of bearer bonds, warrants or certificates issued in co-operation with the company must, within the same timeframe, deposit their securities at the registered office or at another location if specified in the convening notice. They will receive a certificate attesting to the fact that their bonds, warrants or certificates were deposited on time. They will be admitted to the General Meeting upon presentation of proof of their identity and this certificate.

Company annual accounts

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

ANNUAL ACCOUNTS IN EUR (2 decimals)

NAME: KBC BANK

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

Company Number 0462.920.226

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

ANNUAL ACCOUNT approved by the General Meeting of 24/04/2013

concerning the financial year covering the period from 01/01/2012 till 31/12/2012

Previous period from 01/01/2011 till 31/12/2011
The amounts of the previous financial year are / ~~are not~~ ** identical to those which have been previously published.

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

		End of current term of office
CHAIRMAN OF THE BOARD OF DIRECTORS:		
Dhr. Thomas LEYSEN, Dennenlaan 9a, 2020 Antwerpen	entire year	2015
CHAIRMAN OF THE EXECUTIVE COMMITTEE		
Mr. Jan VANHEVEL, Max Hermanlei 8, 2930 Brasschaat	4 months	
Mr. Johan THIJS, Moorsemsestraat 260, 3130 Betekom	entire year, of which 8 months as Chairman	

Members: see next page

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

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Total number of pages deposited:
Number of the pages of the standard form not deposited for not being of service: 5.6.2, 5.7.1, 5.7.3, 5.8.6, 5.20, 5.21.1, 5.21.2, 5.21.4, 5.25, 5.32.2

Signature (name and position)	Signature (name and position)
J. THIJS	T. LEYSEN
Chairman of the Executive Committee	Chairman of the Board of Directors

* Optional Statement
** Delete where appropriate

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

Members:

Mr. Alain BOSTOEN, Coupure 126, 9000 Gent	8 months	2016
Mr. Jan Maarten DE JONG, P.C. Hooftstraat 175B, NL 1071 BW Amsterdam	6 months	
Mr. Danny DE RAYMAEKER, Brabançonnestraat 84, 3000 Leuven	entire year	2016
Mr. Julien DE WILDE, Jabekestraat 49, 9230 Wetteren	entire year	2014
Mr. Jean-Pierre DEPAEMELAERE, Zeedijk (ODK) 450/0401, 8670 Koksijde	4 months	
Mr. Franky DEPICKERE, Izegemstraat 203, 8770 Ingelmunster	entire year	2015
Mr. Frank DONCK, Floridalaan 62, 1180 Ukkel	8 months	2016
Mr. Luc DISCRY, Bosduifdreef 4, 2970 Schilde	entire year	2014
Mr. Daniel FALQUE, Bovenbosstraat 78, 3053 Haasrode	8 months	2016
Mr. Lucien GIJSENS, Oudenaardsesteenweg 44, 9000 Gent	entire year	2015
Mr. John HOLLOWS, Vlaamse Gaaienlaan 11, 3080 Tervuren	entire year	2013
Mr. Pierre KONINGS, Prins van Oranjelaan 178, 1180 Brussel	4 months	
Mr. Lode MORLION, Weststraat 18, 8647 Lo-Reninge	8 months	2016
Mr. Walter NONNEMAN, Molenstraat 245, 9150 Kruibeke	4 months	
Ms. Marita ORLENT-HEYVAERT, Richard Orlentstraat 2, 2070 Zwijndrecht	4 months	
Mr. Luc POPELIER, Voosdonk 21, 2801 Heffen	entire year	2013
Mr. Theodoros ROUSSIS, Poederstraat 51, 2370 Arendonk	8 months	2016
Mr. Gustaaf SAP, Stationsstraat 70, 8730 Beernem	4 months	
Mr. Alain TYTGADT, Prinses Josephinelaan 7, 8300 Knokke	8 months	2016
Mr. Patrick VANDEN AVENNE, Desselgemsestraat 15, 8710 Ooigem	4 months	
Mr. Piet VANTHEMSCHE, Tombergstraat 57, 1750 St.-Martens-Lennik	entire year	2015
Mr. Dolf van den BRINK, Raboes 19, NL 1251 AK Laren, Nederland	6 months	2016
Ms. Ghislaine VAN KERCKHOVE, Wegvoeringstraat 62, 9230 Wetteren	8 months	2016
Mr. Guido VAN OEVELEN, Marrainenplein 10 bus 0001, 3000 Leuven	4 months	
Mr. Philippe VLERICK, Ronsevaalstraat 2, 8510 Bellegem	8 months	2016
Mr. Marko VOLJČ, Winston Churchilllaan 161, PB 15, 1180 Ukkel	entire year	2014
Mr. Dirk WAUTERS, Bovenbosstraat 17, 3052 Blanden	4 months	
Mr. Marc WITTEMANS, Beatrijslaan 91, 3110 Rotselaar	entire year	2014

AUDITOR:

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

DECLARATION ABOUT SUPPLEMENTARY AUDITING OR ADJUSTMENT MISSION

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

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

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

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

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

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

* Delete where appropriate.
** Optional disclosure.

BALANCE SHEET AFTER APPROPRIATION

ASSETS	Notes	Code	Current period	Previous period
I. Cash in hand, balances with central banks and post office banks		10100	2.826.321.208,38	3.760.708.769,55
II. Treasury bills eligible for refinancing at central banks		10200	616.000.060,55	165.054.445,90
III. Loans and advances to credit institutions	5.1	10300	21.338.329.213,96	26.924.528.524,15
A. Repayable on demand		10310	1.559.832.385,87	1.720.280.616,39
B. Other loans and adv. (with agreed maturity dates)		10320	19.778.496.828,09	25.204.247.907,76
IV. Loans and advances to customers	5.2	10400	71.063.002.474,92	72.278.706.191,74
V. Debt securities and other fixed-income securities	5.3	10500	33.064.999.469,41	33.150.549.668,01
A. Issued by public bodies		10510	19.313.244.880,88	17.353.882.230,83
B. Issued by other borrowers		10520	13.751.754.588,53	15.796.667.437,18
VI. Shares and other variable-yield securities	5.4	10600	296.446.625,74	374.757.704,57
VII. Financial fixed assets	5.5/ 5.6.1	10700	14.443.063.618,79	15.823.170.497,22
A. Participating interests in affiliated enterprises		10710	12.236.852.777,51	14.220.850.090,90
B. Participating interests in other enterprises linked by participating interests		10720	909.338.990,07	470.935.822,87
C. Other shares held as financial fixed assets		10730	29.432.548,47	22.501.254,26
D. Subordinated loans to affiliated enterprises and to other enterprises linked by participating interests		10740	1.267.439.302,74	1.108.883.329,19
VIII. Formation expenses and intangible fixed assets	5.7	10800	232.080,84	220.930,13
IX. Tangible fixed assets	5.8	10900	762.357.850,62	696.756.473,85
X. Own shares		11000	0,00	0,00
XI. Other assets	5.9	11100	1.996.133.647,43	2.066.932.221,17
XII. Accrued income	5.10	11200	11.880.347.564,89	13.833.846.475,07
TOTAL ASSETS		19900	158.287.233.815,53	169.075.231.901,36

	Notes	Code	Current Period	Previous Period
LIABILITIES				
THIRDPARTY FUNDS		201/208	148.430.331.393,07	158.770.927.092,64
I. Amounts owed to credit institutions	5.11	20100	17.745.555.349,89	17.963.840.837,59
A. Repayable on demand		20110	3.025.157.790,87	4.451.948.420,06
B. Amounts owed as a result of the rediscounting of trade bills		20120	0,00	0,00
C. Other debts with agreed maturity dates or periods of notice		20130	14.720.397.559,02	13.511.892.417,53
II. Amounts owed to customers	5.12	20200	101.590.945.111,58	110.964.205.587,16
A. Savings deposits		20210	31.051.080.852,36	29.261.061.048,18
B. Other debts		20220	70.539.864.259,22	81.703.144.538,98
1. repayable on demand		20221	23.286.944.034,43	20.364.437.116,13
2. with agreed maturity dates or periods of notice		20222	47.252.920.224,79	61.338.707.422,85
3. as a result of the rediscounting of trade bills		20223	0,00	0,00
III. Debts evidenced by certificates	5.13	20300	6.183.970.635,71	2.961.562.348,59
A. Debt securities and other fixed-income securities in circulation		20310	1.736.066.652,90	667.393.147,92
B. Other		20320	4.447.903.982,81	2.294.169.200,67
IV. Other liabilities	5.14	20400	1.163.056.073,73	1.505.986.649,90
V. Accrued charges and deferred income	5.15	20500	14.092.347.305,45	15.794.084.371,13
VI. Provisions and deferred taxes		20600	392.034.725,34	668.844.742,58
A. Provisions for liabilities and charges		20610	382.185.833,84	657.556.200,87
1. Pensions and similar obligations		20611	37.240.076,44	55.064.389,68
2. Taxation		20612	0,00	0,00
3. Other liabilities and charges	5.16	20613	344.945.757,40	602.491.811,19
B. Deferred taxes		20620	9.848.891,50	11.288.541,71
VII. Fund for general banking risks		20700	0,00	0,00
VIII. Subordinated liabilities	5.17	20800	7.262.422.191,37	8.912.402.555,69
OWN FUNDS		209/213	9.856.902.422,46	10.304.304.808,72
IX. CAPITAL	5.18	20900	8.948.439.652,39	8.948.439.652,39
A. Subscribed capital		20910	8.948.439.652,39	8.948.439.652,39
B. Uncalled capital (-)		20920	0,00	0,00
X. Share premium account		21000	1.221.582.682,87	1.221.582.682,87
XI. Revaluation surpluses		21100	0,00	0,00
XII. Reserves		21200	132.278.884,44	132.278.884,44
A. Legal reserve		21210	119.265.760,88	119.265.760,88
B. Reserves not available for distribution		21220	0,00	0,00
1. In respect of own shares held		21221	0,00	0,00
2. Other		21222	0,00	0,00
C. Untaxed reserves		21230	13.013.123,56	13.013.123,56
D. Reserves available for distribution		21240	0,00	0,00
XIII. Profits (losses (-)) brought forward (+)/(-)		21300	-445.398.797,24	2.003.589,02
TOTAL LIABILITIES		29900	158.287.233.815,53	169.075.231.901,36

OFF BALANCE SHEET CAPTIONS	Notes	Code	Current period	Previous period
I. Contingent liabilities	5.22	30100	29.838.988.249,88	31.347.237.628,82
A. Non-negotiated acceptances		30110	45.649.969,08	34.683.129,30
B. Guarantees serving as direct credit substitutes		30120	3.767.552.342,63	3.864.261.409,83
C. Other guarantees		30130	23.764.269.006,42	25.494.663.222,34
D. Documentary credits		30140	2.261.516.931,75	1.953.629.867,35
E. Assets charged as collateral security on behalf of third parties		30150	0,00	0,00
II. Commitments which could give rise to a risk	5.22	30200	33.114.787.648,30	31.183.517.950,97
A. Firm credit commitments		30210	5.807.599.588,43	1.111.222.977,01
B. Commitments as a result of spot purchases of transferable or other securities		30220	62.683.392,53	62.070.153,11
C. Undrawn margin on confirmed credit lines		30230	27.240.525.585,94	30.002.303.034,00
D. Underwriting and placing commitments		30240	3.979.081,40	7.921.786,85
E. Commitments as a result of open-ended sale and repurchase agreements		30250	0,00	0,00
III. Assets lodged with the credit institution		30300	182.186.877.414,96	181.500.209.821,06
A. Assets held by the credit institution for fiduciary purposes		30310	3.411.593.566,86	3.006.247.139,48
B. Safe custody and equivalent items		30320	178.775.283.848,10	178.493.962.681,58
IV. Uncalled amounts of share capital		30400	27.807.265,38	28.829.978,05

INCOME STATEMENT (presentation in vertical form)

		Notes	Code	Current Period	Previous period
I. Interest receivable and similar income		5.23	40100	3.916.361.162,45	4.659.377.363,36
A. Of which: from fixed-income securities			40110	1.091.341.972,55	1.439.255.108,85
II. Interest payable and similar charges			40200	2.938.064.104,71	3.214.905.714,85
III. Income from variable-yield securities		5.23	40300	700.113.215,57	2.458.613.372,93
A. From shares and other variable-yield securities			40310	2.588.291,54	10.341.334,09
B. From participating interests in affiliated enterprises			40320	695.068.243,87	2.442.306.581,51
C. From participating interests in other enterprises linked by participating interests			40330	1.791.010,93	3.090.084,21
D. From other shares held as financial fixed assets			40340	665.669,23	2.875.373,12
IV. Commissions receivable		5.23	40400	1.072.806.902,78	884.954.819,62
A. Brokerage and related commissions			40410	523.250.097,93	460.972.206,57
B. Management, consultancy and conservation commissions			40420	33.309.938,04	36.586.039,45
C. Other commissions received			40430	516.246.866,81	387.396.573,60
V. Commissions payable			40500	149.135.471,66	216.506.969,97
VI. Profit (loss) on financial transactions	(+)/(-)	5.23	40600	250.012.301,04	-327.095.445,52
A. On trading of securities and other financial instruments			40610	194.142.715,21	-97.635.058,07
B. On disposal of investment securities			40620	55.869.585,83	-229.460.387,45
VII. General administrative expenses			40700	2.109.058.259,75	1.775.330.332,85
A. Remuneration, social security costs and pensions			40710	810.130.022,80	805.237.465,89
B. Other administrative expenses			40720	1.298.928.236,95	970.092.866,96
VIII. Depreciation/amortization of and other write-downs on formation expenses, intangible and tangible fixed assets			40800	41.886.693,46	41.992.734,39
IX. Decrease in write downs on receivables and in provisions for off balance sheet captions 'I. Contingent liabilities' and 'II. Commitments which could give rise to a risk'	(+)/(-)		40900	-240.897.483,00	-192.806.675,52
X. Decrease in write-downs on the investment portfolio of debt securities, shares and other fixed-income or variable-yield securities	(+)/(-)		41000	48.208.709,55	-79.588.660,08
XI. Utilization and write-backs of provisions for liabilities and charges other than those included in the off balance sheet captions	(+)/(-)		41100	408.017.801,50	76.555.196,96
XII. Provisions for liabilities and charges other than those included in the off balance sheet captions			41200	51.514.283,02	382.188.452,06
XIII. Transfer from (Transfer to) the fund for general banking risks	(+)/(-)		41300	0,00	0,00
XIV. Other operating income		5.23	41400	238.223.578,26	241.904.495,14
XV. Other operating charges		5.23	41500	54.545.136,67	47.548.503,41
XVI. Profits (losses) on ordinary activities before taxes	(+)/(-)		41600	1.048.642.238,88	2.043.441.759,36

		Notes	Code	Current period	Previous period
XVII. Extraordinary income			41700	393.579.246,58	422.749.889,20
A. Adjustments to depreciation/amortization of and to other write-downs on intangible and and tangible fixed assets			41710	0,00	0,00
B. Adjustments to write-downs on financial fixed assets			41720	380.810.830,26	85.589.440,60
C. Adjustments to provisions for extraordinary liabilities and charges			41730	0,00	3.053.961,14
D. Gain on disposal of fixed assets			41740	12.706.581,15	333.990.125,79
E. Other extraordinary income		5.25	41750	61.835,17	116.361,67
XVIII. Extraordinary charges			41800	1.773.919.733,36	778.722.182,12
A. Extraordinary depreciation/amortization of and extraordinary write-downs on formation expenses and intangible and tangible fixed assets			41810	0,00	
B. Write-downs on financial fixed assets			41820	1.582.283.230,23	639.923.660,87
C. Provisions for extraordinary liabilities and charges	(+/-)		41830	3.713.420,95	0,00
D. Loss on disposal of fixed assets			41840	187.454.230,17	136.187.114,78
E. Other extraordinary charges		5.25	41850	468.852,01	2.611.406,47
XIX. Profits (Losses) for the period before taxes	(+/-)		41910	-331.698.247,90	1.687.469.466,44
XIXbis. A. Transfer to deferred taxes			41921	118.251.780,65	3.555.745,39
B. Transfer from deferred taxes			41922	31.698.702,95	42.400.033,88
XX. Income taxes	(+/-)	5.26	42000	29.175.836,08	18.641.031,51
A. Income taxes			42010	36.478.985,92	33.747.219,95
B. Adjustement of income taxes and write-back of tax provisions			42020	7.303.149,84	15.106.188,44
XXI. Profits (Losses) for the period	(+/-)		42100	-447.427.161,68	1.707.672.723,42
XXII. Transfer to untaxed reserves	(+/-)		42200	24.775,42	14.937,93
XXIII. Profit (Losses) for the period available for appropriation	(+/-)		42300	-447.402.386,26	1.707.687.661,35

APPROPRIATION ACCOUNT

		Code	Current period	Previous period
A. Profit (loss) to be appropriated	(+)/(-)	49100	-445.398.797,24	1.707.792.770,58
1. Profit (loss) for the period available for appropriation	(+)/(-)	(42300)	-447.402.386,26	1.707.687.661,35
2. Profit (loss) to be carried forward	(+)/(-)	(21300P)	2.003.589,02	105.109,23
B. Transfers from capital and reserves		49200	0,00	0,00
1. From capital and share premium account		49210	0,00	0,00
2. From reserves		49220	0,00	0,00
C. Transfers to capital and reserves		49300	0,00	85.384.383,07
1. To capital and share premium account		49310	0,00	0,00
2. To the legal reserve		49320	0,00	85.384.383,07
3. To other reserves		49330	0,00	0,00
D. Profit (loss) to be carried forward	(+)/(-)	49400	-445.398.797,24	2.003.589,02
E. Shareholders' contribution in respect of losses		49500	0,00	0,00
F. Profit to be distributed		49600	0,00	1.620.404.798,49
1. Dividends		49610	0,00	1.619.954.413,14
2. Director's or manager's entitlements		49620	0,00	0,00
3. Other allocations		49630	0,00	450.385,35

NOTES

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

	Code	Current period	Previous period
A. FOR THE CAPTION AS A WHOLE	(10300)	21.338.329.213,96	26.924.528.524,15
1. Loans and advances to affiliated enterprises	50101	13.382.783.574,00	20.365.712.454,00
2. Loans and advances to other enterprises linked by participating interests	50102	75.002.399,00	5.629.599,00
3. Subordinated loans and advances	50103	15.199.272,73	38.021.724,57
B. OTHER LOANS AND ADVANCES TO CREDIT INSTITUTIONS (with agreed maturity dates or periods of notice)	(10320)	19.778.496.828,09	25.204.247.907,76
1. Trade bills eligible for refinancing with the central bank of the country(ies) of establishment of the credit	50104	0,00	
2. Breakdown according to the remaining maturity			
a. Up to 3 months	50105	14.518.567.102,94	
b. Over 3 months up to 1 year	50106	1.767.168.081,83	
c. Over 1 year up to 5 years	50107	3.023.562.090,05	
d. Over 5 years	50108	319.283.219,27	
e. Undated	50109	149.916.334,00	

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

	Code	Current Period	Previous Period
1. Loans to affiliated enterprises	50201	12.069.838.158,00	16.272.355.949,00
2. Loans to other enterprises linked by participating interests	50202	55.307.468,00	56.092.855,00
3. Subordinated loans	50203	2.891.163.596,97	2.340.905.549,62
4. Trade bills eligible for refinancing with the central bank of the country or countries where the credit institution is established	50204	0,00	0,00
5. Breakdown according to the remaining maturity :			
a. Up to 3 months	50205	23.231.738.371,03	
b. Over 3 months up to 1 year	50206	3.467.999.041,88	
c. Over 1 year up to 5 years	50207	10.630.429.120,37	
d. Over 5 years	50208	29.532.517.573,32	
e. Undated	50209	4.200.318.368,32	
6. Breakdown of customer loans based on the type of debtor			
a. Claims on government	50210	1.809.626.044,42	2.214.250.905,17
b. Retail exposures	50211	19.055.415.232,37	15.670.759.793,94
c. Claims on enterprises	50212	50.197.961.198,13	54.393.695.492,63
7. Breakdown by type :			
a. Trade bills (including own acceptance)	50213	105.157.152,20	
b. Loans and advances as a result of leasing and similar agreements	50214	413.868.441,79	
c. Fixed-rate loans	50215	929.363.775,31	
d. Mortgage loans	50216	14.254.765.917,99	
e. Other term loans with a maturity over 1 year	50217	37.276.122.712,59	
f. Other loans and advances	50218	18.083.724.475,04	
8. Geographical breakdown			
a. Belgian origin	50219	56.401.968.171,62	
b. Foreign	50220	14.661.034.303,30	
9. Details of mortgage loans with reconstitution of capital or linked to life insurance and capitalization contracts			
a. Principal sums initially lent	50221	0,00	
b. Reconstitution fund and mathematical reserves relating to these loans	50222	0,00	
c. Net amount outstanding (a-b)	50223	0,00	

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

	Code	Current period	Previous period
A. GENERAL	(10500)	33.064.999.469,41	33.150.549.668,01
1. Securities issued by affiliated enterprises	50301	13.092.380.268,00	14.388.965.191,00
2. Securities issued by enterprises linked by participating interests	50302	0,00	5.048.340,00
3. Securities representing subordinated loans	50303	13.377.510.046,25	287.206.568,81
4. Country analysis of the securities issued			
a. By public bodies	50304	16.642.105.288,01	
b. By other borrowers	50305	2.671.139.592,87	
c. Belgian issuers other than public bodies	50306	11.147.457.950,58	
d. Foreign issuers other than public bodies	50307	2.604.296.637,95	
5. Listing			
a. Book value of listed securities	50308	33.018.951.612,53	
b. Market value of listed securities	50309	34.215.127.319,07	
c. Book value of unlisted securities	50310	46.047.856,88	
6. Maturities			
a. Remaining maturity of up to one year	50311	2.778.693.672,88	
b. Remaining maturity of over one year	50312	30.286.305.796,53	
7. Analysis by portfolio			
a. Trading portfolio	50313	1.720.801.486,39	
b. Investment portfolio	50314	31.344.197.983,02	
8. Trading portfolio			
a. Difference between market value (if higher) and acquisition cost (for securities marked to market)	50315	54.592.049,68	
b. Difference between market value (if higher) and carrying value (for securities valued in accordance with Art. 35ter §2 para.	50316	0,00	
9. Investment portfolio			
a. Difference between redemption value (if higher) and carrying value	50317	237.523.372,37	
b. Difference between redemption value (if lower) and carrying value	50318	971.851.961,09	

		Codes	Current period	Previous period
B. ANALYSIS OF THE CARRYING VALUE OF INVESTMENT SECURITIES				
1 . As at end of the preceding period		50323P	xxxxxxxxxxxxxxx	31.435.708.329,00
2 . Movements during the the period		50319	-34.747.256,52	
a . Acquisitions		50320	12.284.350.009,65	
b . Sales		50321	-12.261.221.356,65	
c . Adjustments by application of Article 35ter §4 and 5	(+/-)	50322	-57.875.909,52	
3 . Acquisition cost as at end of the period		50323	31.400.961.072,48	
4 . Transfers between portfolios				
a . Transfers from the investment portfolio to the trading portfolio		50324		
b . Transfers from the trading portfolio to the investment portfolio		50325		
c . Impact on result		50326		
5 . Write-Downs as at end of the period		50332P	xxxxxxxxxxxxxxx	367.329.047,60
6 . Movements during the the period		50327	-310.565.958,14	
a . Recorded		50328	7.297.237,57	
b . Excess written back		50329	-56.472.117,74	
c . Cancellations		50330	-258.445.542,74	
d . Transfers from one caption to another	(+/-)	50331	-2.945.535,23	
7 . Write-downs as at end of the period		50332	56.763.089,46	
8 . Carrying value as at end of the period		(50314)	31.344.197.983,02	

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

	Code	Current Period	Previous Period
A. GENERAL REPORT	(10600)	296.446.625,74	374.757.704,15
1. Country analysis of the issuers of securities			
a. Belgian issuers	50401	342.623,08	2.778.049,50
b. Foreign issuers	50402	296.104.002,66	371.979.654,65
2. Listing			
a. Carrying value	50403	253.312.746,70	
b. Market value	50404	255.558.473,60	
c. Carrying value of unlisted securities	50405	43.133.879,04	
3. Analysis by portfolio			
a. Trading portfolio	50406	252.928.379,40	
b. Investment portfolio	50407	43.518.246,34	
4. Trading portfolio			
a. Difference between market value (if higher) and acquisition cost (for securities marked to market)	50408	35.296.089,85	
b. Difference between market value (if higher) and carrying value (for securities valued in accordance with Article 35ter §2 paragraph 2)	50409	0,00	

B. ANALYSIS OF THE CARRYING VALUE OF INVESTMENT SECURITIES		Code	Current period	Previous period
1. Acquisition cost as at the end of the period		5041P	xxxxxxxxxxxxxxx	41.403.147,39
2. Movements during the the period		50410	18.559.213,73	
a. Acquisitions		50411	17.166.668,70	
b. Sales		50412	-8.490.111,74	
c. Other adjustments	(+/-)	50413	9.882.656,77	
3. Acquisition cost as at end of the period		50414	59.962.361,12	
4. Transfers between portfolios				
a. Transfers from the investment portfolio to the trading portfolio		50415		
b. Transfers from the trading portfolio to the investment portfolio		50416		
c. Impact on result		50417		
5. Write-downs as per end of the period		50423P	xxxxxxxxxxxxxxx	5.569.132,53
6. Movements during the period		50418	10.874.982,25	
a. Recorded		50419	1.647.532,62	
b. Excess written back		50420	-681.365,50	
c. Cancellations		50421	9.956.090,44	
d. Transfers from one caption to another	(+)/(-)	50422	-47.275,31	
7. Write-downs as at end of the period		50423	16.444.114,78	
8. Carrying value as at end of the period		(50407)	43.518.246,34	

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

	Codes	Current period	Previous period
A. GENERAL			
1. Breakdown of financial fixed assets by economic sector			
a. Participating interests in enterprises that are credit institutions	50501	6.045.116.156,48	7.668.422.875,97
b. Participating interests in enterprises that are not credit institutions	50502	6.191.736.621,03	6.552.427.214,93
c. Participating interests in enterprises linked by participating interests that are credit institutions	50503	755.072.001,30	449.397.929,87
d. Participating interests in enterprises linked by participating interests that are not credit institutions	50504	154.266.988,77	21.537.893,00
e. Other shares held as financial fixed assets in enterprises that are credit institutions	50505	5.076.544,34	5.063.674,46
f. Other shares held as financial fixed assets in enterprises that are not credit institutions	50506	24.356.004,13	17.437.579,80
g. Subordinated loans in linked enterprises that are credit institutions	50507	1.069.100.478,91	1.014.809.524,99
h. Subordinated loans in linked enterprises that are not credit institutions	50508	111.816.223,42	16.869.602,90
i. Subordinated loans in enterprises with participation interests that are credit institutions	50509	0,00	75.000.000,00
j. Subordinated loans in enterprises with participation interests that are not credit institutions	50510	86.522.600,41	2.204.201,30
2. Listings			
a. Participating interests in affiliated listed enterprises	50511	0,00	
b. Participating interests in affiliated not listed enterprises	50512	12.236.852.777,55	
c. Participating interests in other enterprises linked by participating interests that are listed	50513	766.458.133,67	
d. Participating interests in other enterprises linked by participating interests that are not listed	50514	142.880.856,40	
e. Other shares held as financial fixed assets in enterprises that are listed	50515	1.385.838,17	
f. Other shares held as financial fixed assets in enterprises that are not listed	50516	28.046.710,30	
g. Amount of subordinated loans represented by listed securities	50517	0,00	

	Codes	Current period	Previous period
B. ANALYSIS OF THE CARRYING VALUE OF FINANCIAL FIXED ASSETS IN AFFILIATED ENTERPRISES			
1. Acquisition cost at the end of the period	50522P	xxxxxxxxxxxxxxx	19.897.072.103,69
2. Movements during the period	50518	-1.279.112.932,20	
a. Acquisitions	50519	10.314.269,72	
b. Sales and disposals	50520	-1.289.427.201,92	
c. Transfers from one caption to another (+/-)	50521	0,00	
3. Acquisition cost as at the end of the period	50522	18.617.959.171,49	
4. Revaluation surpluses	50528P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period	50523	0,00	
a. Recorded	50524	0,00	
b. Acquisitions from third parties	50525	0,00	
c. Cancellations	50526	0,00	
d. Transfers from one caption to another (+/-)	50527	0,00	
6. Revaluation surpluses as at the end of the period	50528	0,00	
7. Write-downs as at the end of the period	50535P	xxxxxxxxxxxxxxx	5.676.222.012,79
8. Movements during the period	50529	704.884.381,19	
a. Recorded	50530	1.038.842.508,65	
b. Excess written back	50531	0,00	
c. Acquisitions from third parties	50532	0,00	
d. Cancellations	50533	-333.958.127,46	
e. Transfers from one caption to another (+/-)	50534	0,00	
9. Write-downs as at end of the period	50535	6.381.106.393,98	
10. Net carrying value as at the end of the period	10710	12.236.852.777,51	

C. ANALYSIS OF THE CARRYING VALUE OF FIXED FINANCIAL ASSETS IN ENTERPRISES LINKED BY PARTICIPATING INTERESTS		Codes	Current period	Previous period
1. Acquisition cost as at end of the period		50540P	xxxxxxxxxxxxxxx	514.392.759,64
2. Movements during the period		50536	937.206.422,93	
a. Acquisitions		50537	937.560.577,64	
b. Sales and disposals		50538	-488.495,00	
c. Transfers from one caption to another	(+/-)	50539	134.340,29	
3. Acquisition cost as at end of the period		50540	1.451.599.182,57	
4. Revaluation surpluses at the end of the period		50546P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period		50541	0,00	
a. Recorded		50542	0,00	
b. Acquisitions from third parties		50543	0,00	
c. Cancellations		50544	0,00	
d. Transfers from one caption to another	(+/-)	50545	0,00	
6. Revaluation surpluses at the end of the period		50546	0,00	
7. Write-downs as at the end of the period		50553P	xxxxxxxxxxxxxxx	43.456.936,78
8. Movements during the period		50547	498.803.255,72	
a. Recorded		50548	498.783.386,06	
b. Excess written back		50549	0,00	
c. Acquisitions from third parties		50550	0,00	
d. Cancellations		50551	0,00	
e. Transfers from one caption to another	(+/-)	50552	19.869,66	
9. Write-downs as at the end of the period		50553	542.260.192,50	
10. Net carrying value as at end of the period		10720	909.338.990,07	

		Codes	Current period	Previous period
D. ANALYSIS OF THE CARRYING VALUE OF OTHER SHARES HELD AS FINANCIAL FIXED ASSETS				
1. Acquisition cost as at the end of the period		50558P	xxxxxxxxxxxxxxx	32.477.215,35
2. Movements during the period		50554	-3.044.666,78	
a. Acquisitions		50555	6.948.047,80	
b. Sales and disposals		50556	0,00	
c. Transfers from one caption to another	(+/-)	50557	-9.992.714,58	
3. Acquisition cost as at the end of the period		50558	29.432.548,57	
4. Revaluation surpluses at the end of the period		50564P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period		50559	0,00	
a. Recorded		50560	0,00	
b. Acquisitions from third parties		50561	0,00	
c. Cancellations		50562	0,00	
d. Transfers from one caption to another	(+/-)	50563	0,00	
6. Revaluation surpluses as at end of the period		50564	0,00	
7. Write-downs as at the end of the period		50571P	xxxxxxxxxxxxxxx	9.975.961,16
8. Movements during the period		50565	-9.975.961,06	
a. Recorded		50566	0,00	
b. Excess written back		50567	0,00	
c. Acquisitions from third parties		50568	0,00	
d. Cancellations		50569	0,00	
e. Transfers from one caption to another	(+/-)	50570	-9.975.961,06	
9. Write-downs as at the end of the period		50571	0,10	
10. Net carrying value as at the end of the period		10730	29.432.548,47	

		Codes	Current period	Previous period
E. ANALYSIS OF THE CARRYING VALUE OF SUBORDINATED LOANS TO AFFILIATED ENTERPRISES				
1. Net carrying value as at end of the period		50579P	xxxxxxxxxxxxxxx	1.031.679.127,89
2. Movements during the period		50572	149.237.574,12	
a. Additions		50573	483.946.619,90	
b. Reimbursements		50574	-346.517.043,36	
c. Write-downs		50575	0,00	
d. Amounts written back		50576	0,00	
e. Realized exchange gains/losses	(+)/(-)	50577	11.807.997,58	
f. Other	(+)/(-)	50578	0,00	
3. Net carrying value as at the end of the period		50579	1.180.916.702,01	
4. Accumulated write-downs as at the end of the period		50580	0,00	

		Codes	Current period	Previous period
F. ANALYSIS OF THE CARRYING VALUE OF SUBORDINATED LOANS TO ENTERPRISES LINKED BY PARTICIPATING INTERESTS				
1. Net carrying value as at the end of the period		50588P	xxxxxxxxxxxxxxx	77.204.201,30
2. Movements during the period		50581	9.318.399,43	
a. Additions		50582	86.522.600,43	
b. Reimbursements		50583	-77.204.201,00	
c. Write-downs		50584	0,00	
d. Amounts written back		50585	0,00	
e. Realized exchange gains/losses	(+)/(-)	50586	0,00	
f. Other	(+)/(-)	50587	0,00	
3. Net carrying value as at the end of the period		50588	86.522.600,73	
4. Accumulated write-downs as at the end of the period		50589	0,00	

VI LIST OF ENTERPRISES IN WHICH THE INSTITUTION HOLDS A PARTICIPATING INTEREST

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

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

NAME, full address of the REGISTERED OFFICE and for the enterprise governed by Belgian law, the COMPANY NUMBER				Shares held				Information from the most recent period for which annual accounts are available			
				directly			by subsidiaries	Annual accounts dated	Currency	Own funds	Net result
				Type	Number	%	%			(+) or (-) (in thousands units)	
1. Affiliated enterprises											
Antwerpse Diamantbank NV Antwerp BE, 0404.465.551	Antwerp	BE,	0404.465.551	Ordinary	7.686.355	99,99	0,00				
CBC BANQUE SA Brussels BE, 0403.211.380	Brussels	BE,	0403.211.380	Ordinary	2.989.625	100,00	0,00				
Ceskoslovenska Obchodná Banka a.s. Bratislava SK,-	Bratislava	SK,	-	Ordinary	7.470	100,00	0,00				
Ceskoslovenska Obchodni Banka a.s. Prague CZ,-	Prague	CZ,	-	Ordinary	292.750.000	100,00	0,00				
CIBANK AD Sofia, BG -	Sofia,	BG	-	Ordinary	22.793.251	100,00	0,00				
Commercial bank "Absolut Bank" Moscow RU -	Moscow	RU	-	Ordinary	182.638.344	98,99	0,00				
IIB Finance Ireland Dublin IE,-	Dublin	IE,	-	Ordinary Ordinary AUD Ordinary EUR Ordinary GBP Ordinary USD	2.166.999 700.000 109.965.541 104.000.000 116.000.000	99,99 100,00 100,00 100,00 100,00	0,00 0,00 0,00 0,00 0,00				
K & H Bank Zrt. Budapest HU,-	Budapest	HU,	-	Reg. Sh. HUF 2000	140.978.164.412	100,00	0,00				
KB Consult NV Brussels BE, 0437.623.220	Brussels	BE,	0437.623.220	Ordinary	364.543	99,95	0,00	31-dec-11	EUR	891	-7
KBC Asset Management NV Brussels BE, 0469.444.267	Brussels	BE,	0469.444.267	Ordinary	2.730.644	47,35	4,51				
KBC Bank Deutschland AG Bremen DE,-	Bremen	DE,	-	Ordinary Genussrechte	567.300 97.791.500	100,00 100,00	0,00 0,00				
KBC Bank Funding LLC II New York US,-	New York	US,	-	Ordinary	1.000	100,00	0,00				
KBC Bank Funding LLC III New York US,-	New York	US,	-	Ordinary	1.000	100,00	0,00				
KBC Bank Funding LLC IV New York US,-	New York	US,	-	Ordinary	1.000	100,00	0,00				
KBC Bank Funding Trust II New York US,-	New York	US,	-	Ordinary	1.000	100,00	0,00				
KBC Bank Funding Trust III New York US,-	New York	US,	-	Ordinary	1.000	100,00	0,00				
KBC Bank Funding Trust IV New York US,-	New York	US,	-	Ordinary	1.000	100,00	0,00				
KBC Bank Ireland Plc Dublin IE,-	Dublin	IE,	-	Ordinary	819.238.509	100,00	0,00				
KBC Clearing NV Amsterdam NL,-	Amsterdam	NL,	-	Ordinary	30.491	100,00	0,00				
KBC Commercial Finance NV Brussels BE, 0403.278.488	Brussels	BE,	0403.278.488	Ordinary	119.999	99,99	0,00				
KBC Consumer Finance NV Brussels BE, 0473.404.540	Brussels	BE,	0473.404.540	Ordinary	5.240	92,71	7,29				
KBC Credit Investments NV Brussels, BE 0887.849.512	Brussels,	BE	0887.849.512	Ordinary	4.999.999	99,99	0,00				
KBC Financial Holding Inc. Wilmington US,-	Wilmington	US,	-	Ordinary	100	100,00	0,00				
KBC Financial Products Intern Cayman III George Town GB,-				Ordinary	100	100,00	0,00				
KBC Financial Products UK Limited London GB,-	London	GB,	-	Ordinary	350.100.000	100,00	0,00				
KBC Ifima NV Rotterdam NL,-	Rotterdam	NL,	-	Ordinary	10.585	100,00	0,00				
KBC Investments Hong Kong Limited Hong Kong, HK,-	Hong Kong,	HK,	-	Ordinary	130.000.000	100,00	0,00				
KBC Investments Limited London, UK,-	London,	UK,	-	Ordinary	1.305.000.100	100,00	0,00				
KBC Lease Holding NV Leuven BE, 0403.272.253	Leuven	BE,	0403.272.253	Ordinary	478.471	99,99	0,00				
KBC Lease (UK) Limited Guildford GB,-	Guildford	GB,	-	Ordinary	7.327.865	34,00	66,00				
KBC North American Finance Corporation Delaware US,-	Delaware	US,	-	Ordinary	1.000	100,00	0,00				
KBC Private Equity NV	Brussels	BE,	0403.226.228	Ordinary	445.416	85,84	0,00				

Brussels BE, 0403.226.228				Ordinary - 44.28% paid u	73.502	14,16	0,00				
KBC Real Estate Luxembourg SA Luxemburg LU, -	Luxemburg	LU,	-	Ordinary	99.947	99,95	0,05				
KBC Securities NV Brussels BE, 0437.060.521	Brussels	BE,	0437.060.521	Ordinary	1.898.517	99,95	0,05				
Kredyt Bank SA Warsaw PL,-	Warsaw	PL,	-	Ordinary PLN	271.327.103	80,00	0,00				
NV ACTIEF NV Brussels BE, 0824.213.750	Brussels	BE,	0824.213.750	Cat "A"	600	80,00	0,00	31-dec-11	EUR	100	-1
Old Broad Street Invest NV Brussels, BE, 0871.247.565	Brussels,	BE,	0871.247.565	Ordinary	505.999	99,99	0,00				
Zagiel a.s. Lublin PL, -	Lublin	PL,	-	Ordinary	479.281	100,00	0,00				
Almafin Real Estate NV Brussels BE, 0403 355 494	Brussels	BE,	0403 355 494	Ordinary	61.999	100,00	0,00				
Almafin Real Estate Services NV Brussels BE, 0416.030.525	Brussels	BE,	0416.030.525	Ordinary	1	0,01	99,99				
Julienne Holdings SARL Luxemburg LU, -	Luxemburg	LU,	-	Ordinary	4.500	90,00	0,00				
KBC Rusthuisvastgoed Brussels BE, 0864798253	Brussels	BE,	0864798253	Ordinary	1	0,01	99,99				
KBC Vastgoedinvesteringen Brussels BE, 0455 916 925	Brussels	BE,	0455 916 925	Ordinary	57.909	99,90	0,10				
KBC Vastgoedportefeuille België Brussels, BE, 0438 007 854	Brussels,	BE,	0438 007 854	Ordinary	57.763	99,99	0,01				
Novoli Investors BV Amsterdam NL, -	Amsterdam	NL,	-	Ordinary	1.750	83,33	0,00				
Poelaert Invest NV Brussels BE, 0478 381 531	Brussels	BE,	0478 381 531	Ordinary	9.950	99,50	0,50				
Vastgoedruimte Noord NV Brussels BE, 0863201515	Brussels	BE,	0863201515	Ordinary	18.999	99,99	0,01				
Almaloisir & Immobilier SAS Nice, FR, 3542 862 0439	Nice,	FR,	3542 862 043	Ordinary	328	100,00	0,00	31-dec-11	EUR	144	-10
Apitri NV Brussels BE, 0469 889 873	Brussels	BE,	0469 889 873	Ordinary	98	98,00	0,02	31-dec-11	EUR	3.082	381
Immo Antares NV Brussels BE, 0456398361	Brussels	BE,	0456398361	Ordinary	2.375	95,00	5,00	31-dec-11	EUR	-1.855	-1.946
Immo Basilix NV Brussels BE, 0453348801	Brussels	BE,	0453348801	Ordinary	2.375	95,00	5,00	31-dec-11	EUR	78	2
Immo Lux - Airport SA Luxemburg LU, -	Luxemburg	LU,	-	Ordinary	1.456	99,93	0,07	31-dec-11	EUR	-1.297	-799
Immo Marcel Thiry NV Brussels BE, 0450997441	Brussels	BE,	0450997441	Ordinary	1.900	95,00	5,00	31-dec-11	EUR	-7.417	51
Immo Namott NV Brussels BE, 0840.412.849	Brussels	BE,	0840.412.849	Ordinary	350	99,72	0,28				
Immo Zenobe Gramme Brussels BE, 0456572664	Brussels	BE,	0456572664	Ordinary	99	99,00	1,00	31-dec-11	EUR	76	1
Immobilière Distri-Land NV Brussels BE, 0436440909	Brussels	BE,	0436440909	Ordinary	1.093	87,44	0,08	31-dec-11	EUR	269	35
Luxembourg North Distribution SA Luxemburg LU, -	Luxemburg	LU,	-	Ordinary	11	11,00	89,00	31-dec-11	EUR	98	64
Mechelen City Center NV Brussels BE, 0471562332	Brussels	BE,	0471562332	Ordinary	1.369	99,93	0,07	31-dec-11	EUR	3.016	434
Immo Quinto NV Brussels BE, 0466000470	Brussels	BE,	0466000470	Ordinary	141.935	99,30	0,70	31-dec-11	EUR	4.051	-649
Servipolis Management Company Kessel-Lo BE, 0442 552 206	Kessel-Lo	BE,	0442 552 206	Ordinary	11.295	69,99	0,00	31-dec-11	EUR	2.069	-806
2. Enterprises linked by participating interests >=20% en <= 50%											
Banking Funding Company NV Brussels BE, 0884.525.182	Brussels	BE,	0884.525.182	Ordinary	12.870	20,93	0,00	31-dec-11	EUR	171	46
Bedrijvencentrum Regio Roeselare NV Roeselare BE, 0428.378.724	Roeselare	BE,	0428.378.724	Ordinary	500	22,22	0,00	31-dec-11	EUR	592	658
Bedrijvencentrum Rupelstreek NV Aartselaar BE, 0427.329.936	Aartselaar	BE,	0427.329.936	Ordinary	5.000	33,33	0,00	31-dec-11	EUR	2.491	10
Bancontact-Mistercash NV Brussels BE, 0884.499.250	Brussels	BE,	0884.499.250	Ordinary	5.123	20,00	0,00	31-dec-11	EUR	2.528	-157
Isabel NV Brussels BE, 0455.530.509	Brussels	BE,	0455.530.509	Ordinary	253.322	25,33	0,00	31-dec-11	EUR	13.556	824
Nova Ljubljanska Banka d.d. Ljubljana SL, -	Ljubljana	SL,	-	Ordinary	2.765.282	22,04	0,00				
Xenarjo cvba Mechelen BE, 0899.749.531	Mechelen	BE,	0899.749.531	Ordinary	1.009	22,57	0,00	31-dec-11	EUR	286	-210
Gemma Frisius Fonds KU Leuven LeuvenBE, 0461.173.351	Leuven	BE,	0461.173.351	Ordinary	4.000	40,00	0,00				

QBIC Feeder Fund Brussels BE, -	Brussels	BE,	-	Ordinary	1.200	22,26	0,00				
Etoiles d'Europe SAS Paris FR, -	Paris	FR,	-	Ordinary	2.250	45,00	0,00	30-jun-11	EUR	160	4
Immo Beaulieu NV Brussels BE, 0450193133	Brussels	BE,	0450193133	Ordinary	1.000	50,00	0,00	16-jun-11	EUR	68	106
Justinvest Antwerpen NV Wilrijk BE, 0476658097	Wilrijk	BE,	0476658097	Ordinary	50	33,33	0,00	31-dec-11	EUR	303	102
Rabot Invest NV Wilrijk BE, 0479758733	Wilrijk	BE,	0479758733	Ordinary	60	25,00	0,00	31-dec-11	EUR	551	-87
Rumst Logistics III NV Diegem BE 0880.829.383	Diegem	BE	0880.829.383	Ordinary	50	50,00	0,00	31-dec-11	EUR	-897	-166
Perifund NV Diegem BE, 0465369673	Diegem	BE,	0465369673	Ordinary	32.935	49,53	0,47	31-dec-11	EUR	3.865	-27
Flex Park Prague Prague CZ, 26209691	Prague	CZ,	26209691	Ordinary	150	50,00	0,00	31-dec-11	CZK	-14.860	-2.337
Pako Vastgoed NV Diegem BE 0437938766	Diegem	BE	0437938766	Ordinary	150.000	50,00	0,00	31-dec-11	EUR	4.704	527
Rumst Logistics II NV Brussels BE, 0880830076	Brussels	BE,	0880830076	Ordinary	50	50,00	0,00	31-dec-11	EUR	-1.565	-1.113
Val D'Europe Holding NV Wilrijk BE, 0808932092	Wilrijk	BE,	0808932092	Ordinary	450	45,00	0,00	31-dec-11	EUR	3.962	-3
Immo Kolonel Bourgstraat NV Brussels BE, 0461139879	Brussels	BE,	0461139879	Ordinary	1.250	50,00	0,00	31-dec-11	EUR	-9.641	-524
Brussels I3 Fund NV Brussels BE, 0477925433	Brussels	BE,	0477925433	Cat "D"	2.182	36,37	0,00	31-dec-11	EUR	2.423	-532
Real Estate Participation NV Zaventem BE, 0473.018.817	Zaventem	BE,	0473.018.817	Ordinary	500	50,00	0,00	31-dec-11	EUR	6.471	9.312
Covent Garden Real Estate NV Zaventem, BE, 0872.941.897	Zaventem,	BE,	0872.941.897	Ordinary	750	50,00	0,00	31-dec-11	EUR	4.248	45

3. Enterprises linked by participating interests

>=10% en <= 20%

Bedrijvencentrum Westhoek NV Ieper BE, 0430.383.258	Ieper	BE,	0430.383.258	Ordinary	200	11,85	0,00	31-dec-11	EUR	491	65
Bedrijvencentrum Zaventem NV Zaventem BE, 0426.496.726	Zaventem	BE,	0426.496.726	Ordinary	350	11,64	0,00	31-dec-11	EUR	354	88
BH-Capital a.s. Brno CZ, -	Brno	CZ,	-	Ordinary	717.300	14,06	0,00	31-dec-11	CZK	540.445	3.218
De Beitel NV Lier BE, 0869.799.196	Lier	BE,	0869.799.196	Ordinary	25	16,34	0,00	31-dec-11	EUR	184	2
Designcenter De Winkelhaak Antwerp BE, 0470.201.857	Antwerp	BE,	0470.201.857	Cat. B	124	19,47	0,00	31-dec-11	EUR	1.842	-9
Europay Belgium CV Brussels BE, 0434.197.536	Brussels	BE,	0434.197.536	Ordinary	4.857	14,19	1,16	31-dec-11	EUR	1.188	275
Visa Belgium CVBA Brussels BE, 0435.551.972	Brussels	BE,	0435.551.972	Ordinary	22	12,29	1,12	30-sep-12	EUR	258	73
Impulse Microfinancieringsfonds Wilrijk BE, 0870.792.160	Wilrijk	BE,	0870.792.160	Ordinary	2.000	17,57	0,00	31-dec-11	EUR	15.750	663
Rural Impulse Luxemburg LU, -	Luxemburg	LU,	-	Ordinary	15.000	16,67	0,00				

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

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

The annual accounts of the enterprise:

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

B. are effectively published in another Member State of the EEC as laid down in Article 3 of the Directive 2009/101/EEC;

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

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

VII. STATEMENT OF FORMATION EXPENSES AND INTANGIBLE FIXED ASSETS

		Codes	Current period	Previous period
A. Formation expenses				
1. Net carrying value as at the end of the period		50705P	xxxxxxxxxxxxxxx	0,00
2. Movements during the period		50701	0,00	
a. New expenses incurred		50702	0,00	
b. Amortization		50703	0,00	
c. Other	(+)/(-)	50704	0,00	
3. Net carrying value as at the end of the period		50705	0,00	
4. Of which				
a. Expenses of formation or capital increase, loan issue expenses and other formation expenses		50706	0,00	
b. Reorganization costs		50707	0,00	

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

		Codes	Current period	Previous period
C. COMMISSIONS FOR ATTRACTING NEW BUSINESS WITH CUSTOMERS				
1. Acquisition cost as at the end of the period		50725P	xxxxxxxxxxxxxxx	0,00
2. Movements during the period		50721	0,00	
a. Acquisitions, including own construction		50722	0,00	
b. Sales and disposals		50723	0,00	
c. Transfers from one caption to another	(+)/(-)	50724	0,00	
3. Acquisition cost as at the end of the period		50725	0,00	
4. Amortizations and write-downs as at the end of the period		50732P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period		50726	0,00	
a. Recorded		50727	0,00	
b. Excess written back		50728	0,00	
c. Acquisitions from third parties		50729	0,00	
d. Cancellations		50730	0,00	
e. Transfers from one caption to another	(+)/(-)	50731	0,00	
6. Amortizations and write-downs as at the end of the period		50732	0,00	
7. Net carrying value as at end of the period		50733	0,00	

		Codes	Current period	Previous period
D. OTHER INTANGIBLE FIXED ASSETS				
1. Acquisition cost as at end of the period		50738P	xxxxxxxxxxxxxxx	1.128.933,64
2. Movements during the period		50734	-503.866,60	
a. Acquisitions, including own construction		50735	80.765,34	
b. Sales and disposals		50736	-584.631,94	
c. Transfers from one caption to another	(+)/(-)	50737	0,00	
3. Acquisition cost as at end of the period		50738	625.067,04	
4. Amortizations and write-downs as at end of the period		50745P	xxxxxxxxxxxxxxx	908.003,51
5. Movements during the period		50739	-515.017,31	
a. Recorded		50740	60.608,79	
b. Excess written back		50741	0,00	
c. Acquisitions from third parties		50742	0,00	
d. Cancellations		50743	-575.626,10	
e. Transfers from one caption to another	(+)/(-)	50744	0,00	
6. Amortizations and write-downs as at the end of the period		50745	392.986,20	
7. Net carrying value as at the end of the period		50746	232.080,84	

VIII. TANGIBLE FIXED ASSETS (Assets caption IX)

		Codes	Current period	Previous period
A. LAND AND BUILDINGS				
1. Acquisition cost as at the end of the period		50805P	xxxxxxxxxxxxxxx	1.172.693.894,54
2. Movements during the period	(+)/(-)	50801	99.208.037,50	
a. Acquisition, including own construction		50802	103.717.967,69	
b. Sales and disposals		50803	-4.509.930,19	
c. Transfers from one caption to another	(+)/(-)	50804	0,00	
3. Acquisition cost as at the end of the period		50805	1.271.901.932,04	
4. Revaluation surpluses as at the end of the period		50811P	xxxxxxxxxxxxxxx	65.204.652,39
5. Movements during the period	(+)/(-)	50806	-92.333,39	
a. Recorded		50807	0,00	
b. Acquisitions from third parties		50808	0,00	
c. Cancellations		50809	-92.333,39	
d. Transfers from one caption to another	(+)/(-)	50810	0,00	
6. Revaluation surpluses as at the end of the period		50811	65.112.319,00	
7. Amortizations and write-downs as at the end of the period		50818P	xxxxxxxxxxxxxxx	677.556.688,32
8. Movements during the period	(+)/(-)	50812	26.651.887,40	
a. Recorded		50813	28.775.176,87	
b. Excess written back		50814	0,00	
c. Acquisitions from third parties		50815	0,00	
d. Cancellations		50816	-2.123.289,47	
e. Transfers from one caption to another	(+)/(-)	50817	0,00	
9. Amortizations and write-downs as at the end of the period		50818	704.208.575,72	
10. Net carrying value as at the end of the period		50819	632.805.675,32	

		Codes	Current period	Previous period
B. PLANT, MACHINERY AND EQUIPMENT				
1. Acquisition cost as at the end of the period		50824P	xxxxxxxxxxxxxxx	13.093.991,49
2. Movements during the period	**(+)/(-)**	50820	-1.340.263,46	
a. Acquisition, including own construction		50821	702.860,45	
b. Sales and disposals		50822	-2.043.123,91	
c. Transfers from one caption to another	(+)/(-)	50823	0,00	
3. Acquisition cost as at the end of the period		50824	11.753.728,03	
4. Revaluation surpluses as at the end of the period		50830P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period	**(+)/(-)**	50825	0,00	
a. Recorded		50826	0,00	
b. Acquisitions from third parties		50827	0,00	
c. Cancellations		50828	0,00	
d. Transfers from one caption to another	(+)/(-)	50829	0,00	
6. Revaluation surpluses as at the end of the period		50830	0,00	
7. Amortization and write-downs as at the end of the period		50837P	xxxxxxxxxxxxxxx	12.335.774,87
8. Movements during the period	**(+)/(-)**	50831	-1.573.949,56	
a. Recorded		50832	469.174,35	
b. Excess written back		50833	0,00	
c. Acquisitions from third parties		50834	0,00	
d. Cancellations		50835	-2.043.123,91	
e. Transfers from one caption to another	(+)/(-)	50836	0,00	
9. Amortizations and write-downs as at the end of the period		50837	10.761.825,31	
10. Net carrying value as at the end of the period		50838	991.902,72	

		Codes	Current period	Previous period
C. FURNITURE AND VEHICLES				
1. Acquisition cost as at the end of the period		50843P	xxxxxxxxxxxxxxx	51.812.481,15
2. Movements during the period	**(+)/(-)**	50839	-9.835.444,35	
a. Acquisition, including own construction		50840	259.663,35	
b. Sales and disposals		50841	-10.095.107,70	
c. Transfers from one caption to another	(+)/(-)	50842	0,00	
3. Acquisition cost as at the end of the period		50843	41.977.036,80	
4. Revaluation surpluses as at the end of the period		50849P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period	**(+)/(-)**	50844	0,00	
a. Recorded		50845	0,00	
b. Acquisitions from third parties		50846	0,00	
c. Cancellations		50847	0,00	
d. Transfers from one caption to another	(+)/(-)	50848	0,00	
6. Revaluation surpluses as at the end of the period		50849	0,00	
7. Amortizations and write-downs as at the end of the period		50856P	xxxxxxxxxxxxxxx	30.940.183,68
8. Movements during the period	**(+)/(-)**	50850	-7.850.092,10	
a. Recorded		50851	2.036.768,74	
b. Excess written back		50852	0,00	
c. Acquisitions from third parties		50853	0,00	
d. Cancellations		50854	-9.886.860,84	
e. Transfers from one caption to another	(+)/(-)	50855	0,00	
9. Amortizations and write-downs as at the end of the period		50856	23.090.091,58	
10. Net carrying value as at the end of the period		50857	18.886.945,22	

		Codes	Current period	Previous period
D. LEASING AND OTHER SIMILAR RIGHTS				
1. Acquisition cost as at the end of the period		50862P	xxxxxxxxxxxxxxx	23.580.832,86
2. Movements during the period	(+)/(-)	50858	3.254.202,13	
a. Acquisition, including own construction		50859	3.743.685,13	
b. Sales and disposals		50860	-489.483,00	
c. Transfers from one caption to another	(+)/(-)	50861	0,00	
3. Acquisition cost as at the end of the period		50862	26.835.034,99	
4. Revaluation surpluses as at the end of the period		50868P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period	(+)/(-)	50863	0,00	
a. Recorded		50864	0,00	
b. Acquisitions from third parties		50865	0,00	
c. Cancellations		50866	0,00	
d. Transfers from one caption to another	(+)/(-)	50867	0,00	
6. Revaluation surpluses as at the end of the period		50868	0,00	
7. Amortizations and write-downs as at the end of the period		50875P	xxxxxxxxxxxxxxx	3.025.202,19
8. Movements during the period	(+)/(-)	50869	1.085.352,02	
a. Recorded		50870	1.085.352,02	
b. Excess written back		50871	0,00	
c. Acquisitions from third parties		50872	0,00	
d. Cancellations		50873	0,00	
e. Transfers from one caption to another	(+)/(-)	50874	0,00	
9. Amortizations and write-downs as at the end of the period		50875	4.110.554,21	
10. Net carrying value as at the end of the period		50876	22.724.480,78	
11. Of which				
a. Land and buildings		50877	22.724.480,78	
b. Plant, machinery and equipment		50878	0,00	
c. Furniture and vehicles		50879	0,00	

		Codes	Current period	Previous period
E. OTHER TANGIBLE FIXED ASSETS				
1. Acquisition cost as at the end of the period		50884P	xxxxxxxxxxxxxxx	216.724.055,94
2. Movements during the period	(+)/(-)	50880	1.271.556,67	
a. Acquisition, including own construction		50881	6.144.928,15	
b. Sales and disposals		50882	-4.873.371,48	
c. Transfers from one caption to another	(+)/(-)	50883	0,00	
3. Acquisition cost as at the end of the period		50884	217.995.612,61	
4. Revaluation surpluses as at the end of the period		50890P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period	(+)/(-)	50885	0,00	
a. Recorded		50886	0,00	
b. Acquisitions from third parties		50887	0,00	
c. Cancellations		50888	0,00	
d. Transfers from one caption to another	(+)/(-)	50889	0,00	
6. Revaluation surpluses as at the end of the period		50890	0,00	
7. Amortizations and write-downs as at the end of the period		50897P	xxxxxxxxxxxxxxx	122.495.585,44
8. Movements during the period	(+)/(-)	50891	8.551.180,55	
a. Recorded		50892	9.467.567,12	
b. Excess written back		50893	0,00	
c. Acquisitions from third parties		50894	0,00	
d. Cancellations		50895	-916.386,57	
e. Transfers from one caption to another	(+)/(-)	50896	0,00	
9. Amortizations and write-downs as at the end of the period		50897	131.046.765,99	
10. Net carrying value as at the end of the period		50898	86.948.846,62	

		Codes	Current period	Previous period
F. ASSETS UNDER CONSTRUCTION AND ADVANCE PAYMENTS				
1. Acquisition cost as at the end of the period		50903P	xxxxxxxxxxxxxxx	0,00
2. Movements during the period	(+)/(-)	50899	0,00	
a. Acquisition, including own construction		50900	0,00	
b. Sales and disposals		50901	0,00	
c. Transfers from one caption to another	(+)/(-)	50902	0,00	
3. Acquisition cost as at the end of the period		50903	0,00	
4. Revaluation surpluses as at the end of the period		50909P	xxxxxxxxxxxxxxx	0,00
5. Movements during the period	(+)/(-)	50904	0,00	
a. Recorded		50905	0,00	
b. Acquisitions from third parties		50906	0,00	
c. Cancellations		50907	0,00	
d. Transfers from one caption to another	(+)/(-)	50908	0,00	
6. Revaluation surpluses as at the end of the period		50909	0,00	
7. Amortization and write-downs as at the end of the period		50916P	xxxxxxxxxxxxxxx	0,00
8. Movements during the period	(+)/(-)	50910	0,00	
a. Recorded		50911	0,00	
b. Excess written back		50912	0,00	
c. Acquisitions from third parties		50913	0,00	
d. Cancellations		50914	0,00	
e. Transfers from one caption to another	(+)/(-)	50915	0,00	
9. Amortizations and write-downs as at the end of the period		50916	0,00	
10. Net carrying value as at the end of the period		50917	0,00	

IX. OTHER ASSETS (Assets caption XI)

	Current period
Breakdown (if the amount in this caption is significant)	
Options	1.468.221.788,64

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

	Code	Current period
1. Deferred charges	51001	24.123.395,53
2. Accrued income	51002	11.856.224.169,36

X.bis REINVESTMENT OF SEGREGATED CUSTOMER FUNDS

	Code	Current period
Total	51003	0,00

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

	Code	Current period	Previous period
1. Amounts due to affiliated enterprises	51101	2.524.938.736,00	1.430.398.520,00
2. Amounts due to other enterprises linked by participating interests	51102	1.269.386,00	1.101.830,00
3. Breakdown of debts other than on sight according to their remaining maturity			
a. Up to 3 months	51103	7.349.899.919,75	
b. Over 3 months up to 1 year	51104	818.220.100,43	
c. Over 1 year up to 5 years	51105	6.530.103.285,72	
d. Over 5 years	51106	0,00	
e. Undated	51107	22.174.253,12	

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

	Code	Current period	Previous period
1. Affiliated enterprises	51201	23.578.658.936,00	30.950.675.069,00
2. Other enterprises linked by participating interests	51202	121.255.624,00	124.018.545,00
3. Breakdown according to the remaining maturity			
a. Repayable on demand	51203	23.286.944.034,43	
b. Up to 3 months	51204	9.266.611.917,24	
c. Over 3 months up to 1 year	51205	6.686.341.873,18	
d. Over 1 year up to 5 years	51206	26.631.862.958,30	
e. Over 5 years	51207	4.698.312.539,06	
f. Undated	51208	31.020.871.789,37	
4. Breakdown of debt owed to customers depending on the nature of the debtors			
a. Debt owed to government	51209	3.361.972.549,12	2.669.121.111,34
b. Debt owed to private persons	51210	43.602.442.456,41	40.157.364.162,11
c. Debt owed to enterprises	51211	54.626.530.106,05	68.137.720.313,71
5. Geographical breakdown of debt owed to customers			
a. Of Belgian origin	51212	67.661.040.196,77	
b. Of foreign origin	51213	33.929.904.914,81	

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

	Codes	Current period	Previous period
1. Debts represented by a certificate that, to the knowledge of the institution, are debts owed to affiliated companies.	51301	0,00	0,00
2. Debts represented by a certificate that, to the knowledge of the institution, are debts owed to companies linked by participating interests.	51302	0,00	0,00
3. Breakdown of debt represented by certificates in accordance to their remaining maturity.			
a. Up to 3 months	51303	3.772.596.079,86	
b. Over 3 months up to 1 year	51304	669.117.674,70	
c. Over 1 year up to 5 years	51305	1.473.306.507,84	
d. Over 5 years	51306	268.950.373,31	
e. Undated	51307	0,00	

XIV. OTHER LIABILITIES (liabilities caption IV)

	Codes	Current period
1. Taxes, remuneration and social security charges due to the tax authorities	51401	110.640.351,66
a. Overdue debts	51402	0,00
b. Unmatured debts	51403	110.640.351,66
2. Taxes, remuneration and social security charges due to the National Social Security Office	51404	0,00
a. Overdue debts	51405	0,00
b. Unmatured debts	51406	0,00
3. Taxes		
a. Taxes payable	51407	48.573.210,59
b. Estimated tax liabilities	51408	62.067.141,07
4. Other liabilities		
Breakdown if the amount in this caption is significant		
Holiday allowance, remuneration and other personnel costs to be paid		158.953.784,17
Option contracts		751.860.163,70
Other		141.601.774,20

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

	Codes	Current period
1. Accrued charges	51501	14.022.805.558,43
2. Deferred income	51502	69.541.747,02

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

	Current period
Breakdown of liabilities (VI.A.3) if the amounts in this caption are significant	
Provision for positions in derivatives and securities	38.768.586,60
Credit commitments	129.534.636,44
Litigation and operational disputes	127.574.972,94
Provision for various risks and future expenses	1.801.029,47
Provision for disability payments	9.659.316,61
Provision bonds 5-5-5	997.245,00
Other	36.609.970,34

XVII. STATEMENT OF SUBORDINATED LIABILITIES (liabilities caption VIII)

	Codes	Current period	Previous period
1. Subordinated debts due to affiliated enterprises	51701	3.545.598.926,00	4.036.970.485,00
2. Subordinated debts due to other enterprises linked by participating interests	51702	0,00	0,00

	Codes	Current period
3. Charges as a result of subordinated liabilities	51703	406.793.266,15

4. For each subordinated loan, the following information: reference number, the ISO code of the currency, the amount of the loan in the currency of the loan, the remuneration arrangements, the due date and, if no due date is determined, the terms of duration, where appropriate the circumstances in which the institution is required to repay in advance, the conditions for the subordination and if appropriate, the conditions for the conversion into capital or into some other form of liability.

Reference-number	Currency	Amount	Maturity date or conditions governing the maturity	a) Circumstances in which the enterprise is required to repay this loan b) Conditions for the subordination c) Conditions for the conversion into capital
0001	GBP	42.346.614	19/12/2003-perpetual Issued by KBC Bank Hybrid Tier 1 - emission	a) Fiscal requalification Repayment possible from 19/12/2019 c) Mandatory conversion into KBC Bank shares in case of Supervisory Event
0002	EUR	1.249.382.636	14/05/2008-perpetual Issued by KBC Bank Hybrid Tier 1 - emission	a) Fiscal requalification Repayment possible from 14/05/2013 c) Call option after 5 years, yearly onwards
0003	EUR	250.000.021	01/08/2006-01/08/2016 Issued by KBC Bank	a) Fiscal requalification
0004	EUR	700.000.000	27-06-2008 - perpetual Issued by KBC Bank Hybrid Tier 1 - emission	a) Fiscal requalification Repayment possible from 27/06/2013 c) Call option after 5 years, yearly onwards
0005	EUR	1.317.939.779	Subordinated Certificates Issued by KBC Bank	a) Unconditional
0006	EUR	147.611.881	Subordinated Time Deposits Issued by KBC Bank	a) Unconditional
0007	USD	175.643.936	Deposits originated by KBC IFIMA	a) Fiscal requalification
0008	EUR	1.717.209.821	Deposits originated by KBC IFIMA	a) Fiscal requalification
0009	EUR	300.000.000	14/12/2005-14/12/2015 Deposits originated by KBC IFIMA	a) Fiscal requalification c) Call option from 14/12/2010 onwards
0010	CZK	2.500.000.000	18/05/2005-18/05/2016 Deposits originated by KBC IFIMA (2.500 million CZK)	a) Fiscal requalification
0011	EUR	99.581.757	18/05/2005-18/05/2016 Deposits originated by KBC IFIMA (3.000 million SKK)	a) Fiscal requalification
0012	EUR	48.131.182	21/12/2005-21/12/2020 Deposits originated by KBC IFIMA (1.450 million SKK)	a) Fiscal requalification
0013	EUR	280.000.000	30/06/1999 - perpetual Deposits originated by KBC Bank Funding Trust	a) Fiscal requalification and solvency test
0014	EUR	300.000.000	10/11/1999 - perpetual Deposits originated by KBC Bank Funding Trust	a) Fiscal requalification and solvency test
0015	USD	600.000.000	02/11/1999 - perpetual Deposits originated by KBC Bank Funding Trust	a) Fiscal requalification and solvency test
0016	USD	150.000.000	07/02/2005-07/02/2025 Deposits originated by KBC IFIMA	a) Fiscal requalification

XVIII. STATEMENT OF CAPITAL

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

	Codes	Amounts	Number of shares
c. Changes during the period			
d. Structure of the capital			
e. Categories of shares			
Ordinary shares entitled to dividend		8.948.439.652,39	915.228.482
f. Registered shares	51801	xxxxxxxxxxxxxx	915.228.482
g. Bearer and or dematerialized shares	51802	xxxxxxxxxxxxxx	0

	Codes	Uncalled capital	Called but unpaid capital
2. CAPITAL NOT PAID UP			
a. Uncalled capital	(20920)	0,00	xxxxxxxxxxxxxx
b. Called but unpaid capital	51803	xxxxxxxxxxxxxx	0,00
c. Shareholders still owing capital payment			

	Codes	Current period
3. OWN SHARES		
a. Held by the reporting institution itself		
* Amount of capital held	51804	0,00
* Corresponding number of shares	51805	0,00
b. Held by its subsidiaries		
* Amount of capital held	51806	0,00
* Corresponding number of shares	51807	0,00
4. SHARE ISSUANCE COMMITMENTS		
a. Following the exercise of conversion rights		
* Amount of convertible loans outstanding	51808	0,00
* Amount of capital to be subscribed	51809	0,00
* Maximum corresponding number of shares to be issued	51810	0,00
b. Following the exercise of subscription rights		
* Number of subscription rights outstanding	51811	0,00
* Amount of capital to be subscribed	51812	0,00
* Maximum corresponding number of shares to be issued	51813	0,00
5. AUTHORIZED CAPITAL NOT ISSUED	51814	4.000.000.000,00

	Codes	Current period
6. SHARES NOT REPRESENTING CAPITAL		
a. Repartition		
* Number of parts	51815	0,00
* Number of votes	51816	0,00
b. Breakdown by shareholder		
* Number of parts held by the reporting institution itself	51817	0,00
* Number of parts held by its subsidiaries	51818	0,00

B. SHAREHOLDER STRUCTURE OF THE INSTITUTION AT YEAR END, ACCORDING TO THE NOTIFICATIONS RECEIVED BY THE INSTITUTION

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

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

	Codes	Current period
1. Total Assets		
a. In Euro	51901	136.964.526.762,58
b. In foreign currency (equivalent in EUR)	51902	21.322.707.052,95
2. Total liabilities		
a. In Euro	51903	142.129.908.828,28
b. In foreign currency (equivalent in EUR)	51904	16.157.324.987,25

XX. FIDUCIARY TRANSACTIONS ACCORDING TO ARTICLE 27TER §1 PARAGRAPH 3

	Current period
Concerned assets and liabilities items	0,00
	0,00
	0,00
	0,00
	0,00

XXI. STATEMENT OF GUARANTEED DEBTS AND OBLIGATIONS

	Current period
A. MORTGAGES (amount of enrollment or carrying amount of the collateralized buildings, if this is less)	
1. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and obligations of the institution	
a. Liabilities	
b. Off balance sheet	
2. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and commitments of third parties	

	Current period
B. PLEDGE OF THE TRADING FUND (total enrollment)	
1. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and obligations of the institution	
a. Liabilities	
b. Off balance sheet	
2. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and obligations of third parties	

	Period
C. PLEDGE OF OTHER ASSETS (book value of pledged assets)	
1. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and obligations of the institution	
a. Liabilities	
Discounting, repurchase agreements and secured advances	3.210.652.971,29
Asset Pledge requirement KBC New York	5.305.364,67
Asset Pledge National Bank of Belgium	4.889.896.079,50
Covered bonds	3.496.302.379,39
b. Off-balance sheet	
Options and futures	5.441.669.625,01
2. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and commitments of third parties	

	Current period
D. COLLATERAL ON FUTURE ASSETS (total assets in question)	
1. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and obligations of the institution	
a. Liabilities	
b. Off-balance sheet	
2. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and obligations of third parties	

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

	Codes	Current period	Previous period
1. Total contingent liabilities on behalf of affiliated companies	52201	20.964.302.949,00	22.333.177.574,00
2. Total contingent liabilities on behalf of companies linked by participating interests	52202	5.979.348,00	59.484.464,00
3. Total commitments with a potential credit risk to affiliated companies	52203	3.979.081,00	7.921.787,00
4. Total commitments with a potential risk with regard to companies linked by participating interests	52204	0,00	0,00

XXIII. OPERATING RESULTS (items I to XV of the income statement)

	Codes	Period	Previous period
1. Breakdown of operating income according to origin			
a. Interest and similar income	(40100)	3.916.361.162,45	4.659.377.363,36
* Belgian sites	52301	3.543.247.345,12	4.199.901.881,85
* Foreign offices	52302	373.113.817,33	459.475.481,52
b. Income from fixed-income securities: shares and other variable-yield securities	(40310)	2.588.291,54	10.341.334,09
* Belgian sites	52303	2.480.146,59	10.249.473,83
* Foreign offices	52304	108.144,95	91.860,26
c. Income from fixed-income securities: investments in affiliated companies	(40320)	695.068.243,87	2.442.306.581,51
* Belgian sites	52305	695.068.243,87	2.442.306.581,51
* Foreign offices	52306	0,00	0,00
d. Income from fixed-income securities: shares in companies linked by participating interests	(40330)	1.791.010,93	3.090.084,21
* Belgian sites	52307	1.791.010,93	3.090.084,21
* Foreign offices	52308	0,00	0,00
e. Income from fixed-income securities: other shares held as fixed financial	(40340)	665.669,23	2.875.373,12
* Belgian sites	52309	665.273,13	2.875.205,36
* Foreign offices	52310	396,10	167,76
f. Commissions received	(40400)	1.072.806.902,78	884.954.819,62
* Belgian sites	52311	1.020.304.535,82	824.408.976,33
* Foreign offices	52312	52.502.366,96	60.545.843,29
g. Profit on financial transactions	(40600)	250.012.301,04	-327.095.445,52
* Belgian sites	52313	231.984.917,95	-338.286.833,05
* Foreign offices	52314	18.027.383,09	11.191.387,53
h. Other operating income	(41400)	238.223.578,26	241.904.495,14
* Belgian sites	52315	222.508.516,48	230.732.227,57
* Foreign offices	52316	15.715.061,78	11.172.267,58
2. Employees on the personnel register			
a. Total number at the closing date	52317	10.059	10.235
b. Average number of employees in full-time equivalents	52318	9.142	9.221
* Management Personnel	52319	58	72
* Employees	52320	9.084	9.149
* Workers	52321	0	0
* Other	52322	0	0
c. Number of actual worked hours	52323	12.859.168	12.044.545
3. Personnel			
a. Remuneration and direct social benefits	52324	550.242.706,62	558.550.871,46
b. Employers' social security	52325	158.873.721,94	149.279.184,30
c. Employers' premiums for extra statutory insurance	52326	63.337.630,45	65.083.247,52
d. Other personnel	52327	32.485.254,54	28.512.697,32
e. Retirement and survivors' pensions	52328	5.190.709,25	3.811.465,29
4. Provisions for pensions and similar obligations			
a. Increase (+)	52329	12.297.350,41	38.915.392,83
b. Decrease (-)	52330	30.087.933,07	36.172.284,42

	Codes	Period	Previous period
5. Breakdown of other operating income if this represents a significant amount			
6. Other operating expenses			
a. Corporate taxes	52331	46.762.069,97	38.985.969,64
b. Other	52332	7.783.066,70	8.562.533,77
c. Analysis of other operating expenses if this represents a significant amount			
7. Operating revenue from affiliated companies	52333	2.937.755.933,00	5.531.258.763,00
8. Operating costs relating to affiliated companies	52334	3.264.972.850,00	3.167.674.797,00

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

	Codes	Current period
A. TYPES OF OPERATIONS (amounts on the closing date of the accounts)		
1. Securities transactions		
a. Forward purchases and sales of securities and marketable securities	52401	0,00
* of which: not intended for hedging purposes	52402	0,00
2. Exchange transactions (amounts to be provided)		
a. Forward exchange contracts	52403	74.526.833.509,59
* of which: not intended for hedging purposes	52404	74.526.522.964,57
b. Currency and interest rate swaps	52405	41.340.923.444,76
* of which: not intended for hedging purposes	52406	41.340.923.444,76
c. Currency futures	52407	139.489.853,34
* of which: not intended for hedging purposes	52408	139.489.853,34
d. Options on currencies	52409	15.054.295.064,21
* of which: not intended for hedging purposes	52410	15.054.295.064,21
e. Forward exchange contracts	52411	0,00
* of which: not intended for hedging purposes	52412	0,00
3. Transactions in other financial instruments		
Forward transactions in interest rate (nominal / notional reference)		
a. Interest rate swap agreements	52413	284.725.328.757,61
* of which: not intended for hedging purposes	52414	284.339.280.489,03
b. Interest futures transactions	52415	10.788.031.671,18
* of which: not intended for hedging purposes	52416	10.788.031.671,18
c. Future Interest rate Agreements	52417	3.882.413.190,00
* of which: not intended for hedging purposes	52418	3.882.413.190,00
d. Interest rate options	52419	100.029.890.452,42
* of which: not intended for hedging purposes	52420	100.029.890.452,42
Other purchase and sales (sale / purchase price agreed between parties)		
e. Other option transactions	52421	3.465.269.604,20
* of which: not intended for hedging purposes	52422	3.465.269.604,20
f. Other futures transactions	52423	0,00
* of which: not intended for hedging purposes	52424	0,00
g. Other forward purchases and sales	52425	288.228.748,47
* of which: not intended for hedging purposes	52426	0,00

		Codes	Current period
B. QUANTIFICATION OF THE IMPACT ON THE RESULTS OF THE DEROGATION OF VALUATION RULE UNDER article 36bis, § 2 RELATING TO THE FORWARD TRANSACTIONS IN INTEREST RATE			
1. Forward transactions in interest rate regarding treasury management			
a. Nominal / notional reference amount on the closing date of accounts		52427	6.787.832.403,14
b. Difference between market value and book value	(+)/(-)	52428	-148.070.713,26
2. Forward transactions in interest rate regarding ALM			
a. Nominal / notional reference amount on the closing date of accounts		52429	47.063.188.404,47
b. Difference between market value and book value	(+)/(-)	52430	-1.791.711.075,79
3. Forward transactions in interest rate without the effect of risk reduction (LOCOM)			
a. Nominal / notional reference amount on the closing date of accounts		52431	8.803.830.600,43
b. Difference between market value and book value	(+)/(-)	52432	30.338.478,66

XXV. EXTRAORDINARY RESULTS

	Codes	Current period
1. Realised gains on transfer of fixed assets to affiliated companies	52501	
2. Incurred losses on transfer of fixed assets to affiliated companies	52502	
3. Breakdown of the other exceptional income if it comprises significant amounts		
4. Breakdown of the other extraordinary costs if they comprise significant amounts		

XXVI. INCOME TAXES

	Codes	Current period
1. Income taxes for the year	52601	33.875.698,27
a. Taxes and withholding taxes due or paid	52602	17.334.801,11
b. Excess of income tax prepayments and of withholding taxes	52603	-11.768.922,43
c. Estimated additional charges for income taxes	52604	28.309.819,59
2. Income taxes for previous years	52605	2.603.287,65
a. Additional income taxes due or paid	52606	2.603.287,65
b. Additional charges for income taxes, estimated (included in liabilities)	52607	0,00
3. Main sources of differences between the profit before tax, as stated in the financial statements, and the estimated taxable income		
Movements in taxable reserves and provisions		-484.253.946,23
The specific tax system applicable to gains and losses on shares		1.354.998.264,30
The application of the foreign tax credit scheme on dividends received		-521.607.641,81
Disallowed expenses (other than write-downs, losses on shares and corporation tax)		22.178.226,44

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

Realised gains and incurred losses on shares under financial fixed assets (gains not taxable and losses not deductible)		-174.748.096,15
Write-downs (not deductible) and write-backs (not taxable) on shares under financial fixed assets		-1.201.472.399,97

	Codes	Current period
5. Sources of deferred taxes		
a. Deferred tax assets	52608	1.813.185.483,76
* Accumulated tax losses deductible from future taxable profits	52609	1.813.185.483,76
* Other deferred tax assets		
b. Passive deferrals	52610	0,00
* Breakdown of the passive deferrals		

XXVII. VALUE ADDED TAX AND TAXES BORNE BY THIRD PARTIES

	Codes	Current period	Previous period
1. Charged value added tax			
a. To the reporting institution (deductible)	52701	7.716.431,53	7.650.025,07
b. By the reporting institution	52702	29.937.868,56	28.000.956,94
2. Amounts withheld on behalf of third parties as			
a. Payroll tax	52703	158.941.465,04	152.950.270,24
b. Withholding tax	52704	241.179.040,30	161.928.746,04

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

A. OFF BALANCE SHEET RIGHTS AND COMMITMENTS

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

3. Significant litigation and other significant commitments

Significant disputes pending:

As regards the most significant legal disputes pending, claims filed against KBC Bank companies are – in keeping with IFRS rules – treated on the basis of an assessment of whether they will lead to an outflow of resources (i.e. 'probable outflow', 'possible outflow' or 'remotely probable outflow'). Provisions are set aside for 'probable outflow' cases (see 'Notes on the accounting policies'). No provisions are constituted for 'possible outflow' cases, but information is provided in the financial statements if such cases might have a material impact on the balance sheet (i.e. when the claim could lead to a possible outflow of more than 25 million euros). All other claims ('remotely probable outflow'), of whatever magnitude, that represent a minor or no risk at all do not have to be reported. Nonetheless, for reasons of transparency, KBC also provides information on the current status of the most important cases in this category.

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

Probable outflow:

- From the end of 1995 until the beginning of 1997, KBC Bank and KB Consult were involved in the transfer of cash companies. KBC Bank and/or KB Consult were joined to proceedings in a number of cases. In addition, KB Consult, together with KBC Bank and KBC Group NV, was summoned to appear in the proceedings before the Bruges court sitting in chambers. On 9 November 2011, this court dismissed the charges against KBC Group NV, but KB Consult and KBC Bank were referred to the criminal court. However, the Belgian State has since lodged an appeal with the Indictment Division. A provision of 30.8 million euros has been constituted to deal with the potential impact of claims for damages in this respect. The transfer of a cash company is in principle completely legitimate. Nevertheless, it later transpired that certain purchasers were acting in bad faith since they did not make any investments at all and did not file tax returns for the cash companies they had purchased. KBC Bank and KB Consult immediately took the necessary measures to preclude any further involvement with these parties.
- In March 2000, Rebeo and Trustimmo, two subsidiaries of Almafin (a subsidiary of KBC Bank), together with four former directors of Broeckdal Vastgoedmaatschappij (a real estate company) were summoned by the Belgian Ministry of Finance to appear before the civil court in Brussels regarding non-payment of 16.7 million euros in taxes owed by Broeckdal. However, Broeckdal contested this claim and in December 2002 initiated court proceedings against the Belgian Ministry of Finance before the civil court in Antwerp. The civil case pending before the Brussels court has been suspended until final judgment has been passed in the tax-related proceedings pending before the Antwerp court. Broeckdal was wound up by court order on 2 November 2010 and was declared properly wound up and dissolved on 13 September 2011. A provision of 29.6 million euros has been set aside to cover potential damages

- In 1991, a syndicate of banks (including KBC Bank NV's London branch) refinanced the Bell Group. Some Bell Group companies granted security. When the group collapsed in April 1991, the banks recovered the outstanding amounts by enforcing their security rights. The Bell Group liquidators started legal proceedings, claiming repayment of all amounts recovered by the banks by alleging that the banks' security rights had been granted unlawfully. In a judgment delivered on 28 October 2008, the Supreme Court of Western Australia ordered the banks to repay all the amounts recovered and also to pay compound interest. The syndicate of banks appealed this decision. In a ruling on 17 August 2012, the Supreme Court of Western Australia Court of Appeal increased the amount payable following the recalculation of interest. In view of that decision and pending the decision of the High Court of Australia, KBC Bank has set aside a provision of some 64 million euros. Even if the banks are granted leave for appeal, the debate before the High Court will be limited to the amount of interest payable.

KBC Diversified Fund, a segregated portfolio of KBC AIM Master Fund spc., filed a claim against Lehman Brothers International Europe (LBIE) in relation to derivatives amounting to 44.3 million US dollars. Provisions have been set aside for this amount. KBC is negotiating with the liquidator of LBIE regarding the valuation of a number of terminated transactions. KBC Bank calculated an ISDA close-out amount of 29.2 million US dollars payable by Lehman Brothers Special Financing Inc. (LBSF) to KBC. Provisions have been set aside for this amount. LBSF's administrator is contesting the valuation of some of the derivative transactions. An initial meeting to discuss the disputed valuation took place on a without prejudice basis on 17 December 2012, during which the administrator requested additional information on KBC's valuation process.

Possible outflow :

When Lehman Brothers went bankrupt in September 2008, KBC Bank had derivative transactions outstanding with Lehman Brothers Finance AG (LBF) under an ISDA Master Agreement. The bankruptcy triggered an event of default and early termination of all outstanding transactions. LBF is disputing a number of matters in this regard, including the valuation method used by KBC Bank and – in a letter of claim dated 21 December 2012 – asserts that the net amount payable to LBF under the ISDA agreement is 58.1 million US dollars plus 52.8 million US dollars in interest accruing since September 2008. KBC Bank believes it has various arguments to defend the valuation method used and is also strongly disputing the interest rate applied by LBF. KBC will determine its position based on the findings of a further investigation into the valuation of the transactions terminated and a legal assessment of the situation.

Other significant liabilities.

The bank irrevocably guarantees all the sums, indebtedness, obligations and liabilities outstanding on 31 December 2012 of the following companies, which are consequently exempt from publication on a consolidated basis.

KBC Asset Management NV
KBC Securities NV

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

All members of staff are covered by a supplementary pension scheme that includes an additional death benefit, orphan's annuity and invalidity benefits. The amount covered under these schemes (which are defined benefit schemes) depends on the average final salary, number of years of service and age at the time of retirement.

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

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

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

During 2012, a collective labour agreement was concluded for the introduction of a defined contribution plan on 1 January 2014 (mandatory for new employees and voluntary for existing members). For the target group in question, this plan will replace the defined benefit plan funded by the employer. No changes at all have been made to the plan funded solely by members' personal contributions.

	Code	Current period
5. Pensions that are borne by the institution itself: the estimated amount of obligations arising from past services	52801	
Bases and methods of estimation		

6. Nature and business purpose of off balance sheet arrangements

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

KBC Bank NV is a member of a VAT grouping.

KBC Bank has set up a company for investments in debt securities, called Home Loan Invest, which has acquired mortgage loans of KBC Bank, using funds received from the issuance of securities.
KBC Bank carries almost all of these securities on its balance sheet. The interest risk carried by Home Loan Invest is covered by interest rate swaps concluded between Home Loan Invest and KBC Bank, so that this operation has a limited effect on the ALM management of the bank and on the income statement. The balance sheet shows a decrease of loans for an amount of 13.711 billion euros and an increase of investment securities for an amount of 11.060 billion euros.
The main reason for setting up this operation is to make part of the loans of KBC Bank more liquid, as the securities issued by Home Loan Invest and held by KBC Bank are eligible for refinancing with the ECB. As a consequence the main purpose of this operation is improving the liquidity risk of the bank.

Note that Home Loan Invest is listed as a "Special Purpose Entity", included in the consolidated reporting of KBC Bank.

The annual accounts of Home Loan Invest are available at the Central Balance Sheet Office.

7. Other off balance sheet rights and commitments

B. TRANSACTIONS WITH RELATED PARTIES OUTSIDE NORMAL MARKET CONDITIONS

Period

Indication of such transactions if they are significant, including the amount of these transactions, the nature of the relationship with the related party and any other information on transactions that would be required to obtain a better understanding of the financial situation of the institution:

Transactions with affiliated companies were all concluded in line with the prevailing market conditions.

XXIX. FINANCIAL RELATIONS WITH

	Codes	Current period
A. DIRECTORS AND MANAGERS, INDIVIDUALS OR CORPORATE BODIES WHO CONTROL THE INSTITUTION DIRECTLY OR INDIRECTLY WITHOUT BEING RELATED TO IT OR OTHER COMPANIES CONTROLLED DIRECTLY OR INDIRECTLY BY THESE PEOPLE		
1. Amounts receivable from these persons	52901	153.589.347,00
a. Conditions on amounts receivable		
2. Guarantees granted on their behalf	52902	0,00
a. Principal terms of the guarantees granted		
3. Other significant commitments undertaken in their favour	52903	0,00
a. Main conditions of these obligations		
4. Direct and indirect remuneration and pensions, included in P&L, provided that such disclosure does not concern exclusively or mainly the situation of a single identifiable person		
a. To directors and managers	52904	756.666,70
b. To former directors and former managers	52905	8.577,44

	Codes	Current period
B. THE AUDITOR(S) AND THE PEOPLE HE (SHE) IS (ARE) RELATED TO		
1. Remuneration of the auditor(s)	52906	2.543.958,14
2. Fees for exceptional services or special services provided to the company by the auditor(s)		
a. Other audit services	52907	568.560,67
b. Tax advisory services	52908	6.080,03
c. Other non-audit services	52909	341.330,32
3. Fees for exceptional services or special services provided to the company by persons with whom the auditor(s) is(are) related		
a. Other audit services	52910	0,00
b. Tax advisory services	52911	0,00
c. Other non-audit services	52912	0,00

4. Statements in accordance with Article 133, § 6 of the Company Code

XXX. POSITIONS IN FINANCIAL INSTRUMENTS

	Codes	Current period
1. Financial instruments to be received by the institution on behalf of clients	53001	436.463.450,41
2. Financial instruments to be delivered by the institution to clients	53002	512.263.499,96
3. Financial instruments of clients held in custody by the institution	53003	152.064.950.149,98
4. Financial Instruments from clients given in custody by the institution	53004	103.253.063.805,15
5. Financial Instruments from clients held as collateral by the institution	53005	1.397.229.021,05
6. Financial Instruments from clients given as collateral by the institution	53006	0,00

XXXI. DERIVATIVES NOT ESTIMATED AT FAIR VALUE

	Current period
Estimated fair value of each class of derivative not measured at fair value, with information on the nature and volume of these instruments	
Forward exchange contracts	151.925,00
Currency and interest rate swaps	72.194.483,00
Interest rate swap agreements	-1.782.090.540,00

XXXII. DECLARATION ON CONSOLIDATED ACCOUNTS

A. TO BE COMPLETED BY ALL CREDIT INSTITUTIONS

The institution has drawn up and has published consolidated annual accounts and a consolidated annual report*

~~**The institution does not draw up consolidated annual accounts nor a consolidated annual report because she is exempted due to following reason(s)***~~

The institution does not, solely nor jointly, control one or more subsidiaries governed by Belgian or foreign law*

The institution is a subsidiary of a parent company that draws up and publishes consolidated accounts, in which the annual accounts are included through consolidation*

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

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

B. TO BE COMPLETED BY INSTITUTIONS WHICH ARE SOLELY OR JOINTLY-HELD SUBSIDIARIES

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

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

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

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

C. FINANCIAL RELATIONSHIPS OF THE GROUP LED BY THE COMPANY IN BELGIUM WITH THE AUDITOR(S) OR PEOPLE HE (THEY) IS (ARE) RELATED TO: Statement in accordance with article 133, paragraph 6 of the Company Law

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

SOCIAL REPORT (in euro)

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

STATEMENT OF THE PERSONS EMPLOYED

EMPLOYEES RECORDED IN THE STAFF REGISTER

During the current period	Codes	Total	1. Male	2. Female
Average number of employees				
Full-time	1001	6.178	3.885	2.293
Part-time	1002	3.389	697	2.692
Total of full-time equivalents (VTE)	1003	8.574	4.361	4.213
Number of hours actually worked				
Full-time	1011	8.887.229	5.723.075	3.164.155
Part-time	1012	3.015.339	513.543	2.501.796
Total	1013	11.902.569	6.236.617	5.665.951
Personnel costs				
Full-time	1021	557.904.934,21	393.353.233,47	164.551.700,74
Part-time	1022	177.962.662,37	40.871.282,02	137.091.380,35
Total	1023	735.867.596,58	434.224.515,49	301.643.081,09
Advantages in addition to wages	1033	15.962.766,91	9.419.391,15	6.543.375,76

During the previous period	Codes	P. Total	1P. Male	2P. Female
Average number of employees	1003	8.648	4.468	4.180
Number of hours actually worked	1013	11.874.492	6.134.940	5.739.552
Personnel costs	1023	730.135.411,00	426.901.303,00	303.234.108,00
Advantages in addition to wages	1033	15.610.306,00	9.127.156,00	6.483.150,00

	Codes	1. Full-time	2. Part-time	3. Total in full-time equivalents
At the closing date of the current period				
Number of employees recorded in the personnel register	105	6.165	3.334	8.533,7
By nature of the employment contract				
Contract for an indefinite period	110	6.161	3.334	8.529,7
Contract for a definite period	111	4	0	4,0
Contract for the execution of a specifically assigned work	112	0	0	0
Replacement contract	113	0	0	0
According to the gender and by level of education				
Male	120	3.871	672	4.332,9
primary education	1200	0	0	0
secondary education	1201	621	261	787,4
higher education (non-university)	1202	2.247	341	2.493,4
university education	1203	1.003	70	1.052,1
Female	121	0	0	4.200,8
primary education	1210	0	0	0
secondary education	1211	302	811	835,0
higher education (non-university)	1212	1.392	1.441	2.450,4
university education	1213	600	410	915,4
By professional category				
Management staff	130	53	1	53,8
Employees	134	6.111	3.332	8.478
Workers	132	1	1	2
Other	133	0	0	0

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

During the current period	Codes	1. Temporary personnel	2. Persons put at the disposal of the enterprise
Average number of employees	150	1	0
Number of hours actually worked	151	2.171	0
Charges of the enterprise	152	74.851,00	0

TABLE OF PERSONNEL CHANGES DURING THE CURRENT PERIOD

ENTRIES	Codes	1. Full-time	2. Part-time	3. Total in full-time equivalents
Number of employees recorded on the personnel register during the financial year	205	431	54	473
By nature of the employment contract				
Contract for an indefinite period	210	430	54	472
Contract for a definite period	211	1	0	1
Contract for the execution of a specifically assigned work	212	0	0	0
Replacement contract	213	0	0	0

DEPARTURES	Codes	1. Full-time	2. Part-time	3. Total in full-time equivalents
The number of employees with a in the staff register listed date of termination of the contract during the period	305	355	305	540
By nature of the employment contract				
Contract for an indefinite period	310	350	305	535
Contract for a definite period	311	5	0	5
Contract for the execution of a specifically assigned work	312	0	0	0
Replacement contract	313	0	0	0
According to the reason for termination of the employment contract				
Retirement	340	97	234	230
Unemployment with company bonus	341	0	0	0
Dismissal	342	52	5	56
Other reason	343	206	66	255
Of which: the number of persons who continue to render services to the enterprise at least half-time on a self-employed basis	350	0	0	0

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

	Codes	Male	Codes	Female
Total number of official advanced professional training projects at company expense				
Number of participating employees	5801	3.248	5811	3.404
Number of training hours	5802	84.059	5812	111.827
Costs for the company	5803	7.805.365,00	5813	8.180.253,00
of which gross costs directly linked to the training	58031	7.620.388,00	58131	7.986.392,00
of which paid contributions and deposits in collective funds	58032	184.976,67	58132	193.861,02
of which received subsidies (to be deducted)	58033	0,00	58133	0,00
Total number of less official and unofficial advance professional training projects at company expense				
Number of participating employees	5821	3.940	5831	4.255
Number of training hours	5822	32.197	5832	49.709
Costs for the company	5823	2.248.037,00	5833	2.427.765,00
Total number of initial professional training projects at company expense				
Number of participating employees	5841	0	5851	0
Number of training hours	5842	0	5852	0
Costs for the company	5843	0,00	5853	0,00

Valuation rules

1. General

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

The annual accounts are made up as at 31 December after profit appropriation.

2. Valuation rules

CURRENCY TRANSLATION

All monetary items denominated in foreign currency are translated into their equivalent in euros at the spot rate at balance sheet date. Negative and positive valuation differences, except for those relating to the financing of shares and investments in foreign currency and to dotation capital for foreign branches, are recorded in the profit and loss account.

Non-monetary items are valued on the basis of the historical rate at acquisition or, where appropriate, on the basis of the exchange rate at which the currency used to pay the price was purchased.
For transactions that entailed funding (lending), the rate of the day is used if there is no exchange rate.

Income and charges denominated in foreign currency are stated in the profit and loss account at the rate prevailing when they were recognised. Foreign-currency income and expenditure which is hedged in advance is recorded in euros on the basis of the fixed rate.

Translation of the financial statements of foreign branches outside the euro zone:
balance sheet items are translated at the closing exchange rate prevailing at year-end, profit and loss account items are translated based on average rates. For this purpose, each month's profit or loss is translated into euros at the rate prevailing at the end of that month.

The translation difference at balance sheet date, resulting from translating the profit and loss account on the basis of average rates, is taken to the profit and loss account as profit on financial transactions.

AMOUNTS RECEIVABLE

Interest collected in advance and similar income (including such additional compensation as fees for foreign loans) for the entire loan period cannot be taken to the profit and loss account immediately, and is therefore posted to an accruals and deferrals heading. At month-end, the amount earned is written to the profit and loss account.
Origination and processing fees charged are taken to profit and loss immediately on the inception of the loans and advances concerned, credit insurance premiums are taken to the profit and loss account annually when paid.
Commissions due (payable in advance) for bank guarantees given are recorded in the profit and loss account immediately. The commissions awarded by KBC Bank for credit broking are charged to the profit and loss account when the credit is disbursed.

Amounts receivable arising from advances and cash deposits are recorded in the balance sheet in the amount made available. The difference between the amount made available and the nominal value (discount) is recognised on an accruals basis according to the straight-line method as interest receivable via the accruals and deferrals accounts.

Dated commercial credit, consumer credit, home loans and receivables arising from leasing contracts are recorded in the balance sheet in the outstanding principal amount, plus the interest past due and sundry costs to be paid by customers. Interest received but not yet due (interest collected in advance) is recorded in the profit and loss account on an accruals basis via the accruals and deferrals headings.

The other amounts receivable are recognised in the balance sheet at nominal value.

Loans and advances that are transferred through securitisation operations where the transfer qualifies as a sale under CBFA guidelines no longer constitute bank assets and consequently may not appear on the balance sheet of KBC Bank, although the amount is required to be recorded in the contingent accounts. Until the securitisation operation comes to an end, the entry in the contingent accounts is required to be adjusted at the end of each month to reflect customers' loan repayments. Any gains realised on the sale of securitised assets are taken to the profit and loss account immediately at the time of the sale.
If the sales price is made up entirely or in part of a variable element dependent on the buyer's operating profit, this element will only be taken to the profit and loss account when the operating profit is known and this element is therefore fixed.

In synthetic securitisation operations, the (credit) risk in respect of the underlying (loan) portfolio is all that is transferred to a third party, and this by means of a credit default swap, for example, and not through the effective transfer/sale of the (loan) receivables. In other words, the loans remain on the balance sheet. Transactions used to hedge the company's own loan receivables are recognised as guarantees given or received. Transactions relating to the trading portfolio are recorded as interest rate swaps. Both types of transaction are marked to market and taken to profit and loss, unless carried out on an illiquid market (in this case, positive valuation differences are posted to an accruals and deferrals heading, and negative valuation differences to the profit and loss account).

For loans with an uncertain outcome, general provisions are set aside and specific write-downs are charged. All interest and various other receivables which have remained unpaid for three months after having become payable will not be recognised in the profit and loss account.

Non-specific write-downs are calculated for domestic loans with an uncertain outcome on the basis of the principal amount whose repayment is uncertain, the percentage susceptible to reclassification (that portion of the ‘uncertain outcome’ portfolio that might become ‘doubtful’) and the loss percentage. The percentages are arrived at on the basis of their moving average over the latest twelve months.
IBNR losses are recognised to take account of incurred but not yet reported losses on normal loans.

For loans classified as irrecoverable and doubtful, specific write-downs are posted on a case-by-case basis and charged to the assets heading in the annual accounts in which the risks appear, in order to cover the losses which are considered certain or likely to ensue on the outstanding loans. Interest due and charges are written to reserves.
Loans are classified as irrecoverable and doubtful if the loan balance is payable and if debt-recovery procedures have been initiated in or out of court.

The amount of any security is equal to the principal amount registered. Personal security is recorded in the accounts in the amount that can be obtained if execution is levied. Whenever the borrower makes a payment, the current amount of security has to be adjusted. If insufficient security is provided for a loan, a risk premium in the form of a higher rate of interest will be charged. The income this generates will be posted to ‘Net interest income’ on an accruals basis.

Deferred taxes are recognised for all taxable temporary differences between the carrying value of an asset or liability and its tax base, except for deferred tax assets on tax losses or notional interest deductions carried forward, which are not recognised due to the principle of prudence. Deferred taxes to be recognised are measured using the tax rates in effect on realisation of the assets or settlement of the liabilities to which they relate.

SECURITIES

Securities are recognised at acquisition cost at the time of purchase, excluding costs and less subscription fees. The ancillary costs attendant on acquisition are charged directly to the result.

- *Investment portfolio*
Fixed-income investment securities are recorded at acquisition cost, less or plus the matured portion of the premium or discount. The difference between the acquisition cost and the redemption value is reflected as an interest item in the profit and loss account on an accruals basis over the remaining term to maturity of the securities. It is included in the profit and loss account on a discounted basis, based on the internal rate of return at the time of purchase.

Perpetual debt is valued at the lower of acquisition cost and market value.

If redemption of a security is uncertain or doubtful, a write-down is recorded according to the principles that apply for the valuation of amounts receivable.
If securities are sold, their carrying value is determined on a case-by-case basis. Gains or losses are posted directly to the profit and loss account.

Listed shares and other variable-yield securities are valued each month at the lower of acquisition cost and market value at balance sheet date. Other securities are valued at least once a year, based on the annual accounts for the previous year. File administrators are responsible for ensuring that any significant negative developments during the course of the year are also dealt with.

No value impairments are posted for shares hedged against a decline in price by means of an option.

- *Trading portfolio*
Securities belonging to the trading portfolio are marked to market. The valuation differences this generates are recorded in the profit and loss account under heading VI: ‘Profit (Loss) on financial transactions’.

FINANCIAL FIXED ASSETS

Included in KBC Bank’s holdings or participating interests are the rights (shares) held in other companies with a view to creating specific, lasting ties with them.
If there are no lasting ties and the shares are acquired for resale, then this investment will not be considered a financial fixed asset, but rather as part of the investment portfolio, regardless of the size of the shareholding and the influence that could be exerted on the management of the company in question through this shareholding.

Participating interests and shares that are considered financial fixed assets are recognised at acquisition cost.
Write-downs are applied only in the event of a lasting impairment in or loss of value, established on the basis of the financial position, the profitability and the prospects of the company concerned.
Participating interests, shares and share certificates classified as financial fixed assets may be revalued if, in light of their usefulness to the company, they exhibit an incontestable and lasting increase in value.

Regardless of whether they are represented by securities, subordinated loans and advances to associated companies and companies linked by participating interests are valued according to the same principles as non-subordinated loans and advances.

FORMATION EXPENSES AND INTANGIBLE FIXED ASSETS

All formation expenses referred to in the Royal Decree on the annual accounts of credit institutions are charged directly to the profit and loss account for the financial year as administrative expenses.

Capitalised goodwill is depreciated according to the straight-line method over a period of five years, unless the Board of Directors decides otherwise.

The following rules apply to software that has been developed in-house: all charges relating to continuity projects, as well as any research expenses for investments, are taken directly to the profit and loss account. However, development expenses (both internal and external) for investments are capitalised as an intangible fixed asset and written off over a period of five years. Investments are large-scale projects that introduce or replace an important business objective or model. Systems software is depreciated at the same rate as hardware, being written off according to the straight-line method over a period of three years. Standard software and software customised or developed by third parties or tailor-made software, as well as its implementation, is capitalised and written off according to the straight-line method over its useful economic life. Since 2000, software developed for KBC head office has been capitalised for KBC Global Services NV.

At KBC Bank, intangible fixed assets recorded are capitalised at acquisition cost including ancillary costs, and are written off on an accruals basis during the first year of investment.

TANGIBLE FIXED ASSETS

All tangible fixed assets are recognised at acquisition cost, less accumulated depreciation. They are recorded at acquisition cost, including ancillary, directly allocable costs (acquisition costs, non-deductible VAT, etc.).

The rates of depreciation are determined on the basis of the anticipated useful economic life of the item and are applied according to the straight-line method. All tangible fixed assets are depreciated on an accruals basis from the time they are available for use. The ancillary costs are written off over the life of the asset. A write-down is charged for ancillary costs on the acquisition of land.

When tangible fixed assets are sold, realised gains or losses are taken immediately to the profit and loss account. If these assets are destroyed, the remaining amount to be written off is charged directly to the result.

Tangible fixed assets that exhibit an incontestable and lasting appreciation in value compared to their carrying value may be revalued. This surplus is written off over the average residual useful life of the assets in question.

CREDITORS

Amounts owed as a result of advances or cash deposits received are recorded in the balance sheet in the amount made available, plus or minus any difference between this amount and the redemption price of the portion that has already accrued. The difference between the amount made available and the nominal value is reflected as interest on an accruals basis in the profit and loss account.

PROVISIONS FOR LIABILITIES & CHARGES

Provisions for liabilities and charges are intended to cover losses or charges, the nature of which is clearly defined and which at balance sheet date are either likely or certain to be incurred, but the amount of which is uncertain.

- Pensions
Concerned here are commitments with regard to retirement and survivor's pensions, benefits paid out on early retirement and other similar pensions or allowances (related mainly to employees' leaving employment early and end-of-career schemes).

- Taxation
This provision covers the commitments that may arise from a change in the tax base or in the calculation of tax. It is set aside in anticipation of additional tax charges (not yet assessed) for past financial years, for the amount that is disputed.

- Other liabilities and charges

This is a residual heading in respect of the provisions referred to above and includes provisions for legal disputes, commitment credit and indirect taxes.

FINANCIAL INSTRUMENTS

- Valuation rules for trading and non-trading activities

Where trading activities are concerned, the unrealised profit or loss on revaluation is recognised at least at the end of every month. This revaluation takes into account any interest flows that have already been recognised on an accruals basis. In the event of a sale, liquidation or expiration, the profit/loss on the position is recognised immediately. Where illiquid currencies or securities are concerned, no profit on revaluation is recognised.

The existing strategic positions the dealing room takes for its own account via derivatives with a view to generating a profit on the long term by way of capital gains or interest spreads are valued according to the same principles used for illiquid interest rate positions.

For non-trading activities, where interest rate instruments are concerned, the gains or losses realised are only recognised on an accruals basis over the corresponding term. The valuation of non-interest-rate instruments (e.g., share option premiums) matches the valuation of the hedged position. In addition, non-trading activities carried out for the purpose of general, long-term management of interest rate products denominated in a foreign currency (macro-hedging) are also valued according to the 'lower of cost and market' principle, along with the associated on-balance-sheet products. Profit or loss on similar transactions carried out for general EUR ALM interest rate management purposes is recognised solely on an accruals basis.

Option premiums that are paid in advance are only taken to the profit and loss account on the due date or on liquidation, with the exception of option premiums for caps, floors and collars that have been concluded for hedging purposes (accruals-basis recognition). In the meantime, they are posted under the 'Other assets' or 'Other liabilities' items. Option premiums relating to trading activities are revalued at least at the end of every month.

- Valuation of derivatives

All derivatives are always recorded under specific off-balance-sheet headings on the transaction date. Amounts are released from the off-balance-sheet headings once the outcome of the transaction is definitive, even if the underlying term only starts at that time for certain interest rate products (e.g., FRAs).

Trading transactions are marked to market, and the mark-to-market (dirty price) value is recognised in the trading results. Non-trading transactions are included in interest income on an accruals basis, which is the case for interest payable and interest receivable relating to interest rate swaps and foreign currency interest rate swaps. The swap difference arising on FX swaps (and FX outrights) is also released to the results on an accruals basis. The results from interest rate futures and FRAs are included in the profit and loss account spread over the term of the underlying hedged item. Equity swaps are treated in the same way as interest rate swaps. In practice, equity swaps (just like options) are only recorded in the trading book and consequently marked to market. KBC Bank makes use of the derogation allowed by the CBFA to Article 36*bis* of the Royal Decree on the annual accounts of credit institutions. This derogation makes it possible to take interest rate derivatives that do not meet the hedging criteria to the profit and loss account on an accruals basis (interest rate derivatives classified as ALM or treasury management instruments).

- Hedging criteria for forward interest rate transactions:

The general criteria are set out in Article 36*bis* of the Royal Decree on the annual accounts of credit institutions of 23 September 1992:

- the hedged item or the combination of comparable hedged items must expose the credit institution to a risk of interest rate fluctuation;
- the transaction must be recorded in the books as a hedge from its inception;
- there must be a close correlation between fluctuations in the value of the hedged item and fluctuations in the value of the hedge; in the case of hedging options, there must be a correlation between fluctuations in the value of the hedged item and fluctuations in the value of the underlying financial instrument.

In addition, specific company criteria apply. All these criteria must be met: if one criterion is no longer satisfied, the hedge will be considered a trading transaction and be subject to the appropriate accounting treatment.

Hedging combinations that involve derivatives and are terminated before maturity will be considered trading transactions once the underlying position to be hedged no longer exists.

Future interest rate positions can be hedged if it is reasonably certain that the position will actually materialise. Moreover, the amount, term and interest rate conditions must be sufficiently certain.

- *Calculation of unrealised profit/loss on revaluation*

Derivatives are always valued on a contract basis; positive and negative valuation differences are not netted in the accounting records. Only for calculating capital adequacy requirements relative to market risks is the market risk calculated on a net basis per counterparty.

For forward interest rate and similar products (namely forward foreign exchange products), valuation occurs on the basis of the net present value of future, determinable cash flows using a single yield curve per currency, which is used throughout the bank. Any adjustments for operational and liquidity risks are deducted from the initial revaluation. Options are valued according to the usual valuation models. For interest rate products, calculations are always based on the assumption of a liquid market, provided the underlying currencies are liquid.

If a credit granted to a counterparty is classified as ‘doubtful’ or ‘irrecoverable’, the receivables and commitments stemming from off-balance-sheet products involving the same counterparty will be given the same classification. For loans and advances, write-downs may be recorded; for commitments, provisions will be set aside.

3. Changes in valuation rules

None.

Notes to the annual accounts.

The annual accounts have been prepared according to Belgian accounting standards (B-GAAP).

Balance sheet

KBC Bank NV (x1 000 EUR)	**31-12-2012**	**31-12-2011**	**Difference**
Assets	**158 287 234**	**169 075 232**	**-10 787 998**
Cash at central banks and in hand	3 442 321	3 925 763	-483 442
Amounts receivable from credit institutions	21 338 329	26 924 529	-5 586 200
Of which reverse repos with credit institutions	*6 850 536*	*6 464 760*	*385 776*
Amounts receivable from customers	71 063 002	72 278 706	-1 215 704
Of which reverse repos with professional counterparties	*1 873 798*	*3 250 439*	*-1 376 641*
Bonds and other fixed-income securities	33 064 999	33 150 550	-85 551
Shares and other variable-yield securities	296 447	374 758	-78 311
Financial fixed assets	14 443 064	15 823 170	-1 380 106
Formation expenses, tangible and intangible fixed assets	762 590	696 977	65 613
Other assets	1 996 134	2 066 932	-70 798
Deferred charges and accrued income	11 880 348	13 833 847	-1 953 499
Liabilities	**158 287 234**	**169 075 232**	**-10 787 998**
Amounts payable to credit institutions	17 745 555	17 963 841	-218 286
Of which repos with credit institutions	*836 058*	*1 749 921*	*-913 863*
Amounts payable to customers	101 590 945	110 964 206	-9 373 261
Of which repos with professional counterparties	*2 507 355*	*14 546 684*	*-12 039 329*
Debts represented by securities	6 183 971	2 961 562	3 222 409
Other amounts payable	1 163 056	1 505 986	-342 930
Accrued charges and deferred income	14 092 347	15 794 084	-1 701 737
Provisions for liabilities and charges and deferred taxes	392 035	668 845	-276 810
Subordinated loans	7 262 422	8 912 403	-1 649 981
Equity	9 856 902	10 304 305	-447 403

Total assets

Total assets fell by 10.8 billion euros to 158.3 billion euros due to the continued reduction in mainly foreign activities in 2012. The decline was the result of a decrease in amounts payable to customers and in funding provided to KBC Bank NV subsidiaries.

At year-end, assets held abroad accounted for 36.9% of total assets (44.1% at the end of 2011). The branches abroad held 5% of the bank's total assets, down 3 percentage points year-on-year.

Transactions with credit institutions

On balance, net lending to credit institutions[1] came to 3.0 billion euros at the end of the year, as opposed to net borrowing from credit institutions of 2.4 billion euros a year earlier, a reflection of the improved liquidity position of KBC Bank NV. Amounts receivable from credit institutions fell by 5.6 billion euros to 21.3 billion euros on account of a reduction in funding to subsidiaries, including KBC Bank Ireland. Reverse repos went up by 0.4 billion euros to a total of 6.9 billion euros and repos decreased by 0.9 billion euros to 0.8 billion euros.

Amounts receivable from customers

Amounts receivable from customers fell by 1.2 billion euros to 71.1 billion euros. This decline was attributable primarily to the decrease in lending to KBC Financial Products and to the reduction in activities in the branches abroad. In addition, reverse repos with professional counterparties went down by 1.4 billion euros. Mortgage loans rose by 2.9 billion euros despite the difficult economic climate.

[1] Amounts receivable from credit institutions + reverse repos with professional counterparties – amounts payable to credit institutions – repos with professional counterparties.

Bonds and other fixed-income securities

The total portfolio of fixed-income securities remained unchanged and stood at 33.1 billion euros at the end of the year. Securities issued by public authorities represented 58% of the portfolio.

The notes held in the portfolio of KBC IFIMA decreased by 1.2 billion euros in 2012. Spanish and Italian government bonds were also sold with the aim of cutting back exposure to GIIPS countries. Reinvestments were made in other assets including Belgian government bonds.

The investment portfolio contains collateral debt obligations (CDOs) for which, in accordance with Belgian accounting policies, a provision must be set aside for the full acquisition cost. Some CDOs still have a fair value, which totalled 14 million euros at year-end 2012.

The trading portfolio, which contains primarily government bonds and bonds issued by credit institutions, went down by 0.3 billion euros to 1.8 billion euros, due chiefly to the sale of German government bonds.

Financial fixed assets

Financial fixed assets fell by 1.4 billion euros to 14.4 billion euros, attributable mainly to write-downs relating to affiliated companies. For more details, see the review of the extraordinary result under the 'Profit and loss account' heading.

Other asset items

'Shares and other variable-yield securities' consisted chiefly of a trading portfolio.

'Other assets' remained unchanged at 2.0 billion euros. This heading comprised mainly the revaluation of foreign currency options and interest rate options.

'Deferred charges and accrued income' was mostly made up of accrued interest and the revaluation of derivatives (such as IRS). This item went down by 2 billion euros on account of the decline in the mark-to-market valuation of the derivatives. In addition, the volume of derivatives decreased in 2012.

Amounts payable to customers and debts represented by securities

At year-end 2012, total customer deposits amounted to 107.8 billion euros, a decline of 6.2 billion euros owing chiefly to a year-on-year decrease of 12 billion euros in repos with professional counterparties. In addition, the activities in the branches abroad were scaled back further. On the other hand, savings and other term deposits for private customers went up.

Provisions for liabilities and charges and deferred taxes

The provisions for liabilities and charges fell by 277 million euros to 0.4 billion euros, due mainly to the payment of compensation to private customers who had been sold KBC IFIMA and KBC Group 5-5-5 bonds in 2008 (provision constituted in 2011).

Subordinated loans

Total subordinated debt outstanding decreased to 7.3 billion euros and comprised:
– non-convertible bonds amounting to 4.4 billion euros;
– other subordinated term borrowings totalling 2.9 billion euros.

Equity

Equity fell by 0.4 billion euros to 9.9 billion euros as a result of the loss for the financial year.

Other liability headings

'Other amounts payable' comprised mainly amounts relating to options premiums, taxes, remuneration and social security charges.

'Accrued charges and deferred income' was made up primarily of interest payable and the revaluation of derivatives. The decrease in this item was attributable chiefly to the decline in the mark-to-market valuation of the derivatives and reduction in the volume of derivatives held in 2012 (also see 'Deferred charges and accrued income').

Off-balance-sheet headings

Contingent liabilities

The 1.5-billion-euro decline in contingent liabilities to 29.8 billion euros was accounted for almost entirely by the reduction in guarantees granted to subsidiaries (e.g., to the KBC Financial Products group and KBC IFIMA).

Profit and loss account

KBC Bank NV (x1 000 EUR)	**31-12-2012**	**31-12-2011**	**Difference**
Gross income from ordinary activities	3 090 317	4 486 342	-1 396 025
Operating charges	-2 205 490	-1 864 871	-340 619
Write-downs and provisions	163 815	-578 029	741 844
Profit on ordinary activities	1 048 642	2 043 442	-994 800
Extraordinary result	-1 380 340	-355 972	-1 024 368
Taxes	-115 704	20 218	-135 922
Result for the period to be appropriated	**-447 402**	**1 707 688**	**-2 153 090**

The loss for the financial year came to 0.4 billion euros and was due to the write-downs on financial fixed assets.

Notes to the profit and loss account

(x1 000 EUR)	**31-12-2012**	**31-12-2011**	**Difference**
Net interest income	978 297	1 444 472	-466 175
Income from variable-yield securities	700 113	2 458 613	-1 758 500
Net fee and commission income	923 671	668 448	255 223
Results from financial transactions	250 012	-327 095	577 107
Other operating income	238 224	241 904	-3 680
Gross income from ordinary activities	**3 090 317**	**4 486 342**	**-1 396 025**

Gross income from ordinary activities came to 3.1 billion euros, down 1.4 billion euros on the year-earlier figure.
Net interest income fell by 0.5 billion euros. Within KBC Belgium, volumes had a positive effect. However, the interest margin remained under pressure during 2012. The margin on mortgage loans and savings accounts was lower and decreased activity in the branches abroad also resulted in a smaller contribution to net interest income. In addition, reinvestments were made at lower interest rates.

Dividend income was lower than in 2011 on account of the payment of an extraordinary dividend by subsidiaries in 2011.

‘Results from financial transactions’ were positively impacted in 2012 mainly by outstanding dealing room results (which rose by 292 million euros) and by the gain of 56 million euros realised on the investment portfolio (compared with a loss of 230 million euros the previous year).

(x1 000 EUR)	31-12-2012	31-12-2011	Difference
General administrative charges	-2 109 058	-1 775 330	-333 728
Depreciation of tangible and intangible fixed assets	-41 887	-41 993	106
Other operating charges	-54 545	-47 548	-6 997
Operating charges	**-2 205 490**	**-1 864 871**	**-340 619**

Operating charges (including ‘depreciation of tangible and intangible fixed assets’, and ‘other operating charges’) rose by 340 million euros to 2.2 billion euros in 2012. This increase was due mainly to the payment of compensation to private customers who had been sold KBC IFIMA and KBC Group 5-5-5 bonds in 2008 (387 million euros). The amount contributed to the deposit protection scheme came to 79 million euros (compared with 66 million euros a year earlier).

(x1 000 EUR)	31-12-2012	31-12-2011	Difference
Write-downs on loans	-240 897	-192 807	-48 090
Write-downs on investment portfolio	48 209	-79 589	127 798
Provisions	356 503	-305 633	662 136
Write-downs and provisions	**163 815**	**-578 029**	**741 844**

‘Write-downs and provisions’ decreased year-on-year owing to the reversal in 2012 of the provision that had been set aside for potential compensation payments to private customers who had been sold KBC IFIMA or KBC Group 5-5-5 bonds in 2008 (+331 million euros).

Write-downs on loans went up slightly to 241 million euros, and related mainly to the corporate portfolio. The write-downs on loans to Belgian private customers and local businesses remained stable at a low level.

The negative extraordinary result in 2012 (-1.4 billion euros) related chiefly to the additional write-downs on financial fixed assets for Nova Ljubljanska banka (-442 million euros), KBC Bank Ireland (-425 million euros) and Absolut Bank (-410 million euros).

Branch network

At the end of 2012, KBC Bank had a network of 723 branches in Belgium. It also has 9 branches abroad, more specifically in New York, London, Paris, Rotterdam, Singapore, Hong Kong, Shanghai, Dublin and Poland.

Legal information (required under Article 96 of the Belgian Companies Code) that has not been provided above can be found in the ‘Report of the Board of Directors’ section.

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Free Translation from the Dutch version

Statutory auditor's report to the general meeting of shareholders of KBC Bank nv on the financial statements for the year ended 31 December 2012

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

Unqualified opinion on the financial statements

We have audited the financial statements for the year ended 31 December 2012, prepared in accordance with the financial reporting framework applicable in Belgium, which show a balance sheet total of € 158.287.233.815,53 and a loss for the year of € 447.427.161,68.

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

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

Responsibility of the statutory auditor

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

In accordance with these standards, we have performed procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, we have considered internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. We have evaluated the appropriateness of accounting policies used, the reasonableness of significant accounting estimates made by the company and the presentation of the financial statements, taken as a whole.
Finally, we have obtained from the board of directors and the company's officials the explanations and information necessary for executing our audit procedures.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements for the year ended 31 December 2011 give a true and fair view of the company's financial position and the results of its operations in accordance with the financial reporting framework applicable in Belgium.

Additional comments

The preparation and the assessment of the information that should be included in the directors' report and the company's compliance with the requirements of the Company Code (*Wetboek van vennootschappen/Code des sociétés*) and its articles of association are the responsibility of the board of directors.

Within the context of our assignment, it is our responsibility to verify in all material respects, the compliance with certain statutory and regulatory obligations. On this basis, we make the following comments which do not modify the scope of our opinion on the financial statements:

- The directors' report deals with the information required by law and is consistent with the financial statements.

We are, however, unable to comment on the description of the principal risks and uncertainties which the company is facing, and on its financial situation, its foreseeable evolution or the significant influence of certain facts on its future development. We can nevertheless confirm that the matters disclosed do not present any obvious inconsistencies with the information that we became aware of during the performance of our mandate.

- Without prejudice to formal aspects of minor importance, the accounting records were maintained in accordance with the legal and regulatory requirements applicable in Belgium.

- We do not have to report any transactions undertaken or decisions taken in violation of the company's articles of association or the Company Code. The appropriation of the results proposed to the shareholders' meeting complies with the legal and statutory provisions.

Brussels, 18 March 2013

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

Pierre Vanderbeek
Partner

Christel Weymeersch
Partner

13PVDB0089

Additional information

Capital transactions and guarantee agreements between KBC Group and the government in 2008 and 2009

Core-capital securities sold to the Belgian State and the Flemish Region

Since the end of 2008, KBC Group NV has issued a total of 7 billion euros in perpetual, non-transferable, non-voting core-capital securities that have equal ranking (*pari passu*) with ordinary shares upon liquidation. These have been subscribed by the Belgian State (the Federal Holding and Investment Company) and the Flemish Region (each in the amount of 3.5 billion euros). The transaction with the Belgian State was concluded in December 2008, while the agreement with the Flemish Region was signed in July 2009. The KBC group used the proceeds of these transactions to strengthen the core capital of its banking activities by 5.5 billion euros (via an ordinary capital increase at KBC Bank NV) and to raise the solvency margin of its insurance activities by 1.5 billion euros (via an ordinary capital increase at KBC Insurance NV).

Other features of the transactions (simplified):

- Issue price: 29.50 euros per security.
- Coupon: the higher of (i) 2.51 euros per security (corresponding to an interest rate of 8.5%), and (ii) 120% of the dividend paid on ordinary shares for 2009 (coupon payment in 2010) and 125% for 2010 and subsequent years (coupon payments in 2011 and later). No coupon is payable if there is no dividend.
- Buyback option: subject to the approval of the financial regulator, KBC Group NV may at any time repurchase all or some of the securities at 150% of the issue price (44.25 euros), payable in cash.
- Exchange option (only valid for the transaction with the Belgian State): after three years (i.e. from December 2011), KBC Group NV may at any time exchange all or some of the securities for ordinary shares on a one-for-one basis. Should KBC Group NV decide to do this, the State may choose to receive payment in cash for the securities. The cash amount will be equal to 115% (i.e. a 15% penalty) of the issue price as of the fourth year and will increase each subsequent year by 5 percentage points (with a cap at 150%).

On 2 January 2012, KBC Group NV repaid a first tranche of 500 million euros to the Belgian Federal Government, along with a 15% penalty (see ‘exchange option’ above). On 17 December 2012, KBC Group NV repaid 3 billion euros (plus a 15% penalty) to the Belgian State (recognised in the balance sheet at year-end 2012. As regards the remaining 3.5 billion euros owed to the Flemish Regional Government, KBC Group NV aims to repay 1.17 billion euros, together with the 50% penalty, in the first half of 2013. This repayment is subject to the customary approval of the National Bank of Belgium.

Guarantee agreement in respect of CDO and MBIA-related exposure

In May 2009, KBC signed an agreement with the Belgian State regarding a guarantee for a substantial part of its structured credit portfolio. The plan basically comprises a notional amount that initially totalled 20 billion euros (currently 13.9 billion euros (see below)), with 5.5 billion euros relating to unhedged super senior CDO investments and 14.4 billion euros relating to counterparty exposure to MBIA. The transaction is structured as follows (the CDO portfolio consists of several different CDOs; the guarantee structure applies to each CDO; the following figures refer to the sum of all CDOs covered by the plan). Please note that the initial amounts have changed, given that the exposure to CDOs has been reduced. The amounts at year-end 2012 and initial amounts are provided in each case below.

- First tranche of 1.7 (initially 3.2) billion euros: KBC Group bears any credit losses in full.
- Second tranche of 1.5 (initially 2) billion euros: KBC Group bears any credit losses. It has the option of asking the Belgian State to subscribe to newly issued KBC shares at market value, for 90% of the loss in this tranche (KBC Group continues to bear 10% of the risk).
- Third tranche of 9 (initially 14.8) billion euros: 90% of any credit losses will be compensated in cash by the Belgian State (KBC Group continues to bear 10% of the risk).

This agreement significantly mitigates the potential negative impact of the relevant MBIA and CDO exposure. Nevertheless, the results will remain volatile to a certain degree in the future, since rising or falling market values, for instance, could lead to existing valuation losses being reversed or increased. Whatever the case, the guarantee agreement will cap the cumulative total of valuation losses (and, as stated, KBC will have to bear part of the risk). KBC has to pay a fee for this guarantee agreement. More information on its impact on the income statement can be found in Note 5 in the ‘Consolidated financial statements’ section of the KBC Group Annual Report.

In December 2012, KBC reached an agreement with the Belgian Federal Government regarding revision of the guarantee agreement. Additional clauses have been added to the revised agreement that grant KBC a conditional discount on the outstanding fees (under certain strict conditions and limited to a set maximum amount). In other words, the government has included an incentive for KBC if KBC succeeds in significantly reducing the government's exposure. Any future impact on KBC's results will depend on market conditions and opportunities that arise going forward.

Management certification

'I, Luc Popelier, Chief Financial Officer of KBC Bank, certify on behalf of the Executive Committee of KBC Bank NV that, to the best of my knowledge, the financial statements, which are based on the relevant standards for annual accounts, fairly present in all material respects the assets, the financial condition and results of KBC Bank NV and its consolidated subsidiaries, and that the annual report provides a fair overview of the development, results and the situation of KBC Bank NV and its consolidated subsidiaries, as well as an overview of the main risks and uncertainties to which they are exposed.'