KBC Bank

Annual report 2011

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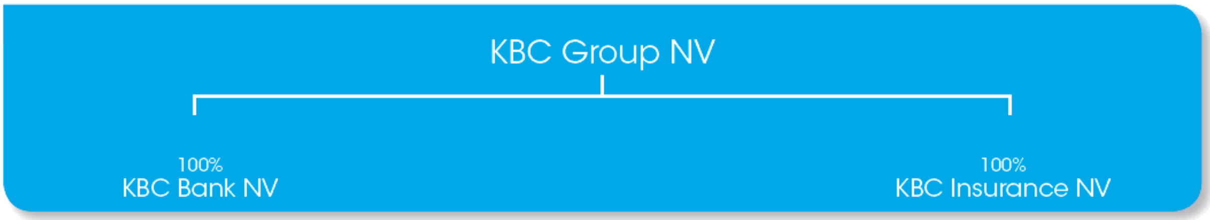
To the reader

Company name

'KBC', 'the group' or 'KBC Bank' as used in this annual report refer to the consolidated bank entity, i.e. KBC Bank NV including 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 schematic shows the legal structure of the KBC group, which has one single entity – KBC Group NV – in control of two underlying companies, viz. KBC Bank and KBC Insurance NV (KBL European Private Bankers SA is no longer included given that a sale agreement has been signed for it). 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. 'KBC Group' or 'the KBC group' as used in this annual report refer to KBC Group NV, including all group companies included in the scope of consolidation.



in simplified form

Forward-looking statements

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

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: [impairment on 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 non-performing loans.

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

Credit cost ratio: [net changes in impairment for credit risks] / [average outstanding loan portfolio]. For a definition of the loan portfolio, see the 'Value and risk management' section (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 brochure. Pursuant to Article 119, KBC Bank NV has combined the reports for its company and consolidated annual accounts. The Risk Report and CSR Report referred to in certain sections do not form part of the annual report.

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Report of the Board of Directors

Profile

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

2011 was another highly turbulent year on both the economic and financial fronts. The turmoil generated by the sovereign debt crisis, the uncertainty surrounding the euro, the falling stock markets and the deteriorating economic situation all had a significant impact on our results. Even so, we ended the year with a consolidated net profit of 347 million euros. More importantly, we made decisive progress in implementing our divestment plan, a major part of which was realised by the opening months of 2012. At the same time, we succeeded in further lowering our risk profile in a number of areas.

Our net profit of 347 million euros was considerably lower than in 2010, but the decrease is partly attributable to non-operating items, such as valuation losses on our portfolio of structured products. If we disregard the principal non-operating items, our underlying result came to 635 million euros in 2011, compared with 1 174 million euros a year earlier. Among the positive elements within that underlying figure are a good level of net interest income and ongoing rigorous cost control. Negative elements included high provisioning in Hungary, Bulgaria and Ireland, and the impact of the sovereign debt crisis, particularly in Greece. The fact that our underlying result exceeded 0.6 billion euros, in spite of factors that were largely shaped externally, demonstrates that our group's business model is fundamentally sound.

2011 was a decisive year in terms of the further implementation of KBC Group's strategic plan, one that also clearly has an impact on KBC Bank. The plan aims to make the group an even more focused, regional European player with a lower risk profile. It also entails the divestment of several group companies and a number of other measures that – together with organic profit generation – are needed to build up the funds that will enable KBC Group to redeem the core-capital securities subscribed by the Belgian State and the Flemish Region within a reasonable period of time. KBC Group began that process at the start of 2012, when it repaid 0.5 billion euros plus a 15% penalty to the Belgian State.

We announced a change in this strategic plan in mid-2011. A number of measures, including the planned IPO of a minority stake in our Czech banking subsidiary ČSOB, were cancelled and replaced by others, such as the sale of Polish group companies, Kredyt Bank (which is a subsidiary of KBC Bank) and WARTA (which is a subsidiary of KBC Insurance). This move was largely prompted by regulatory amendments that had rendered the originally planned measures less effective. At the end of February 2012, we announced that we had concluded an agreement with Banco Santander regarding the merger of our respective Polish subsidiaries, Bank Zachodni WBK and Kredyt Bank, ultimately with the aim to sell the KBC shareholding in the merged bank.

Of course, the remaining measures in the original strategic plan continued to be implemented in 2011, the most important of which for KBC Bank was the sale of Centea, which was finalised on 1 July. We also continued to work on other risk-mitigating measures. This included further reducing our exposure to sovereign bonds issued by Southern European countries and lowering our exposure to CDOs and ABS. More information in this regard is provided in the 'Value and risk management' section of this report.

At the end of 2011, our tier-1 capital ratio according to Basel II was 11.6%, which we believe represents a comfortable capital position for the bank. Our liquidity position – a long-standing strength of our group – also remains robust and is underpinned by a stable, retail customer deposit base in our home markets.

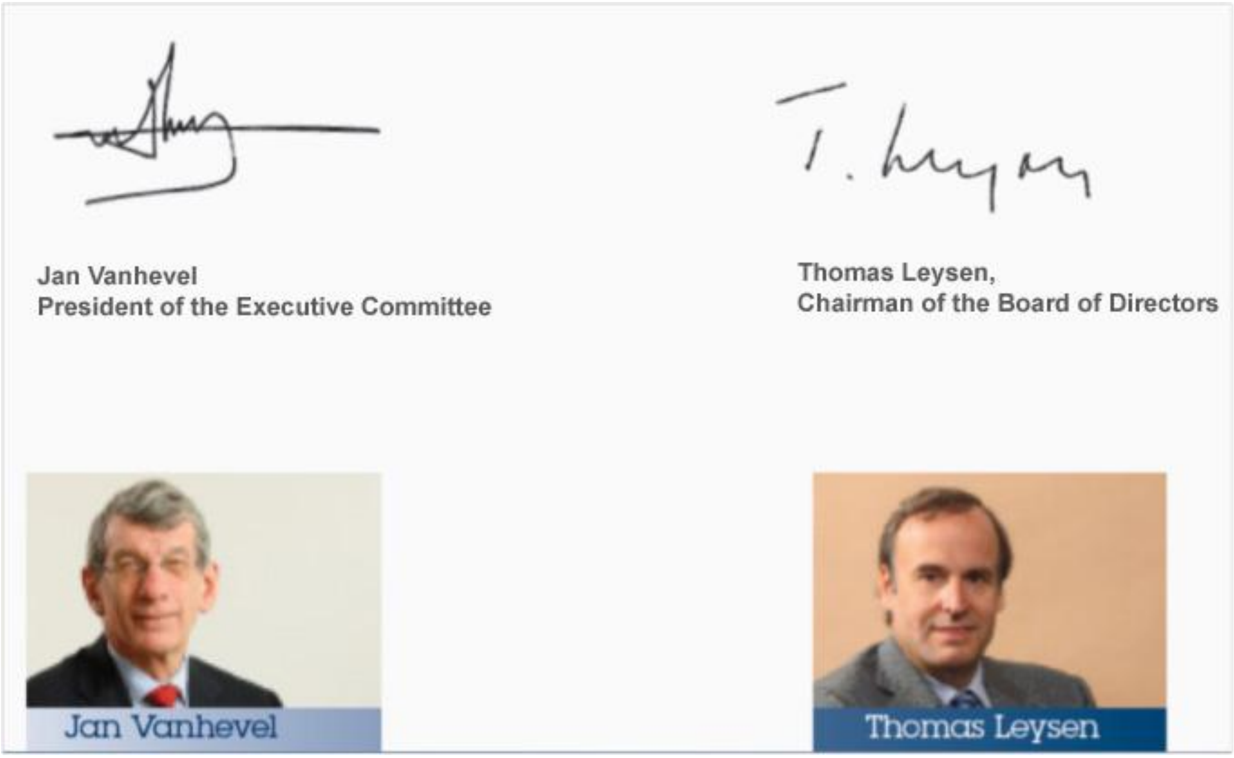
In addition to our financial goals, we paid close attention in our business operations to our role in society. This was reflected in the numerous initiatives we took in the past year in relation to community involvement and the environment. One example in this regard was the approval and implementation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

It is far from easy in turbulent times to make a statement regarding economic developments in the near future. In saying that, we are fully aware of the many challenges that lie ahead of us. There is still uncertainty about the direction the global economy will take and the sovereign debt crisis in the euro area continues to take centre stage. However, the downward economic spiral would appear to have ended and business confidence indicators are even pointing towards a gradual economic recovery.

We have, moreover, demonstrated over the past two years that, thanks to the persistent efforts of our employees, we have bounced back. We are more focused than ever on pursuing our core retail banking business in a number of carefully selected countries and we are making good progress in dealing with the legacies of the past.

We would like to thank all our customers, employees, shareholders and all other stakeholders for the confidence they have placed in our group. Although we are well aware that the financial sector is a frequent target for criticism within the current social debate, we will continue to do everything in our power to strengthen trust in the group.

In closing, we would like to extend a special word of thanks to Jan Huyghebaert, who ended his career at KBC in September 2011. He was *the* architect behind the current KBC group, keeping it on track for many years as Chairman of the Board of Directors, and doing so with authority and style in both calm times and the more challenging ones of the past few years. KBC owes him a huge debt of gratitude for his unrelenting work.



Area of operation and activities

KBC Bank is a multi-channel bank catering mainly for retail, SME and mid-cap customers. It concentrates on its home markets of Belgium and certain countries in Central and Eastern Europe. Elsewhere around the globe, the group has established a presence in selected countries and regions. The group is made up of the Belgium Business Unit (retail banking, asset management and private banking in Belgium), the Central & Eastern Europe Business Unit (retail banking, asset management, private banking and merchant banking in selected countries in Central and Eastern Europe), the Merchant Banking Business Unit (corporate banking and market activities in Belgium and abroad, apart from those in Central and Eastern Europe), and the Shared Services & Operations Business Unit (encompassing a number of services that provide support and products to the other business units).

Shareholders

Shareholder structure on 31-12-2011	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 (31-12-2011)	
Belgium	844
Central and Eastern Europe (the 4 home markets of the Czech Republic, Slovakia, Hungary and Bulgaria)	806
Number of staff (2011 average in FTEs)	37 663

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

2011 financial year	Earnings release for KBC Group: 9 February 2012
	2011 Annual Report and Risk Report for KBC Group available: 3 April 2012
	2011 Annual Report for KBC Bank available: 3 April 2012
	AGM of KBC Bank: 25 April 2012
	2011 CSR Report for KBC Group available: 2 May 2012
	AGM of KBC Group: 3 May 2012
1Q2012	Earnings release for KBC Group: 10 May 2012
2Q2012/1H2012	Earnings release for KBC Group: 7 August 2012
	Earnings release for KBC Bank: 31 August 2012
3Q2012/9M2012	Earnings release for KBC Group: 8 November 2012
4Q2012/FY2012	Earnings release for KBC Group: 14 February 2013

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

Long-term credit ratings

Long-term credit ratings for KBC Bank (29 February 2012)

Fitch	A- (stable outlook)
Moody's	A1 (under review for downgrade)
Standard & Poor's	A- (stable outlook)

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

The long-term credit ratings for KBC Bank NV are provided in the table. The ratings were revised as follows in the course of 2011 and at the start of 2012:

- In September 2011, Moody's lowered the long-term rating from Aa3 to A1. It also revised the outlook from negative to stable. The outlook was revised back to negative in November. In February 2012, the ratings were placed under review for downgrade.
- In December 2011, S&P's lowered the long-term rating from A to A- (and the short-term rating from A1 to A2).
- Fitch placed the long-term rating on negative watch in December 2011 and lowered it from A to A- (with stable outlook) on 31 January 2012.

Summary of the main events in 2011

March	Agreement is reached for the sale of Centea to Landbouwkrediet.
April	Agreement is reached with Value Partners Ltd. for the sale of KBC's stake in KBC Concord Asset Management Co. in Taiwan.
May	Luc Popelier succeeds Luc Philips as CFO. Luc Gijsens is appointed CEO of the Merchant Banking Business Unit.
July	The European Commission approves the amended strategic plan of KBC Group. The most important changes concern the planned sale of Kredyt Bank and WARTA (a KBC Insurance subsidiary) in Poland, and the cancellation of the IPOs of minority stakes in ČSOB in the Czech Republic and K&H Bank in Hungary.
	The results of the European stress tests confirm that KBC Bank meets the required target.
August	Publication of results for the first half of 2011: consolidated net profit of 911 million euros. Adjusted for exceptional items, 'underlying' net profit comes to 861 million euros. The results also include impairment charges on Greek sovereign bonds.
	Management buyouts of KBC Securities' Serbian and Romanian activities.
September	A new generation of Mobile Banking apps is launched for KBC customers in the Belgian market.
October	Thomas Leysen succeeds Jan Huyghebaert as Chairman of the Board of Directors.
	KBC Bank meets the new core tier1 target set by the European banking regulator.
November	The third-quarter results for KBC Group – and therefore for KBC Bank, too – are adversely affected by the decline in value of CDOs, the impact of Greece and relatively high provisioning in Hungary, Bulgaria and Ireland. On the other hand, holdings of Southern European government bonds are significantly reduced and the exposure to CDOs/ABS lowered.
December	The results of the European stress tests again confirm that KBC Bank meets the required target.
	The new, group-wide Climate Change Policy is approved.
	Announcement by KBC Group that 0.5 billion euros' worth of core-capital securities will be repaid to the Belgian Federal Government on 2 January 2012.

Main events at the start of 2012

February 2012: Banco Santander SA and KBC conclude an agreement with regard to the merger of their Polish banking subsidiaries, Bank Zachodni WBK SA and Kredyt Bank SA.

February 2012: announcement that Jan Vanhevel (Group CEO) will retire after the annual meeting on 3 May 2012. He will be succeeded by Johan Thijs, who will remain CEO of the Belgium Business Unit until that date. Daniel Falque will succeed Johan Thijs as CEO of the Belgium Business Unit.

March 2012: Agreement is reached with Value Partners Ltd. for the sale of KBC's stake in KBC Goldstate in China.

March 2012: implementation of the agreement on Greek debt (see Note 42 of the 'Consolidated financial statements' section).

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

Strategy (KBC group)

The strategy 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 KBC Group 2011 Annual Report.

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

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

We are very firmly embedded in our home markets and prefer a modified approach to each market. In some markets, we aim to position ourselves (or continue positioning ourselves) among the market leaders, i.e. to be a top-five player with a general approach to the market. In other markets, we see ourselves more as a selective champion, which means we will concentrate on specific customer segments and/or products where we enjoy a comparative advantage and/or which generate an above-average return. We will continue to operate as a bancassurer in all our home markets, but it remains the intention that the bank and the insurance company individually remain profitable in each home market.

Products and services are developed centrally or locally, depending on which is the most efficient. The product providers will, moreover, form effective partnerships in each of the relevant markets with the group's local distributors (banks and insurers), as these are close to customers and know which products they want.

We will take account of risk and of responsible use of capital when making all important business decisions.

Under Basel II, the core tier-1 ratio must come to at least 11% for the KBC group as a whole.

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

The group's focus also means that a substantial proportion of its non-core activities and its presence in non-core countries have been or will be run down. Therefore, the group's strategic plan includes a summary of the group companies and activities that need to be divested. That plan was adjusted somewhat in mid-2011, due to the fact that the impact of certain changes in the regulatory environment – especially Basel III and the draft IFRS rules on leases – had reduced the effectiveness of some measures. In light of this situation, the European Commission agreed that the originally planned IPOs of minority stakes in ČSOB Bank in the Czech Republic and K&H Bank in Hungary, as well as the sale and lease back of KBC's head office in Belgium, could be cancelled, and that the Polish banking and insurance subsidiaries, Kredyt Bank and WARTA, could be divested and selected ABS and CDO assets sold or unwound instead. The following schematic contains a simplified overview of the main elements of the divestment programme and the current status. The measures relating primarily to KBC Bank appear in italics. More details can be found in the sections devoted to the individual business units.

Following the repayment of 0.5 billion euros (and payment of a 15% penalty) on 2 January 2012, the capital base of KBC Group at year-end 2011 included 6.5 billion euros in core-capital securities issued to the Belgian Federal and Flemish Regional governments in 2008 and 2009. More information about this and the CDO guarantee agreement concluded with the Belgian State in 2009 can be found in the 'Additional information' section of this report. KBC Group intends to redeem all the remaining core-capital securities within a reasonable period of time. KBC Group is continuing its efforts to ensure that the 4.7 billion euros in state aid is reimbursed (before penalties) before the end of 2013, as set out in the European plan.

Implementation of divestment programme for KBC Group (simplified)

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

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

In addition to the measures set out in the divestment plan, the KBC group continued to lower its overall risk profile through a number of other measures. These included reducing the portfolio of sovereign bonds issued by riskier Southern European countries and Ireland by a total of almost 5.5 billion euros in 2011 (or -53%), bringing it to 4.8 billion euros at year-end 2011 and scaling back the CDO and ABS portfolios to a greater extent than envisaged in the plan. Holdings of CDOs and ABS were trimmed by a nominal amount of nearly 7 billion euros in 2011 (or -25%) and the exposure to CDOs further reduced by approximately 1.7 billion euros (nominal amount) at the start of 2012. All the figures given relate to KBC Group. The aim is to continue reducing the exposure to CDOs and ABS. Both subjects are discussed at greater length in the 'Value and risk management' section.

Management structure

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

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

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

- No results are allocated to the Shared Services & Operations Business Unit, since all its income and expenses are passed on to the other business units and reflected in their results. Consequently, this business unit is not presented separately when the results are reported by segment.
- All group companies earmarked for sale under the strategic plan are allocated to the Group Centre. The Group Centre also includes certain costs that cannot be allocated.

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

Belgium Business Unit	**Central & Eastern Europe Business Unit**[1]	**Merchant Banking Business Unit**	**Shared Services & Operations Business Unit**
Brief description			
Retail and private banking in Belgium	Retail and private banking and merchant banking in Central and Eastern Europe	Corporate banking and market activities in Belgium and abroad (apart from those in Central and Eastern Europe)	Services providing support and products to other business units
Main group companies or services Excluding the activities earmarked for sale or run-down (these are listed in the sections dealing with the individual business units).			
KBC Bank (retail and private banking activities), CBC Banque KBC Asset Management, KBC Lease (retail Belgium), KBC Consumer Finance	ČSOB (Czech Republic), ČSOB (Slovakia), K&H Bank (Hungary), CIBANK (Bulgaria)	KBC Bank (merchant banking activities), KBC Commercial Finance, KBC Bank Ireland, KBC Credit Investments, KBC Lease (corporate), KBC Internationale Financieringsmaatschappij, KBC Securities	asset management, payments, consumer finance, trade finance, ICT, leasing, organisation
Network			
818 retail and private banking branches, various electronic channels	806 bank branches in the four home markets, various electronic channels	26 corporate branches in Belgium, 24 branches outside Belgium[2], various electronic channels	–
Contribution to the KBC Bank's underlying net result in 2011 (excluding Group Centre, which accounted for 28 million euros)			
422 million euros	298 million euros	-113 million euros	–
Financial ratios based on underlying results (definitions on first page under 'Ratios used')			
Cost/income ratio: 63% Credit cost ratio: 0.10%	Cost/income ratio: 54% Credit cost ratio: 1.59%	Cost/income ratio: 46% Credit cost ratio: 1.36%	–

1 The full name of this business unit is the 'Central & Eastern Europe and Russia Business Unit'. However, for the sake of simplicity, and since the results from Russia (and some other countries) have been transferred to the Group Centre, this business unit is referred to as the 'Central & Eastern Europe Business Unit' throughout this annual report.
2 Corporate branches of KBC Bank, KBC Bank Deutschland and KBC Bank Ireland.

On 31 December 2011, the Executive Committee of KBC Bank NV comprised the following members:

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

Review of the consolidated financial statements

Consolidated income statement

Consolidated income statement, KBC Bank (in millions of EUR)	IFRS		Underlying result	
	2010	2011	2010	2011
Net interest income	5 279	4 484	4 483	4 258
Interest income	9 621	10 942	[1]	[1]
Interest expense	-4 341	-6 458	[1]	[1]
Dividend income	51	33	19	15
Net result from financial instruments at fair value through profit or loss	-277	2	766	502
Net realised result from available-for-sale assets	45	85	37	85
Net fee and commission income	1 638	1 565	1 699	1 587
Fee and commission income	2 222	2 098	[1]	[1]
Fee and commission expenses	-584	-533	[1]	[1]
Other net income	259	-50	14	-167
Total income	6 995	6 119	7 019	6 280
Operating expenses	-3 861	-3 709	-3 767	-3 622
Specific impairment	-1 635	-1 659	-1 507	-1 578
on loans and receivables	-1 485	-1 331	-1 485	-1 331
on available-for-sale assets	-12	-182	-12	-182
on goodwill	-85	-81	0	0
other	-54	-66	-10	-66
Share in results of associated companies	-54	-52	-54	-52
Result before tax	1 445	699	1 692	1 028
Income tax expense	88	-216	-378	-257
Net post-tax result from discontinued operations	0	0	0	0
Result after tax	1 533	483	1 314	771
Result after tax, attributable to minority interests[2]	139	136	140	136
Result after tax, attributable to equity holders of the parent	**1 395**	**347**	**1 174**	**635**

The underlying results are examined in more detail 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 2010 and 2011 are summarised below.

Simplified overview of differences between IFRS results and underlying results	Results according to IFRS	Underlying results
Changes in fair value of ALM hedging instruments*	Under 'Net result from financial instruments at fair value'	Excluded
Changes in fair value of own debt instruments	Included	Excluded
Exceptional items (including results from actual divestments and changes in the value of CDOs, impairment on goodwill, etc.)	Included	Excluded
Interest on ALM hedging instruments	Under 'Net result from financial instruments at fair value' until year-end 2010 (Under 'Net interest income' as of 2011)	Under 'Net interest income'
Income from professional trading activities	Divided up among different items	Grouped together under 'Net result from financial instruments at fair value'

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

Overview of items excluded from the underlying result (in millions of EUR, after tax)	2010	2011
Changes in fair value of ALM hedging instruments	-185	-268
Gains/losses relating to CDOs	847	-287
Fee for government guarantee scheme to cover CDO-related risks	-57	-43
Impairment on goodwill and associated companies	-115	-81
Result from legacy structured derivatives business (KBC Financial Products)	-372	50
Changes in fair value of own debt instruments	39	359
Results on divestments	77	-18
Other	-15	0
Total exceptional items	221	-288

The -0.3 billion euros relating to CDOs in 2011 was due mainly to significantly widening credit spreads on corporate bonds and ABS, which caused the value of our CDO position to decline. More information about this and the other items excluded from the underlying result is provided under 'Notes on segment reporting' in the 'Consolidated financial statements' section.

Key consolidated balance sheet and solvency figures

Selected balance-sheet and solvency items, KBC Bank (in millions of EUR)	2010	2011
Total assets	276 723	241 076
Loans and advances to customers	151 326	140 078
Securities (equity and debt instruments)	66 751	46 740
Deposits from customers and debt securities	202 007	171 605
Risk-weighted assets	111 711	106 256
Total equity	14 142	12 093
Parent shareholders' equity	13 193	11 117
Minority interests	950	975
Tier-1 ratio (Basel II)	12.4%	11.6%
Core tier-1 ratio (Basel II)	10.5%	9.6%

Additional information

- The comparison of results between 2010 and 2011 is affected by the ongoing divestment programme:
  - Realised gains and losses on completed divestments (and impairment charges on divestments for which an agreement has been signed but not yet completed) are treated as exceptional items and have, therefore, been excluded from the underlying results.
  - The results for the divested group companies themselves are included in both the IFRS and underlying group results until the moment of sale. An indication of the period for which the results of the most important of these companies are recognised in the group result can be found in the table,

‘Main acquisitions, divestments or changes in the ownership percentage of consolidated subsidiaries or operations’, in the ‘Consolidated financial statements’ section.

- The assets and liabilities of divested companies no longer appear, of course, in the balance sheet. For KBC Bank, there were no major divestments for which an agreement has been signed but not yet completed that fell under the scope of IFRS 5 at year-end 2011(for divestments like this, the entities’ assets and liabilities would be grouped together under 'Non-current assets held for sale and disposal groups’ and ‘Liabilities associated with disposal groups’ on the balance sheet).

- 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 +25 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.
- The breakdown by business unit has been restated for 2011 (and with retroactive effect for 2010) to reflect the modified strategy. For more information, see ‘Management structure’ above.
- All KBC Bank shares are owned directly and indirectly by KBC Group. KBC Bank will pay a total dividend of 1 620 million euros to KBC Group for 2011 (1 500 million euros of which has already been paid as an interim dividend), subject to the approval of the General Meeting.

Analysis of the main income statement and balance sheet items

Net interest income

Net interest income came to 4 484 million euros in 2011. On an underlying basis, the figure was 4 258 million euros, roughly 3% lower than its year-earlier level when Centea (sold in mid-2011) is excluded. At 1.97%, the underlying net interest margin was roughly 8 basis points higher than in 2010. On a comparable basis (and excluding intra-KBC Group transactions), the total volume of credit outstanding rose by 2% in the course of 2011. Implementation of the refocused strategy meant that loan portfolio growth (+6%) at the Belgium and Central & Eastern Europe business units was partially cancelled out by the ongoing deliberate reduction in international loan portfolios outside the home markets (-1% at the Merchant Banking Business Unit and -1% at the Group Centre). On a comparable basis, the total volume of deposits went up by 5% in the Belgium Business Unit and by 4% in the Central & Eastern Europe Business Unit, However, there was a 45% decline in the Merchant Banking Business Unit, primarily on account of a drop in (volatile) short-term corporate and institutional deposits outside the home markets, arising from risk aversion in some foreign markets to the euro area and the downgrading by Standard & Poor’s of KBC Bank’s short-term rating.

Net fee and commission income

Net fee and commission income came to 1 565 million euros in 2011. On an underlying basis, it was 1 587 million euros, down 7% on the previous year’s figure. In addition to the divestments, this was attributable to a number of other factors, including a decline in fee and commission income from asset management activities, which was due in part to the fall in the group’s assets under management and to investors’ diminished appetite for risk, and offset to just a limited extent by the commission received on the sale of Belgian state notes. At the end of 2011, the group’s total assets under management (investment funds and assets managed for private and institutional investors) amounted to approximately 149 billion euros, 7% less than the year-earlier figure, due to a combination of lower volumes and prices. The Belgium Business Unit was responsible for the bulk of assets under management (138 billion euros) at year-end 2011.

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 2 million euros in 2011, compared with -277 million euros in 2010. This item was significantly influenced by various exceptional and non-operating items, including valuation markdowns on CDOs, changes in fair value of own debt instruments and adjustments to the value of certain government bonds used for the fair value option. If this and other exceptional items are excluded from this trading and fair value income, and all trading-related income recorded under IFRS in various other income items is included, underlying trading and fair value income amounted to a positive 502 million euros in 2011, compared with 766 million euros a year earlier, partly reflecting a less robust performance in the dealing rooms and negative counterparty valuation adjustments for derivative financial instruments in 2011.

Other income

Dividends, realised gains and other net income came to an aggregate 68 million euros in 2011. On an underlying basis, they amounted to -67 million euros, down 137 million euros on the figure for 2010. The difference is primarily attributable to the combination of higher realised gains from available-for-sale shares and bonds, and a significantly lower level of other net income. The latter item had been adversely affected by the recognition of 175 million euros for irregularities at KBC Lease UK in 2010. In 2011, it was negatively impacted by the recognition of 334 million euros for the 5-5-5 investment product (partly related to Greece; more information about this product can be found in Note 8 of the 'Consolidated financial statements' section).

Operating expenses

Operating expenses came to 3 709 million euros in 2011, or 3 622 million euros on an underlying basis. This underlying figure is 4% down on its year-earlier level, due in part to divestments and a reduction in activities (reflected primarily in the Group Centre), despite inflationary pressures pushing up staff expenses slightly. It should also be noted that the figures for both 2010 and 2011 include additional expenses (54 and 2 million euros) relating to the new bank tax in Hungary. The lower figure for 2011 was accounted for by the partial compensation of losses related to the new legislation on foreign-currency mortgage loans in Hungary. The underlying cost/income ratio (operating expenses/total income) was roughly 58% in 2011, slightly up on its year-earlier level of 54%. It was 63% for the Belgium Business Unit, 54% for the Central & Eastern Europe Business Unit, and 46% for the Merchant Banking Business Unit.

Impairment on loans and receivables

Impairment on loans and receivables (loan loss provisions) amounted to 1.3 billion euros in 2011, compared with 1.5 billion euros in 2010. This fall resulted from lower provisioning in a number of countries, including Poland, Russia, the Czech Republic and Slovakia, and lower provisioning for US asset-backed securities, partially offset by higher provisioning in Hungary (chiefly related to the new legislation on foreign-currency loans) and Bulgaria, while loan loss provisions in Ireland remained relatively high (510 million euros in 2011, compared with 525 million euros in 2010). Overall, the group's credit cost ratio improved from 91 basis points in 2010 to 83 basis points in 2011 (136 basis points at the Merchant Banking Business Unit, 159 basis points at the Central & Eastern Europe Business Unit and a very favourable 10 basis points at the Belgium Business Unit). The proportion of non-performing loans in the total loan portfolio was 4.9% at year-end 2011, compared with 4.1% in 2010.

Other impairment charges

Other impairment charges in 2011 related chiefly to the recognition of 203 million euros for Greek government bonds, which were marked down to fair value (this corresponds to an impairment of approximately 69%). Due to the fall in stock market prices, a further impairment of 14 million euros was recognised on shares in investment portfolios. Impairment on goodwill in respect of certain subsidiaries and associated companies (goodwill markdowns of this kind have been eliminated from the underlying results) came to 81 million euros, and related primarily to Bulgaria.

Balance sheet and solvency

At the end of 2011, KBC Bank's consolidated total assets came to 241 billion euros, down 13% year-on-year. Risk-weighted assets fell by 5% to 106 billion euros in 2011, a trend that is accounted for primarily by the ongoing deliberate run-down of loan portfolios not linked to the home markets and divestments. 'Loans and advances to customers' (137 billion euros in loans at the end of 2011, not including reverse repos) and 'Securities' (47 billion euros, 97% of which were debt instruments) continued to be the main products on the asset side of the balance sheet. On a comparable basis, lending was up 2%, due to the scaling back of loan portfolios outside the home markets, combined with an increase at the Belgium Business Unit (+6%) and the Central & Eastern Europe Business Unit (+6%). The main credit products (including reverse repos) were again term loans (65 billion euros) and home loans (57 billion euros). On a comparable basis, total customer deposits (excluding repos) fell by 14% to 154 billion euros at group level. Although there was an increase in deposits at the Belgium Business Unit (+5%) and the Central & Eastern Europe Business Unit (+4%), there was a significant decline at the Merchant Banking Business Unit (-45%, see 'Net interest income' above). As in 2010, the main products (including repos) were time deposits (64 billion euros), demand deposits (38 billion euros) and savings deposits (33 billion euros).

On 31 December 2011, total equity came to 12.1 billion euros. This figure included parent shareholders' equity (11.1 billion euros) and minority interests (1.0 billion euros). On balance, total equity fell by 2 billion euros in 2011. The main factor here was the dividend paid to KBC Group (a dividend of 0.6 billion euros for 2010 and an interim dividend of 1.5 billion euros for 2011). At year-end 2011, the tier-1 ratio amounted to 11.6% (core tier-1 ratio of 9.6%). For a detailed overview of changes in equity, see the 'Consolidated statement of changes in equity' in the 'Consolidated financial statements' section.

Review of the business units

Net results per business unit

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

	2010	2011
IFRS result	1 395	347
Underlying result	1 174	635
Belgium Business Unit	622	422
Central & Eastern Europe Business Unit	557	298
Czech Republic*	518	459
Slovakia	44	66
Hungary	75	-26
Bulgaria	0	-3
Rest (funding cost of goodwill, etc.)	-81	-198
Merchant Banking Business Unit	130	-113
Group Centre (including planned divestments)*	-134	28

* The breakdown by business unit has been restated for 2011 (and with retroactive effect for 2010) to reflect the modified strategy. For more information, see 'Strategy (KBC group)'.

The group's net result under IFRS in 2011 breaks down as follows among its different business units: Belgium 186 million euros, Central & Eastern Europe 272 million euros, Merchant Banking -211 million euros and the Group Centre (which also includes the results of group companies earmarked for divestment) 100 million euros.

When adjusted for exceptional items, the underlying result stood at 422 million euros for the Belgium Business Unit (down 200 million euros on the figure for 2010, due in part to provisioning for the 5-5-5 product and to impairment charges relating to Greece), 298 million euros for the Central & Eastern Europe Business Unit (259 million euros less than in 2010, due primarily to additional impairment charges in Hungary and Bulgaria and for Greece), -113 million euros for the Merchant Banking Business Unit (243 million euros less than in 2010, owing in part to the lower level of income generated by the dealing room, the impact of the 5-5-5 product and relatively high loan loss provisioning again for Ireland), and 28 million euros for the Group Centre (162 million euros more than in 2010, due in part to lower provisioning at various group companies earmarked for divestment).

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

Description

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

Market position in 2011*

818 retail and private banking branches

Estimated market share of 19% for traditional bank products and 39% for investment funds

3.2 million customers

Loan portfolio of 55 billion euros and deposits of 71 billion euros

Contribution to results

Net result under IFRS of 186 million euros
Underlying net result of 422 million euros, 66% of the group total

* Market shares and customer numbers: based on own estimates. Market shares for traditional bank products: average estimated market share for loans and deposits. Loan portfolio: amount of credit outstanding, excluding reverse repos. Deposits: excluding repos (intra-KBC Group transactions excluded in both 'Loan portfolio' and 'Deposits' figures).

Macroeconomic trends in 2011 and forecasts

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

Strategy and Net 3.0

The strategy pursued by the Belgium Business Unit is based on being deeply embedded locally through a close-knit network of bank branches that collaborate with insurance agencies belonging to KBC Insurance (KBC Bank's sister company), supported by a complementary online channel. At the end of 2011, this network consisted of around 800 KBC Bank and CBC Banque retail and private banking branches, and some 500 tied KBC Insurance and CBC Assurances agencies.
The focus is on relationship bancassurance, tailored to each customer and offering them readily available expertise. KBC's approach is also characterised by a unique model of co-operation between KBC Bank branches and KBC Insurance agencies in so-called micro markets. This model enables the KBC group to provide its customers with a comprehensive product offering, which is aligned to their individual needs, while stimulating cross-selling of bank and insurance products. In recent years, for instance, a fire insurance policy from the group has been sold with 70-80% of home loans granted, as has been the case with loan balance insurance and home loans.
A programme was launched in 2010 to optimise the commercial network in Belgium, with the goal of safeguarding KBC's position within a highly competitive and constantly changing environment (see the Annual Report for 2010 for further information). The project is called 'Net 3.0' in Flanders and Brussels and was rolled out in early 2011. In 2011, the structures were put in place to support the business, premium and private-banking customer segments. For example, a Wealth Office was established specifically to cater for private banking clients with more than 5 million euros' worth of assets under management at KBC. As of 2012, this office will offer specific services from a

Brussels-based competence centre that will work closely with the group's existing private banking branches in Belgium.

Sale of Centea

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

Expansion of direct channels

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

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

Products and market share

It goes without saying that the KBC group constantly adjusts its product offering to the evolving needs of its customers and to social trends. A good example is KBC Insurance's launch in April 2011 of a guaranteed-interest savings scheme to pre-finance the KBC Hospitalisation Insurance policy. Known as the KBC Hospitalisation Plan, this scheme extends life-long, tailored cover to customers, while ensuring that the insurance remains affordable as they get older. Other examples include the launch of KBC Life MI Inflation (investment-type insurance whose return is linked to the euro area's Harmonised Index of Consumer Prices excluding Tobacco) and the new electronic applications mentioned above.
Based on provisional data and in-house projections, KBC's share of the market in 2011 remained fairly stable on a comparable basis (excluding Centea), i.e. roughly 21% in lending and just over 17% in deposits (where there was a shift from savings accounts to various savings and investment products offered by the group, including time deposit account, investment funds, and investment type insurance, and to the Belgian state note issued in December 2011). As in previous years, the group did very well on the investment fund market with an estimated share of almost 40%.

Customer and employee satisfaction

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

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

The group attaches great importance not only to its relationship with customers and employees, but also to its role in society in general. This is expressed through a range of initiatives in areas like patronage, combating social deprivation and exclusion, the environment, its product offering and social engagement. Further details of KBC's corporate social responsibility initiatives can be found in its dedicated *CSR Report*, available from www.kbc.com.

Focus on the future

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

Central & Eastern Europe Business Unit

Description

The Central & Eastern Europe Business Unit comprises all group activities pursued in Central and Eastern Europe. The main companies that belonged to this unit in 2011 were CIBANK (Bulgaria), ČSOB (Slovakia), ČSOB (Czech Republic) and K&H Bank (Hungary). Absolut Bank (Russia),Nova Ljubljanska banka (Slovenia, minority interest) and Kredyt Bank (Poland) – all earmarked for divestment under the strategic plan – also belong to this business unit, but their results have been allocated to the Group Centre (which incorporates the results of all group companies scheduled for divestment).

Position in home markets in 2011*

Home markets: Czech Republic, Slovakia, Hungary and Bulgaria

806 bank branches

4.7 million customers

Loan portfolio of 26 billion euros and deposits of 35 billion euros

Market share (bank products/investment funds)

Czech Republic	20%/31%
Slovakia	10%/10%
Hungary	9%/20%
Bulgaria	3%/–

Contribution to results

Net result under IFRS of 272 million euros
Underlying net result of 298 million euros, 47% of the group total

* Market shares and customer numbers: based on own estimates. Market shares for traditional bank products: average estimated market share for loans and deposits (for the Czech Republic, account is taken of the *pro rata* share of the market held by CMSS, a 55% joint venture). Loan portfolio: amount of credit outstanding, excluding reverse repos. Deposits: excluding repos (intra-KBC Group transactions excluded in both 'Loan portfolio' and 'Deposits' figures). Bank branches by country: 314 in the Czech Republic (ČSOB Bank and Postal Savings Bank), 129 in Slovakia, 246 in Hungary, and 117 in Bulgaria (plus an aggregate total of some 500 branches in the non-home markets of Poland and Russia). Loan portfolio by country (in billions of EUR): 17 in the Czech Republic, 4 in Slovakia, 5 in Hungary and 0.5 in Bulgaria.

Macroeconomic trends in 2011 and forecasts

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

Adjusted strategy

As already mentioned, KBC focuses on a number of home markets in Central and Eastern Europe. Since the approval of the amended strategic plan in mid-2011, the focus has been on the Czech Republic, Slovakia, Hungary and Bulgaria. In each of these four countries, the group owns a bank (a KBC Bank subsidiary) and an insurer (a KBC Insurance subsidiary) that work together closely. The changes made to the strategic plan in mid-2011 are described in the 'Strategy' section. As far as the Central & Eastern Europe Business Unit is concerned, these changes mean that the planned IPOs of minority stakes in ČSOB Bank (Czech Republic) and K&H Bank (Hungary) have been replaced by the sale of the Polish subsidiaries Kredyt Bank and WARTA (the latter entity is a subsidiary of KBC Insurance). The main reasons for doing this were regulatory changes (most notably the treatment of minority interests under Basel III), which rendered the plan less effective, and the introduction of the special bank tax in Hungary, which made a successful IPO of a minority stake in K&H Bank more difficult.
At the end of February 2012, KBC concluded an agreement with Banco Santander SA with regard to the merger of the two groups' respective Polish subsidiaries, Bank Zachodni WBK SA and Kredyt Bank SA. Following the merger, KBC ultimately aims to sell its remaining shareholding in the merged bank (see under 'Group Centre' below).

Planned divestments

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

Under the new strategy, the group will not, in principle, make any acquisitions in the region in the years ahead. However, KBC Bank and International Finance Corporation (IFC) signed an agreement that enabled KBC Bank to take over a large part of IFC's 5% stake in Absolut Bank. The deal came about after IFC exercised the put option it had agreed with KBC Bank in 2007. Consequently, KBC Bank now has a 99% stake in Absolut Bank.

Market shares

KBC's estimated market share in traditional bank products (average of both loans and deposits) remained more or less unchanged in 2011, coming to roughly 20% in the Czech Republic, almost 10% in Slovakia, just under 9% in Hungary and practically 3% in Bulgaria. As in Belgium, the share of the market in investment funds is greater than that of the market in traditional deposit products. At year-end, it was estimated at 31% in the Czech Republic, 10% in Slovakia and 20% in Hungary, again comparable with the percentages in 2010. Estimated shares for traditional bank products in the non-home markets were just over 1% in Serbia (via KBC Banka, a subsidiary of KBC Insurance), less than 1% in Russia and between 3% and 4% in Poland.

Hungary

An overview of K&H Bank's loan portfolio can be found in the 'Value and risk management' section. A specific feature of the retail portion of this portfolio is the relatively large share of foreign-currency loans, in particular in Swiss francs. A new law came into force in Hungary in 2011 which, simply put, gives customers the option for a limited period of time to pay off foreign-currency mortgage loans in Hungarian forints at an exchange rate that is more favourable to them, and which obliges the banks to cover the difference between this rate and the actual market rate. In the last quarter of 2011, additional measures were taken, including those for defaulted mortgage loans that have not been converted into Hungarian forints.
KBC recorded additional impairment charges of 173 million euros on K&H Bank's mortgage portfolio in 2011 (based on an assessment that 30% of borrowers opt to redeem their foreign-currency loans early), bringing total impairment on loans in Hungary to a relatively high pre-tax figure of 288 million euros for the year, which represents a credit cost ratio of 438 basis points (175 basis points excluding the impact of the law on foreign-currency mortgage loans). At year-end, roughly 10.5% of the loan portfolio was classified as non-performing.

K&H Bank (and K&H Insurance) again had to pay the special bank tax in 2011. However, following an agreement between the banking sector and Hungarian government at the end of 2011, 30% of the cost attendant on the new legislation on foreign-currency mortgage loans could be deducted from the tax due. Consequently, the special bank tax for KBC Bank came to 2 million euros on balance, compared with 54 million euros in 2010.

Corporate social responsibility and awards

As a major financial player in Central and Eastern Europe, KBC sets great store – as it does in Belgium – by the role it plays in society. Examples of environmental and community involvement initiatives are provided in the group's *CSR Report*, which is available at www.kbc.com. As in previous years, *Global Finance* magazine announced its awards in 2011 for the best banks, including one for ČSOB in the Czech Republic. K&H Bank, meanwhile, was named 'Bank of the Year in Hungary' by *The Banker*.

Focus on the future

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

Merchant Banking Business Unit

Description

The Merchant Banking Business Unit comprises corporate banking (the services provided to larger SME and corporate customers) and market activities in Belgium and abroad (apart from those in Central and Eastern Europe). The main group companies belonging to this business unit in 2011 were KBC Bank (merchant banking activities), KBC Commercial Finance, KBC Bank Ireland, KBC Credit Investments, KBC Lease (corporate), KBC Internationale Financieringsmaatschappij and KBC Securities. Antwerp Diamond Bank, KBC Bank Deutschland, KBC Financial Products (various activities already sold), KBC Peel Hunt (already sold) – which either have been or will be divested under the strategic plan – also belong to this business unit. However, their results have been allocated to the Group Centre, which incorporates the results of all group companies scheduled for divestment.

Market position in 2011*

26 branches in Belgium, 24 abroad

Estimated 24% share of the corporate loan market in Belgium

Loan portfolio of 42 billion euros and deposits of 34 billion euros

Contribution to results

Net result under IFRS of -211 million euros
Underlying net result of -113 million euros, -18% of the group total

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

Strategy and activities

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

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

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

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

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

Ireland

The international portfolio includes an Irish loan portfolio of around 17 billion euros at KBC Bank Ireland. Most of this portfolio (approximately three quarters) relates to mortgage loans, and the rest is more or less equally divided across SME and corporate loans and loans related to real estate investment and development. Ireland's domestic market did not recover as well as expected in 2011 and the austerity measures are putting pressure on Irish households. This – in combination with the difficult economic situation – means that the climate on the credit market remains challenging. The situation is exacerbated by the unrelenting downward pressure on underlying asset values and by mounting financing costs which in turn are leading to higher interest rates, which are exerting pressure on borrowers. This led on balance to additional loan loss provisions of about 0.5 billion euros being set aside in 2011, on top of the 0.5 billion euros in 2010. At the end of 2011, some 17.7% of the total Irish loan portfolio was non-performing, compared with 10% at year-end 2010. The credit cost ratio came to 301 basis points in 2011 and the cover ratio for the Irish portfolio (all loan loss provisioning relative to the non-performing loan portfolio) to 42%. The group is also taking account of relatively high impairment charges for the Irish portfolio in 2012.

Focus on the future

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

Shared Services & Operations Business Unit

Description

This business unit provides support to and serves as a product provider for the other business units. It encompasses a number of divisions that provide products and services to the entire group. The main divisions belonging to this unit in 2011 were Asset Management, Payments, Consumer Finance, Trade Finance, ICT, Leasing and Organisation.

Position in 2011[1]

Share of the market for investment funds: 39% in Belgium, 31% in the Czech Republic, 10% in Slovakia, 4% in Poland and 20% in Hungary

More than 1 billion payment transactions in the home markets

Share of the market for documentary credit: 27% in Belgium, 26% in the Czech Republic, 16% in Slovakia and 16% in Hungary

Share of the lease market: 13%[2] and 20%[3] in Belgium, 13% in the Czech Republic, 15% in Slovakia and 3% in Hungary

Share of the consumer finance market: 7% in Belgium, 8% in the Czech Republic, 4% in Slovakia, 4% in Hungary

Contribution to results

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

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

Strategy and divestments

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

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

Product and process optimisation

Like the group's other entities, the divisions belonging to this business unit continually strive to improve service by exploiting synergies and sharing best practices. At Payments, for instance, certain Central and Eastern European countries have been connected to a central SWIFT hub and to the group platform for international payments, while a shared service centre has been established at Brno in the Czech Republic to centralise a number of activities and processes that are currently carried out at various locations across the group. The launch of the new twin data centre near Budapest, which will gradually replace the group's 20-plus data centres in Central and Eastern Europe, is a good example at ICT. The product offering is also regularly screened and optimised in consultation between the product developers in this business unit and the distribution network in the different countries and markets in which the group is active. This collaboration is set out in concrete service level agreements, with clear commitments and objectives.

Asset Management once again developed numerous innovative investment products, among them the KBC Participation Flexible Portfolio formula, an investment strategy that chooses in a highly active and controlled way between equity and bond investments. Another example is the KBC Life MI Inflation product range, which generates an inflation-linked return on top of a fixed return. Consumer Finance also launched several new products, including the KBC Visa Vision and KBC MasterCard Globe cards in Belgium. Its successful business model (focusing on sales through banks) – which had already been rolled out in Belgium, the Czech Republic and Poland – was also implemented in Hungary and launched in Slovakia in 2011.

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

Research & Development

New products and services are constantly being developed within the group to align the offering as closely as possible with market demand. That was also the case in 2011. A new process was rolled out across the group to support research and development of new products even more effectively. This process enhances the efficiency with which approval is sought for new product launches and entails a thorough analysis of all relevant risks, with actions proposed where appropriate to avoid or manage those risks. Moreover, all products are subject to regular review, so that existing products can be adapted to evolving customer needs and changing market conditions. Besides the projects and products mentioned in this section, various examples of new product developments in 2011 are provided in the other sections of this annual report, and include KBC Securities Trader and several new mobile banking applications. New products and services are often developed in tandem with new software. Details of software developed in-house can be found in Note 30 of the 'Consolidated financial statements'.

Focus on the future

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

Group Centre

Description

The Group Centre includes the results of a small portion of the results of KBC Bank NV not attributable to the other business units and elimination of intersegment transactions. It also contains the results of companies designated for divestment under the strategic plan. The most important of these are Centea, Absolut Bank, the minority interest in Nova Ljubljanska banka, Kredyt Bank, KBC Financial Products, KBC Peel Hunt, Antwerp Diamond Bank and KBC Bank Deutschland. Sale agreements were reached or completed for several divestments in 2010 and 2011.

Status in 2011*

Agreed or completed sales: various specialised merchant banking activities of KBC Financial Products, KBC Peel Hunt, the UK and Irish operations of KBC Asset Management, KBC Securities Baltic Investment Company, KBC Business Capital, Centea, KBC Concord Asset Management, KBC Goldstate (2012) and the Serbian and Romanian activities of KBC Securities. For Kredyt Bank (2012), see below. The main companies and activities still to be divested account for a loan portfolio of 13 billion euros and for 9 billion euros in deposits.

Contribution to results

Net result under IFRS of 100 million euros. Underlying net result of 28 million euros.

* Loan portfolio: amount of credit outstanding, excluding reverse repos. Deposits: excluding repos (intra-KBC Group transactions excluded in both 'Loan portfolio' and 'Deposits' figures).

Divestments

A brief description of the divestments completed in 2010 and 2011 under KBC Group's (and especially KBC Bank's) new, more focused strategy is set out below. Although a number of companies belong to business units other than the Group Centre, they are also included here for the sake of completeness.

The main activities and group companies belonging to KBC Bank that were sold in 2010 were:

- KBC Peel Hunt
- Various specialist merchant banking activities of KBC Financial Products (e.g., convertible bonds, Asian equity derivatives, insurance derivatives and reverse mortgages)
- KBC Asset Management's UK and Irish operations
- KBC Securities Baltic Investment Company
- KBC Business Capital

The main activities and group companies that were sold in 2011 and at the start of 2012 were:

- Centea
- KBC Concord Asset Management and KBC Goldstate
- KBC Securities' Serbian and Romanian activities
- Kredyt Bank (see below)

In the middle of 2011, KBC Group NV and Landbouwkrediet Group finalised the sale of Centea for 527 million euros. In addition to the sale price, KBC received a dividend of 66 million euros from Centea for financial year 2010. The deal freed up around 0.4 billion euros of capital for KBC, primarily by reducing risk-weighted assets by 4.2 billion euros, which boosted KBC Bank's tier-1 ratio by some 0.5%. The gain on this deal was limited.

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

In February 2012, Banco Santander SA and KBC announced that they had agreed to merge Bank Zachodni WBK SA and Kredyt Bank SA in Poland. With almost 900 branches and more than 3.5 million retail customers, the merged bank will be Poland's third largest in terms of deposits, loans, number of branches and profit. Following the proposed merger, Santander will own approximately 76.5% of the merged bank and KBC around 16.4%. Banco Santander has undertaken to help KBC reduce its stake in the merged bank from 16.4% to below 10% immediately after the merger. In addition, KBC intends to sell its remaining stake. Following the deconsolidation of

Kredyt Bank as a result of the proposed merger, and after the committed reduction of KBC's holding to below 10% shortly after registration of the merger, approximately 0.7 billion euros' worth of capital will be released (based on market valuations at the time the deal was announced), predominantly based on a reduction in risk-weighted assets. This will have a positive impact on KBC's tier-1 capital of around 0.8%, or 0.9% when the group sells its entire shareholding (both percentages calculated at year-end 2011 at the level of KBC Group). Moreover, based on market valuations at the time it was announced, the deal will positively affect KBC's income statement by some 0.1 billion euros, which will be recognised when it is completed. The merger is subject to independent evaluation by Bank Zachodni WBK and Kredyt Bank, and to obtaining regulatory approval from the Polish Financial Supervision Authority and relevant competition clearance. Banco Santander has also undertaken to acquire Żagiel, KBC's consumer finance operation in Poland, at adjusted net asset value and likewise subject to obtaining competition clearance. For additional information, see the press release at www.kbc.com. The legal information and disclaimer provided in that press release apply in full.

Main group companies still to be divested

Much of the reduction in risk-weighted assets originally planned was completed by the beginning of 2012, due to the divestments listed above and the run-down of the international loan portfolio. The principal divestments still to be carried out at KBC Bank concern Absolut Bank (Russia), the minority interest in Nova Ljubljanska banka (Slovenia), Antwerp Diamond Bank (Belgium), KBC Bank Deutschland (Germany) and a number of other activities (private equity, real estate development). Preparatory work for most of these projects has already started. Moreover, an agreement was reached with the European Commission to extend the original deadline for the sale of Antwerp Diamond Bank and KBC Bank Deutschland.

Corporate social responsibility

Corporate social responsibility (CSR) is a long-term process which requires ongoing adaptation of and improvement in the way a company conducts its business, not only for the purpose of making a financial profit, but in response to the increasing demands for transparency and accountability placed on the company by its stakeholders (employees, customers, shareholders, suppliers, etc.) and by society as a whole. KBC's vision on CSR is embedded in its mission statement, and more specific commitments are set out in *KBC's Principles for Socially Responsible Business*. For a number of years now, the group has also been publishing an annual *Corporate Social Responsibility Report*, which deals with its vision and achievements in this area. This report provides group-wide information on CSR, including quantitative data on staff and the group's ecological footprint. It is compiled in accordance with the reporting requirements set out in the Global Reporting Initiative *G3 Guidelines* and the United Nations *Global Compact* principles, and is available at www.kbc.com.

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

Examples of initiatives on the CSR front in 2011

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

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

Environmental efficiency data for the KBC group in Belgium (per FTE)	2010	2011
Energy consumption (in GJ)		
Electricity	24.3	21.3
Provided by renewable energy sources	100%	100%
Fossil fuels (gas and heating oil)	15.0	12.6
Distances travelled (in km)		
Commuter travel	9 542	9 175
Business travel	5 294	5 388
Paper and water consumption		
Paper (in tonnes)	0.17	0.14
Water (in m^3)	9.3	8.2
Greenhouse gas emissions (in tonnes)	2.2	1.9

Employees

Employee satisfaction is important for attracting and keeping motivated staff. In an external survey organised by the Vlerick Leuven Gent Management School and the Great Place to Work® Institute in 2011, KBC was again recognised as one of the ten ‘Best Employers in Belgium’. It also received a Lifelong Learning award for its training initiatives. KBC conducts annual employee satisfaction surveys of its own, too, and uses the findings to take selective measures.

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

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

The group devotes considerable attention to the training of its employees and offers them an extensive range of development opportunities. They can choose from a number of training programmes which complement and reinforce each other, including conventional training courses, individual study, e-learning, learning on the job and mentoring. Developmental needs are also an important element in the annual performance appraisal reviews held between employees and their managers.

The KBC group works very closely with the employee organisations, holding talks with the works council and its committees, and consulting with the health and safety committees and union representatives. This consultation led, for example, to collective labour agreements for the period 2012-13 on purchasing power and employment. Representatives from its establishments in Central and Eastern Europe also participate in the European Works Council.

In 2011, the total average number of employees at KBC Bank fell further to under 38 000 full-time equivalents. Note 10 in the ‘Consolidate financial statements’ section contains information on the average number of persons employed at KBC Bank. At the end of 2011, the breakdown of the workforce at KBC Bank was as follows: 38% men/62% women; 88% in full-time employment/12% in part-time employment; average age of 39; and average seniority of 10.9 years.

Value and risk management

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

This section of the annual report focuses on KBC Bank's risk governance and most of the material risks it faces, namely credit risk, market risk, liquidity risk, operational risk, as well as its capital adequacy.

The information in this section that forms part of the IFRS financial statements has been audited by the statutory auditor, viz.:

- the entire 'Risk governance' section;
- parts of the 'Credit risk' section, namely the introduction, 'Managing credit risk', the 'Loan and investment portfolio, 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' and 'Overview of exposure to sovereign bonds';
- 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' and 'Foreign exchange risk';
- the 'Liquidity risk' and 'Market risk in trading activities' sections in their entirety;
- parts of the 'Capital adequacy' section, the introduction, 'Managing solvency' and the table in 'Solvency KBC Bank' (audited parts are indicated in the footnote to this table).

Please note:

- Following the change to the strategic plan in mid-2011 (see the 'Strategy' section), the breakdown of some figures into business units has been changed with retroactive effect in order to enhance comparability.

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

Risk governance

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

KBC's risk governance model is characterised primarily by:

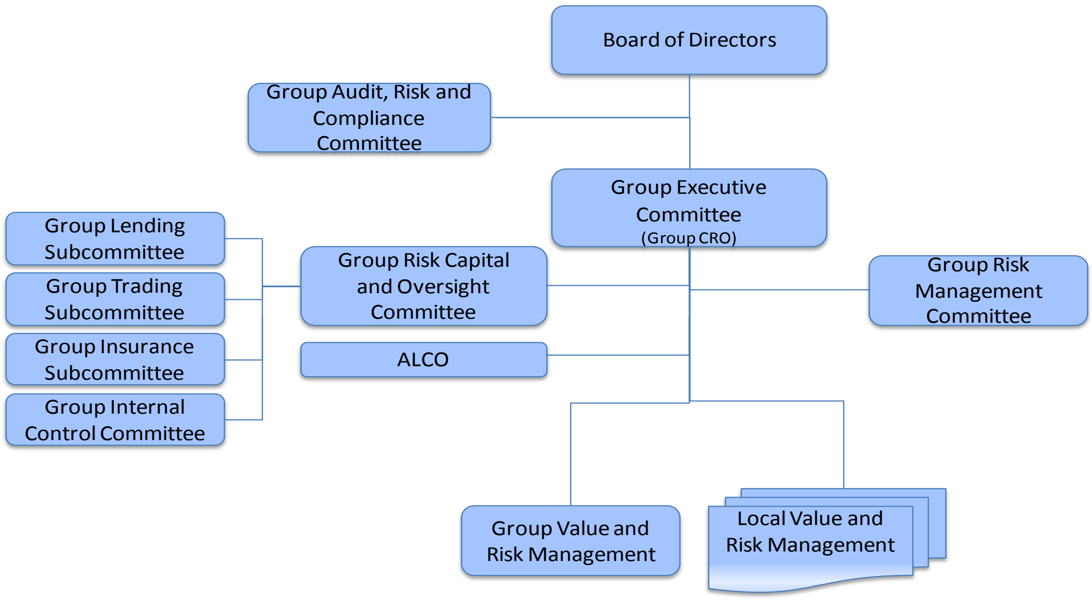
- the Board of Directors (assisted by the Audit, Risk and Compliance Committee (ARC Committee)) which sets the risk appetite each year, monitors risks and proposes action, where necessary. More information on the Board of Directors and the ARC Committee can be found in the section entitled 'Corporate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

Relevant risk management bodies and control functions:

- *Group Executive Committee*:
    - makes proposals to the Board of Directors about risk and capital strategy, and about risk appetite;
    - agrees on the risk and capital governance framework to be implemented throughout the group;
    - allocates capital to activities in order to maximise the risk-adjusted return;
    - monitors the group's major risk exposure to ensure conformity with the risk appetite.
- *Group Risk and Capital Oversight Committee (GRCOC)*:
    - monitors the integrated risk profile to ensure consistency with risk limits and risk appetite, and recommends mitigating actions to the Group Executive Committee when the risk exposure is not in line with these limits or risk appetite.
    - advises the Group Executive Committee on all decisions or matters that (may) involve material risks and takes autonomous decisions on less material risks.
    - The permanent committee members are the Group CRO and Group Chief Finance Officer, the senior general managers of the Group Value and Risk Management Directorate and Group Finance, the Group Treasurer, the general manager of the Group Strategy Unit and senior business managers.
    - Four activity-based risk subcommittees (lending, trading, insurance and internal control) support the GRCOC in its tasks. At least one member of the Group Executive Committee sits on each subcommittee, with the Group CRO acting as chairman. Besides comprising members of the Group Executive Committee, the subcommittees contain the senior general manager of the Group Value and Risk Management Directorate and the (senior) managers of the relevant business activities. These subcommittees have been granted decision rights.
- *Group Risk Management Committee*:
    - monitors and ensures the adequacy of risk and capital governance, and informs the Group Executive Committee on gaps and inefficiencies;
    - makes recommendations to the Group Executive Committee about material changes to the risk and capital governance frameworks, and decides on non-material changes to these frameworks on an autonomous basis;
    - manages and supervises model frameworks and their implementation;
    - The permanent members of this committee are the Group CRO, the senior general manager of the Group Value and Risk Management Directorate and local CROs. The business is heard via the local CROs or by inviting the relevant senior managers themselves to provide input on all topics and/or frameworks that affect them.
- *Local Chief Risk Officers (LCROs)* are situated throughout the group according to a logical segmentation based on entity and/or business unit. Close collaboration with the business is assured since 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 function (within the Group Value and Risk Management Directorate)*, which among other things monitors risks and capital at an overarching group-wide level, develops risk models (while business models are developed by business), performs independent (thus segregated from the modelling staff) validations of all the risk and business models developed, develops group-wide frameworks, gathers group-wide warnings and observations for the GRCOC, and advises/reports on issues handled by the Group Executive Committee and the risk committees.
- *Group Internal Audit Division*, which is responsible for audit planning and thus audits the compliance of the risk management framework with legal and regulatory requirements, the efficiency and the effectiveness of the risk management system and its compliance with the risk management framework, as well as the way in which line management handles risks outside this formal framework.
- *New and Active Product Process*, which establishes a smooth, but robust and transparent process for approving new products and (regularly) reviewing existing products, whereby commercial issues are balanced against risk and operational issues.



Credit risk

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

Managing credit risk

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

CREDIT RISK MANAGEMENT AT TRANSACTIONAL LEVEL

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

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

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

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

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

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

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

In order to avoid a situation where an obligor facing financial difficulties ends up defaulting, a decision can be taken to renegotiate its loans. Renegotiation may involve changing the contractual repayment schedule, lowering or postponing interest or fee payments, or some other appropriate measure. At the end of 2011, loans that were renegotiated to avoid impairment accounted for some 2.6% of the total loan portfolio (amount outstanding), compared with 2.5% at the end of 2010. More details in this regard can be found in the Risk Report for 2011, which is available at www.kbc.com.

CREDIT RISK MANAGEMENT AT PORTFOLIO LEVEL

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

Whereas some limits are still in notional terms, concepts such as 'expected loss' and 'loss given default' are being used as well. Together with the ‘probability of default’ and ‘exposure at default’, these concepts form the building blocks for calculating the regulatory capital requirements for credit risk, as KBC has opted to use the Basel II Internal Rating Based (IRB) approach. Consequently, the main group entities now adopt an IRB Foundation approach and are scheduled to shift to the IRB Advanced approach. Other entities are still preparing for the IRB Foundation and Advanced approaches, while ‘non-material entities’ will continue to adopt the Basel II Standardised approach.

Overview of credit risk exposure

The credit risk related to KBC Bank’s investments in structured credit products, government bonds, and KBC Bank’s Irish and Hungarian portfolios are examined in greater detail in separate sections below.

The main source of credit risk is the loan and investment portfolio, as summarised in the following table. This portfolio is mainly the result of what can be considered as pure, traditional lending activities. It includes all retail lending such as mortgage loans and consumer loans, all corporate lending such as (committed and uncommitted) working capital credit lines, investment credit, guarantee credit and credit derivatives (protection sold) and all non-government debt securities in the investment books. The table excludes other credit risks, such as trading exposure (issuer risk), counterparty risk associated with interprofessional transactions, international trade finance (documentary credit, etc.) and government bonds. These items are described separately below.
The loan and investment portfolio as defined in this section differs significantly from ‘Loans and advances to customers’ in Note 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). The loan and investment portfolio is broken down according to different criteria in the table below.

Loan and investment portfolio, KBC Bank	31-12-2010	31-12-2011
Total loan portfolio (in billions of EUR)		
Amount granted	191.9	185.9
Amount outstanding	161.1	155.7
Loan portfolio breakdown by business unit (as a % of the portfolio of credit granted)		
Belgium	31%	34%
Central & Eastern Europe	18%	19%
Merchant Banking	36%	37%
Group Centre (including planned divestments)	15%	10%
Total	100%	100%
Loan portfolio breakdown by counterparty sector (as a % of the portfolio of credit granted)[1]		
Private individuals	37%	36%
Financial and insurance services	7%	6%
Governments	3%	4%
Corporates	52%	54%
Non-financial services	10%	10%
Retail and wholesale trade	8%	8%
Real estate	7%	7%
Construction	5%	5%
Other[2]	22%	23%
Total	100%	100%
Loan portfolio breakdown by region (as a % of the portfolio of credit granted)[1]		
Western Europe	68%	68%
Central and Eastern Europe (including Russia)	24%	25%
North America	5%	4%
Other	3%	3%
Total	100%	100%
Loan portfolio breakdown by risk class (part of the portfolio, as a % of the portfolio of credit granted)[1, 3]		
PD 1 (lowest risk, default probability ranging from 0.00% up to, but not including, 0.10%)	25%	27%
PD 2 (0.10% – 0.20%)	12%	12%
PD 3 (0.20% – 0.40%)	18%	17%
PD 4 (0.40% – 0.80%)	15%	15%
PD 5 (0.80% – 1.60%)	11%	11%
PD 6 (1.60% – 3.20%)	8%	7%
PD 7 (3.20% – 6.40%)	6%	5%
PD 8 (6.40% – 12.80%)	2%	2%
PD 9 (highest risk, ≥ 12.80%)	3%	3%
Total	100%	100%
Impaired loans[4] (PD 10 + 11 + 12; in millions of EUR or %)		
Impaired loans	10 928	11 205
Specific impairment	4 656	4 850
Portfolio-based impairment (i.e. based on PD 1 to 9)	351	341
Credit cost ratio		
Belgium Business Unit	0.15%	0.10%
Central & Eastern Europe Business Unit	1.16%	1.59%
Czech Republic	0.75%	0.37%
Slovakia	0.96%	0.25%
Hungary	1.98%	4.38%
Bulgaria	2.00%	14.73%
Merchant Banking Business Unit	1.38%	1.36%
Group Centre (including planned divestments)	1.17%	0.36%
Total	0.91%	0.83%

Non-performing[4] loans (PD 11 + 12; in millions of EUR or %)	31-12-2010	31-12-2011
Amount outstanding	6 531	7553
Specific impairment for non-performing loans	3 273	3864
Non-performing ratio		
Belgium Business Unit	1.5%	1.5%
Central & Eastern Europe Business Unit	5.3%	5.6%
Merchant Banking Business Unit	5.2%	7.8%
Group Centre (including planned divestments)	5.8%	5.5%
Total	4.1%	4.9%
Cover ratio		
[Specific impairment on non-performing loans] / [outstanding non-performing loans]		
Total	50%	51%
Total excluding mortgage loans	60%	63%
[Specific & portfolio-based impairment for performing and non-performing loans]/[outstanding non-performing loans]		
Total	77%	69%
Total excluding mortgage loans	96%	89%

For a definition of the above ratios, see the 'Glossary of ratios used'.
1 Audited figures.
2 Individual sector shares not exceeding 3%.
3 Internal rating scale.
4 Figures differ from those appearing in Note 17 of the 'Consolidated financial statements' section, due to differences in scope.

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

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

1 For a definition, see 'Overview of credit risk exposure' (i.e. excluding *inter alia* government bonds).
2 Unaudited.
3 Special attention has also been given to renegotiated distressed loans, i.e. credit that has avoided impairment status by having its terms renegotiated. Besides distressed loan renegotiations, it has been a traditional commercial feature at KBC Ireland Homeloans (as is generally the case in the Irish and UK mortgage markets) that customers may be offered the possibility of paying interest only for a limited period of time.

For K&H Bank, an important issue is the historical forex mortgage lending portfolio, which amounted to 1.9 billion euros at year-end 2011. This portfolio was subject to local legislation that permitted such mortgages to be repaid in full at a fixed exchange rate that was unfavourable for the bank. As a result, additional impairment charges of

173 million euros were taken in 2011 (95 million euros of which for losses incurred in 2011 and the remainder for further losses in the near term).

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

Short-term commercial transactions. This activity involves export or import finance (documentary credit, pre-export and post-import finance, etc.) and only entails exposure to financial institutions. Risks associated with this activity are managed by setting limits per financial institution and per country or group of countries.

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

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

Government securities in the investment portfolio. Exposure to governments is measured in terms of nominal and book value and relates mainly to EU states (particularly Belgium). Limiting caps are in place for so-called non-home country sovereign bond exposure. They had been supplemented by 'warning signals' for the home country sovereign bond exposure (i.e. exposure to Belgium and the core countries in Central and Eastern Europe), but these signals were replaced by limits in 2012. More details on the exposure to government bonds are provided in a separate section below.

Other credit exposure, KBC Bank (in billions of EUR)	31-12-2010	31-12-2011
Short-term commercial transactions	2.5	2.8
Issuer risk[1]	0.4	0.3
Counterparty risk in interprofessional transactions[2]	12.7	11.6
Government bonds in the investment portfolio	49.1	34.1

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

2 After deduction of collateral received and netting benefits.

Overview of exposure to sovereign bonds

KBC Bank holds a significant portfolio of government bonds, primarily as a result of the considerable excess liquidity position. A breakdown per country is provided in the following table.

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

Total	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 2010*	Breakdown by remaining term to maturity: Amounts maturing in 2012	Amounts maturing in 2013	Amounts maturing in 2014 and later
PIIGS countries										
Greece	0.1	0.0	0.0	0.0	0.0	0.1	*0.4*	0.0	0.0	0.0
Portugal	0.0	0.1	0.0	0.0	0.0	0.1	*0.2*	0.0	0.0	0.1
Spain	1.1	0.0	0.0	0.0	0.0	1.2	*1.4*	0.4	0.3	0.6
Italy	1.0	0.3	0.0	0.0	0.0	1.3	*5.6*	0.1	0.2	1.0
Ireland	0.1	0.2	0.0	0.0	0.0	0.3	*0.3*	0.0	0.0	0.3
KBC home countries										
Belgium	12.2	1.1	3.2	0.0	0.3	16.8	*23.2*	1.0	3.6	12.3
Czech Republic	1.8	5.0	0.2	0.0	0.9	8.0	*9.1*	0.6	0.6	6.9
Hungary	0.3	1.3	0.1	0.2	0.2	2.1	*3.1*	0.3	0.6	1.3
Slovakia	0.4	0.6	0.0	0.0	0.1	1.2	*1.7*	0.1	0.2	0.9
Bulgaria	0.0	0.0	0.0	0.0	0.0	0.0	*0.0*	0.0	0.0	0.0
Other countries										
France	0.8	0.8	0.0	0.0	0.0	1.6	*1.6*	0.0	0.0	1.6
Poland	1.2	0.8	0.0	0.0	0.0	2.1	*3.0*	0.3	0.3	1.4
Germany	0.0	0.0	0.0	0.0	1.0	1.0	*1.4*	0.7	0.1	0.2
Austria	0.0	0.2	0.0	0.0	0.0	0.3	*0.4*	0.1	0.0	0.2
Netherlands	0.1	0.0	0.0	0.0	0.0	0.1	*0.1*	0.0	0.0	0.1
Finland	0.1	0.0	0.0	0.0	0.0	0.1	*0.1*	0.0	0.0	0.1
Other[2]	1.2	0.1	0.1	0.0	0.4	1.8	*2.8*	1.4	0.1	0.4
Total	20.6	10.5	3.6	0.2	3.1	38.0	*54.4*	4.9	6.0	27.2

1 Excludes exposure to supranational entities of selected countries. The figures for 2010 have been restated from notional to carrying amounts to better represent the actual situation.
2 Sum of countries whose individual exposure is less than 0.5 billion euros at year-end 2011.

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

As of the second quarter of 2011, KBC Bank considered Greek government bonds to be impaired. As a result of the decrease in traded volumes in the third quarter of 2011, KBC decided that a level 1 classification was no longer appropriate for these instruments. However, it was still possible to determine the fair value of these bonds using observable inputs. Therefore, KBC reclassified its portfolio of Greek government bonds (carrying value of 0.2 billion euros at 30 September 2011) from level 1 to level 2 (see Note 21 of the 'Consolidated financial statements' for more information).

The following impairment was recorded on Greek government bonds for full-year 2011:

- For the available-for-sale portfolio, impairment was calculated as the difference between the amortised cost and the fair value at year-end 2011. This resulted in an impairment loss of 170 million euros (before taxes) being recognised in the income statement.
- For the held-to-maturity portfolio, impairment was calculated as the difference between the amortised cost and the fair value at year-end 2011. This resulted in an impairment loss of 33 million euros (before taxes) being recognised in the income statement.
- In total, the carrying value of Greek government bonds on 31 December 2011 averaged 31% of the nominal amount of these bonds in the available-for-sale and held-to-maturity portfolios.
- The bonds held in the designated-at-fair-value-through-profit-or-loss and held-for-trading portfolios had already been recorded at fair value through profit or loss, which meant no additional adjustment was needed.

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

At 31 December 2011, the carrying values of available-for-sale government bonds incorporated a negative revaluation. Totalling -95 million euros (after tax), this effect has been included in the revaluation reserve for available-for sale financial assets (-42 million euros for Italy, -32 million euros for Spain, and -20 million euros for Ireland).

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

Impact of a parallel 10-basis-point upward shift in government bond yield curves, KBC Bank[1] (31-12-2011) (in millions of EUR)	Impact on equity	Impact on profit or loss*	Weighted average duration (in years)
Total	-72	-14	4.3
of which Belgium	-46	-13	3.9

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

Overview of outstanding structured credit exposure (entire KBC Group)

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

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

The reported figures exclude all expired, unwound and terminated CDOs.

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

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

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

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

In the meantime, KBC is continuing its de-risking strategy for its CDO and structured credit exposures, reflected in the collapse (i.e. de-risking) of two CDOs in January 2012. More details in this regard can be found in Note 42 of the 'Consolidated financial statements' section.

Between the start of the period under review and 9 January 2012, the unhedged CDO positions held by KBC Group have incurred net effective losses totalling -2.1 billion euros, caused by claimed credit events in the lower tranches of the CDO structure. Of these, -1.8 billion euros' worth of events have been settled. These have had no further impact on profit or loss, because complete value markdowns for these CDO tranches had already been absorbed in the past.

Hedged CDO exposure

As stated above, KBC Group bought credit protection from MBIA for a large part of the (super senior) CDOs it originated. In February 2009, MBIA announced a restructuring plan, which included a spin-off of valuable assets, provoking a steep decline in its creditworthiness. The increase in the market value of the underlying swap, combined with the higher counterparty risk, resulted in significant additional negative value adjustments at KBC Group. KBC Group and other institutions filed court cases after MBIA announced its restructuring plan. After reaching an out-of-court settlement with MBIA, KBC Group dropped out of the litigation on 6 September 2011. However, this had no impact on the protection bought from MBIA for the still outstanding CDOs.
Moreover, the remaining risk related to MBIA's insurance coverage is largely mitigated, as it is included in the scope of the guarantee agreement that was agreed with the Belgian State on 14 May 2009. At 31 December 2011, this agreement related to a nominal value of 13.9 billion euros, 10.9 billion euros of which relates to the exposure insured by MBIA. The remaining 3.0 billion euros of exposure covered by the agreement with the Belgian State relates to the unhedged element. Of this portfolio (i.e. CDO exposure not covered by credit protection bought from MBIA), the super senior assets have also been included in the scope of the guarantee agreement with the Belgian State. More details in this regard can found in the 'Additional information' section of this report.

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

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

Details of the underlying assets of the CDOs and ABS

Details of the underlying assets of the CDOs and ABS can be found in the *Risk Report for 2011* (available at www.kbc.com).

Market risk in non-trading activities

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

'Structural exposure' encompasses all exposure inherent in the commercial activity of KBC or the long-term positions held by KBC Bank. 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

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

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

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

- a focus on 'economic value' as the cornerstone of ALM policy, with attention also being paid to criteria such as income, solvency and liquidity.
- the use of a uniform ALM measurement methodology for banking and insurance activities based on 'fair value models' that forecast the value of a product group under different market scenarios and that are translated into replicating portfolios (combinations of market instruments that allow the relevant product groups to be hedged with the lowest risk).
- the use of a Value-at-Risk (VAR) measurement method for the various categories of risk throughout the group for risk budgeting and limit-setting purposes. This VAR measures the maximum loss that might be sustained over a one-year time horizon with a certain confidence level, as a result of movements in interest rates and other fluctuations in market risk factors.
- the definition of an ALM VAR limit at group level and the breakdown of this limit into various types of risk and entities.
- the use of VAR, which is calculated using fair value models for non-maturing products, taking into account different embedded options and guarantees in the portfolio.
- the use of other risk measurement methods, such as Basis-Point-Value (BPV), nominal 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]	31-12-2010	31-12-2011
Interest rate risk	0.93	0.93
Equity risk	0.15	-0.02
Real estate risk	0.03	-0.02
Other risks[2]	-0.01	-0.003
Total diversified VAR (group)	1.09	0.89

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

Interest rate risk

Two main techniques are used to measure interest rate risks: 10 BPV and VAR (see above). The 10 BPV measures the extent to which the value of the portfolio would change if interest rates were go up by ten basis points across the entire curve (negative figures indicate a decrease in the value of the portfolio). 10 BPV limits are set in such a way that interest rate positions combined with the other structural exposures (equity, real estate, etc.) remain within the overall VAR limits. Other techniques such as gap analysis, the duration approach, scenario analysis and stress testing (both from an economic value perspective and from an income perspective) are also used.

In addition, the sensitivity of KBC Bank to interest rate movements is reported on a regular basis. The table illustrates the impact of a 100-basis-point increase in the yield curve, given the positions at the reporting date.

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

	Impact on net profit (IFRS)		Impact on value[2]	
	2010	2011	2010	2011
KBC Bank	-56	-27	-504	-315

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

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

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

* The KBC pension fund was not included in this table in 2011, whereas it was in 2010.

In line with the Basel II guidelines, a 2% stress test is carried out at regular intervals. It sets off the total interest rate risk in the banking book (given a 2% parallel shift in interest rates) against total capital and reserves. For KBC Bank, this risk came to 11% of total capital and reserves at year-end 2010 (well below the 20% threshold, where a bank is considered an 'outlier bank' and which can lead to a higher regulatory capital charge).

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

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

	≤ 1 month	1-3 months	3-12 months	1-5 years	5-10 years	> 10 years	Non-interest-bearing	Total
31-12-2010	-5 133	-576	628	1 503	5 231	3 851	-5 503	0
31-12-2011	-8 134	3 226	2 540	7 104	2 828	2 896	-10 459	0

* Excluding a number of small group companies.

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

Equity risk

Equity portfolio of KBC Bank* (breakdown by sector, in %)	31-12-2010	31-12-2011
Financial	46%	32%
Consumer non-cyclical	15%	9%
Communication	2%	2%
Energy	5%	0%
Industrial	5%	28%
Utilities	4%	3%
Consumer cyclical	7%	3%
Basic materials	8%	13%
Other and not specified	8%	10%
Total	100%	100%
In billions of EUR	1.1	0.2
of which unlisted	0.5	0.1

* Excluding a number of small group companies. The equity portfolio of KBC pension fund (0.5 billion euros) was not included in 2011. The participation in Nova Ljubljanska banka (financial sector) was treated as equity exposure in 2010, but has not been included in the 2011 figures.

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

Impact of a 12.5% drop in equity prices (in millions of EUR)	Impact on net profit (IFRS)		Impact on value	
	2010	2011	2010	2011
KBC Bank	-27	-28	-142	-26

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

Non-trading equity exposures, KBC Bank*

(in millions of EUR)	31-12-2010		31-12-2011	
	Net realised gains (in income statement)	Net unrealised gains on year-end exposure (in equity)	Net realised gains (in income statement)	Net unrealised gains on year-end exposure (in equity)
KBC Bank	21	91	31	29

* Excluding a number of small group companies.

Real estate risk

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

Impact of a 12.5% drop in real estate prices, KBC Bank* (in millions of EUR)	Impact on value	
	2010	2011
KBC Bank	-80	-68

* Excluding a number of small group companies.

Foreign exchange risk

KBC pursues a prudent policy as regards its structural currency exposure, essentially seeking to avoid currency risk. 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 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 liabilities/obligations as they come due, without incurring unacceptable losses.

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

KBC is preparing for the Basel III era by incorporating Basel III concepts into its liquidity and funding framework, as well as into its financial planning.

Managing liquidity risk

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

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

- *Contingency liquidity risk*. This risk is assessed on the basis of liquidity stress tests, which measure how the liquidity buffer of the group's bank entities changes under extreme stressed scenarios. This buffer is based on assumptions regarding liquidity outflows (retail customer behaviour, professional client behaviour, drawing of committed credit lines, etc.) and liquidity inflows resulting from actions to increase liquidity ('repoing' the bond portfolio, reducing unsecured interbank lending, etc.). The liquidity buffer has to be sufficient to cover liquidity needs (net cash and collateral outflows) over (i) a period that is required to restore market confidence in the group following a KBC-specific event, (ii) a period that is required for markets to stabilise after a general market event and (iii) a combined scenario, which takes a KBC-specific event and a general market event into account. The overall aim of the liquidity framework is to remain sufficiently liquid in stress situations, without resorting to liquidity-enhancing actions which would entail significant costs or which would interfere with the core banking business of the group.
- *Structural liquidity risk*. The group's funding structure is managed so as to maintain substantial diversification, to minimise funding concentrations in time buckets, and to limit the level of reliance on short-term wholesale funding. The structural funding position is managed as part of the integrated strategic planning process, where funding – in addition to capital, profits and risks – is one of the key elements. At present, KBC's strategic aim for the next few years is to build up a sufficient buffer in terms of the Basel III LCR and NSFR requirements via a new funding management framework, which sets clear funding targets for the subsidiaries (own funding, reliance on intra-group funding) and provides further incentives via a system of intra-group pricing to the extent subsidiaries run a funding mismatch.
  The table below illustrates structural liquidity risk by grouping the assets and liabilities according to the remaining term to maturity (contractual maturity date). The difference between the cash inflows and outflows is referred to as the 'net liquidity gap'. At year-end 2011, KBC had attracted 43 billion euros' worth of funding from the professional interbank and repo markets. Please note that US dollar funding obtained from these markets amounted to approximately 7 billion euros on the position at year-end (total US dollar funding of 13 billion euros).
- *Operational liquidity risk*. Operational liquidity management is conducted in the treasury departments, based on estimated funding requirements. Group-wide trends in funding liquidity and funding needs are monitored on a daily basis by the Group Treasury function, ensuring that a sufficient buffer is available at all times to deal with extreme liquidity events in which no wholesale funding can be rolled over.

Structural liquidity risk data

Liquidity risk at year-end (excluding intercompany deals)* (in billions of EUR)	<= 1 month	1-3 months	3-12 months	1-5 years	5-10 years	> 10 years	not defined	Total
31-12-2010								
Total inflows	49	12	23	64	44	46	37	276
Total outflows	65	16	14	31	6	2	141	276
Professional funding	36	5	1	1	0	0	0	44
Customer funding	17	8	8	13	3	2	99	149
Debt certificates	8	4	5	17	3	0	0	36
Other	4	0	0	0	0	0	43	47
Liquidity gap (excl. undrawn commitments)	-16	-4	9	34	38	44	-105	0
Undrawn commitments	–	–	–	–	–	–	-34	–
Financial guarantees	–	–	–	–	–	–	-12	–
Net liquidity gap (incl. undrawn commitments)	-16	-4	9	34	38	44	-151	-46
31-12-2011								
Total inflows	32	11	17	55	40	36	50	241
Total outflows	51	17	12	36	5	2	118	241
Professional funding	28	10	1	4	0	0	0	43
Customer funding	17	6	8	11	3	1	77	123
Debt certificates	3	2	3	20	2	1	1	31
Other	3	0	0	0	0	0	40	43
Liquidity gap (excl. undrawn commitments)	-20	-6	5	19	36	34	-68	0
Undrawn commitments	–	–	–	–	–	–	-34	–
Financial guarantees	–	–	–	–	–	–	-12	–
Net liquidity gap (incl. undrawn commitments)	-20	-6	5	19	36	34	-114	-46

* Cashflows exclude interest rate flows consistent with internal and regulatory liquidity reporting. Inflows/outflows that arise from margin calls posted/received for MtM positions in derivatives are reported in the 'not defined' bucket. '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 a positive net liquidity gap in the longer term buckets. This creates liquidity risk if KBC would be unable to renew maturing short-term funding. The KBC liquidity framework imposes a funding strategy to ensure that the liquidity risk remains within the group's risk appetite.

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

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

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

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

Market risk in trading activities

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

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

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

KBC continued to divest trading activities in its subsidiaries by, *inter alia*, continuing to wind down the remaining business lines at KBC Financial Products, and selling or unwinding selected ABS and CDO assets.

Managing market risk

The principal tool for measuring and monitoring market risk exposures in the trading book is the Historical Value-at-Risk (HVAR) method. VAR is defined as an estimate of the amount of economic value that might be lost on a given portfolio due to market risk over a defined holding period, with a given confidence level. The measurement takes account of the market risk of the current portfolio. KBC uses the historical simulation method, observing the relevant Basel II standards (99% one-sided confidence interval, ten-day holding period, historical data going back at least 250 working days). KBC uses 500 working days of market data.

The HVAR method does not rely on assumptions regarding the distribution of price fluctuations or correlations, but is based on patterns of experience over the previous two years. Complex and/or illiquid instruments, which are not included in HVAR calculations, are subject to nominal or scenario limits.

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

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

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

In addition to the parameter review, periodic risk controls are performed, including all checks that do not entail parameter or P&L testing as carried out in the parameter review, but that are necessary for sound risk management. Moreover, a business case is set up for every new product or activity in order to analyse the risks and the way in which they will be managed.

Risk analysis and quantification

An overall VAR is calculated for each specialised subsidiary and for all trading entities worldwide. The VAR for the latter (see 'KBC Bank' in the table) includes both the linear and non-linear exposure of the traditional dealing rooms. KBC Financial Products' VAR is also shown in the table. At the end of 2011, the VAR for KBC Securities amounted to 0.6 million euros (not shown in the table). The calculation is based on a one-day holding period.

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

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

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

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

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

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

1 KBC Bank: excluding 'specific interest rate risk' (measured using other techniques); swap basis risk has only been included since 22 October 2011. KBC Financial Products: excluding Avebury and the fund derivatives business line.
2 SVAR (stressed VAR) calculated only as of the fourth quarter of 2011. Unaudited.

Operational and other non-financial risks

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risks include the risk of fraud, and legal, compliance and tax risks.
Information on legal disputes can be found in Note 31 of the 'Consolidated financial statements' section.

Managing operational risk

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

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

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

The building blocks for managing operational risks

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

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

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

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

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

The quality of the internal control environment and related risk exposure as identified, assessed and managed by means of these building blocks is reported to KBC's senior management via a management dashboard and to the National Bank of Belgium and the Belgian Financial Services and Markets Authority 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. At the end of 2011, operational risk capital for KBC Bank at the consolidated level came to 862 million euros, compared with 860 million euros a year earlier.

Other non-financial risks

Reputation risk

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

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

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. Capital adequacy is approached from both a regulatory and an internal (economic) perspective.

Managing solvency

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

Regulatory minimum solvency targets were amply exceeded in 2011, not only at year-end, but also throughout the entire year.

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

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

Solvency, KBC Bank

The table below shows 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)	31-12-2010	31-12-2011
KBC Bank (consolidated, Basel II)		
Total regulatory capital, after profit appropriation	18 552	16 364
of which tier-1 capital*	13 809	12 346
Total weighted risks	111 711	106 256
Tier-1 ratio	12.4%	11.6%
of which core tier-1 ratio	10.5%	9.6%
CAD ratio	16.6%	15.4%

* Audited figures.

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

Basel III

The Basel III agreement and corresponding draft European CRD IV Directive and Regulation will introduce new, more stringent capital requirements for financial institutions. According to these proposals, the legal minimum tier-1 ratio, which stood at 4% under Basel II, will be increased to 4.5% in 2013, and gradually increase to 6% in 2015 (with a common equity ratio of 4.5%). On top of this, a so-called 'conservation buffer' (0% in 2013, gradually rising to 2.5% in 2019), a 'countercyclical buffer' (of between 0% and 2.5%, to be determined by the national regulatory authority) and an extra charge for global systemic banks will be applied. Certain elements used in the calculation of regulatory capital will be gradually phased out or changed. Under the current CRD IV draft, the capital injections received from the government (for KBC Group, the 7 billion euros' worth of core-capital securities sold to the Belgian State and Flemish Regional Government in 2008 and 2009) will be classified as common equity tier-1 capital and will be grandfathered until 2018.

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

Corporate governance statement

Composition of the Board of Directors during financial year 2011

Name Number of meetings in 2011: 8	Position	Period served on the Board in 2011	End, current term of office	Board meetings atten-ded	Non-execu-tive directors	Core share-holders' represen-tatives	Indepen-dent directors	Members of the EC	ARC Commit-tee (**)
HUYGHEBAERT Jan	Chairman (9 months)	Until 1 October 2011		7	●				
LEYSEN Thomas	Chairman (3 months)	As from 27 April 2011	2015	4	●				
VANHEVEL Jan	President of the Executive Committee/Executive Director	Full year	2014	8				●*	
DE RAYMAEKER Danny	Executive Director	Full year	2012	6				●	
GIJSENS Luc	Executive Director	As from 27 April 2011	2015	4				●	
HOLLOWS John	Executive Director	Full year	2013	8				●	
PHILIPS Luc	Executive Director	Until 27 April 2011		2				●	
POPELIER Luc	Executive Director	Full year	2013	5				●	
THIJS Johan	Executive Director	Full year	2013	7				●	
VOLJČ Marko	Executive Director	Full year	2014	6				●	
DE JONG Jan Maarten	Independent Director	Full year	2013	5			●		
DE WILDE Julien	Independent Director	Full year	2014	6			●		●
DEPAEMELAERE Jean-Pierre	Independent Director	Full year	2013	7			●		
DE BECKER Sonja	Non-Executive Director	Until 27 April 2011		3	●	●			
DEPICKERE Franky	Non-Executive Director	Full year	2015	8	●	●			●*
DISCRY Luc	Non-Executive Director	Full year	2014	8	●	●			
KONINGS Pierre	Non-Executive Director	Full year	2013	8	●	●			
NONNEMAN Walter	Non-Executive Director	Full year	2012	5	●	●			
ORLENT-HEYVAERT Marita	Non-Executive Director	Full year	2013	8	●	●			
SAP Gustaaf	Non-Executive Director	Full year	2013	7	●	●			
VANDEN AVENNE Patrick	Non-Executive Director	Full year	2013	2	●	●			●
VANTHEMSCHE Piet	Non-Executive Director	As from 27 April 2011	2015	3	●	●			
VAN OEVELEN Guido	Non-Executive Director	Full year	2014	7	●	●			
WAUTERS Dirk	Non-Executive Director	Full year	2013	7	●	●			
WITTEMANS Marc	Non-Executive Director	Full year	2014	8	●	●			●

* Chairman of this committee.
** Audit-, Risk- and Compliancecommittee

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

Appointments and resignations

At the General Meeting of 27 April 2011:
- Luc Philips, executive director, relinquished his seat on the Board and retired. On the advice of KBC Group NV's Nomination Committee, Luc Gijsens was appointed to succeed him as director for a period of four years, i.e. until after the 2015 General Meeting.
- Sonja De Becker, non-executive director, relinquished her seat on the Board. On the advice of KBC Group NV's Nomination Committee, Piet Vanthemsche was appointed to succeed her in this position for a period of four years, i.e. until after the 2015 General Meeting.
- on the advice of KBC Group NV's Nomination Committee, Franky Depickere was re-appointed as non-executive director for a further period of four years, i.e. until after the 2015 General Meeting.
- on the advice of KBC Group NV's Nomination Committee, Thomas Leysen was appointed as director for a period of four years, i.e. until after the 2015 General Meeting.

Jan Huyghebaert (Chairman of the Board) retired on 1 October 2011. On the recommendation of KBC Group NV's Nomination Committee, Thomas Leysen was appointed by the Board of Directors to succeed him, with effect from the same date.

In 2011, the KBC group gave serious thought to how it wanted group corporate governance to develop going forward, with the aim of increasing the strength and efficiency of the management bodies. Consequently, in order to optimise the integrated decision-making process within the group, the decision was also taken to make the composition of the Boards of KBC Group NV, KBC Bank NV and KBC Insurance NV the same, apart from the independent directors. In principle, these Boards will hold joint meetings in the future. To accommodate this:
- most non-executive and non-independent directors of KBC Bank and KBC Insurance will resign voluntarily from their respective Boards at the next General Meeting and the non-executive and non-independent directors of KBC Group NV who had not sat on these Boards will then be appointed in their place;
- the number of independent directors of KBC Bank NV will be reduced from three to two.

As a result, the following non-executive and non-independent directors will relinquish their seats, before or when their office ends, at the General Meeting of KBC Bank NV on 25 April 2012: Pierre Konings, Walter Nonneman, Marita Orlent-Heyvaert, Gustaaf Sap, Guido Van Oevelen, Patrick Vanden Avenne and Dirk Wauters. On the advice of the Group's Nomination Committee, the following non-executive and non-independent directors of KBC Group NV will be nominated as their successors at the same General Meeting 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. At the same time, Jean-Pierre Depaemelaere, independent director, will also relinquish his seat on the Board before his office ends.

The Group and the company wish to extend their sincere gratitude to the outgoing directors for their willingness to facilitate the necessary and accelerated streamlining of these management bodies.

In addition, Jan Vanhevel, executive director and President of the Executive Committee, has expressed his intention to retire and to relinquish his seat with effect from the aforementioned General Meeting. On the advice of KBC Group NV's Nomination Committee, the Board of Directors of KBC Bank NV has nominated Johan Thijs, executive director, to succeed Jan Vanhevel as President of the Executive Committee, likewise with effect from the aforementioned General Meeting.

The Group wishes to thank Mr Vanhevel for his unconditional commitment at the head of the Executive Committees of KBC Group and KBC Bank. In the interests of the group, he was prepared in 2009 to take the helm in exceedingly difficult circumstances and to postpone his retirement for a few years.

On the advice of KBC Group NV's Nomination Committee and on the condition of the positive recommendation still to be received from the Belgian financial regulator, it will be proposed that Daniel Falque be appointed as director to succeed Jan Vanhevel for a period of four years, i.e. until after the General Meeting of 2016. After his appointment at the General Meeting, he will be appointed to the Executive Committee by the Board of Directors and duly take up the position of executive director.

Lastly, the term of office of Danny De Raymaeker, Executive Director, will come to an end. On the advice of KBC Group NV's Nomination Committee, it will be proposed to the General Meeting that he be re-appointed for a further period of four years, i.e. until after the General Meeting of 2016.

CV for the new President of the Executive Committee and for the new executive director:

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

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

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-date).

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, Deputy Chairman of the Board of Directors of KBL European Private Bankers SA (2005-date), 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).

Main features of the internal control and risk management systems

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

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

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

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

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

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

Specific information on the composition and activities of both management bodies is provided in this 'Corporate governance statement'.

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

KBC conducts its activities in compliance with both the letter and the spirit of prevailing laws and regulations, whilst also taking account of changing societal norms and ensuring that its activities contribute towards economic, social and environmental advancement in its areas of operation. KBC gives priority to the needs and interests of its customers, its shareholders, its staff and the broader community in which it operates. In its relationship with them, KBC imposes rules on itself concerning fairness and reasonableness, openness and transparency, discretion and respect for privacy.
These principles are set out in the integrity policy, as well as in specific codes, instructions and codes of conduct. The main guidelines and policy memos on socially responsible business practices can be found at www.kbc.com/csr.
The most important guidelines relating to the integrity policy are:
- the *Code of Conduct for KBC Group Employees*, a generalised document based on a set of group values that outlines how all members of staff should conduct themselves. It forms the basis for developing specialised codes of conduct for specific target groups and for drawing up policy guidelines at group level.

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

- The *Anti-Corruption and Bribery Policy* affirms KBC's position in the fight against and its resolve to prevent corruption in its activities and operations, while setting out the measures that have been or will be taken to achieve this. One element of this is the 'policy on gifts, donations and sponsorship' through which KBC endeavours to protect its employees and the other parties involved by means of criteria that have been drawn up to foster transparent and reasonable behaviour.

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

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

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

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

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

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

Independent of the business side and following advanced industry standards, Value and Risk Management is tasked with drawing up a group-wide framework for value, risk and capital management, monitoring implementation of the framework, and assisting line management in the use of value, risk and capital management instruments and techniques. More information on value and risk management is provided in the relevant section of this report.
KBC has installed Local Chief Risk Officers (LCROs) at various levels within the organisation. They work closely with the business operations since they participate in the local decision-making process. On the other hand, they report to the Group CRO, which guarantees their independence.
The Compliance function is an independent function within the KBC group, protected by its modified status (as described in the Compliance Charter), its place in the organisation chart (hierarchically under the President of the EC) and its reporting lines (reporting to the ARC Committee as the highest body). Its mission is to prevent the KBC group and its companies from incurring any financial, legal or reputational loss/damage or sanctions due to non-compliance with applicable laws, decrees and in-house standards, or failure to measure up to the lawful expectations of customers, staff and society in general, particularly in those areas assigned to it in the integrity policy.

3.3 As independent third line of defence, Internal Audit provides support to the Executive Committee and ARC 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 and its companies 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 and the *Audit Charter* of KBC Bank NV. These charters comply with the stipulations of CBFA/FSMA Circular D1 97/4 (banks) and PPB-2006-8-CPA (insurance).
In accordance with international professional audit standards, the audit function is screened on a regular basis by an external entity (the last time this happened was in 2009). The results of that exercise were reported to the Executive Committee and ARC Committee within their remit of supervising and assessing Internal Audit.

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

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

The ARC Committee supervises, on behalf of the Board, the integrity and effectiveness of the internal control measures and the risk management in place – as set up under the 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 of Directors of KBC Bank NV on 18 November 2010.

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

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

At KBC Bank NV, periodic reporting at company level is based on a documented accounting process. A manual on the accounting procedures and financial reporting process is available. Periodic financial statements are prepared directly from the general ledger. Bookkeeping accounts are linked to underlying inventories. The result of these controls can be demonstrated.

Periodic financial statements are prepared in accordance with local accounting policies and periodic reports on own funds in accordance with the CBFA (what is now the 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 of monitored Group Standard Accounting Controls (since 2006) is one of the mainstays in the internal control of the corporate accounting process.

These controls set the rules for managing the main operational risks attached to the corporate accounting process and involve the establishment and maintenance of accounting process architecture, the establishment and maintenance of accounting policies and accounting presentations, compliance with authorisation rules and the separation of responsibilities when transactions are registered in the accounts, and the establishment of appropriate first- and second-line account management.

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

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

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

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

Shareholder structure on 31 December 2011

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 2011, the shareholder structure of KBC Bank NV was as follows:

	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 2011.
- Audit Committee. The members of the Audit Committee of KBC Bank:
    - Julien De Wilde, Independent Director within the meaning of and in line with the criteria set out in Article 526 *ter* of the Companies Code, who holds a Master's Degree in Civil Engineering (KU Leuven), with rich and extensive experience in industry and management – including as CEO of Alcatel Bell (1995-1998), Vice-President of the Executive Committee of Alcatel in Paris, where he was responsible for Europe, the Middle East, Latin America, India and Africa (1999-2002) and CEO of the Bekaert Group (2002-2006) – and currently chairs the Boards of Directors of the Agfa Gevaert Group and Nyrstar, and is a board member at Vanbreda International, Telenet and J&L Partners;
    - Franky Depickere, Director, who holds a double Master's Degree in Trade & Finance and in Corporate Financial Management, is a Managing Director of Cera Beheersmaatschappij NV and Almancora Beheersmaatschappij NV, Chairman of the Day-to-Day Management Committee of Cera CVBA, and a core shareholder in KBC Group NV;
    - Patrick Vanden Avenne, Director, who holds a Master's Degree in Law, a Bachelor's Degree in Economics, as well as an MBA from Stanford University (US), and is CEO or director of a number of industrial companies;
    - Marc Wittemans, Director, who holds a Master's Degree in Applied Economics, and degrees in Fiscal Sciences and Actuarial Sciences, is Managing Director of MRBB CVBA, and a core shareholder in KBC Group NV;

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

External offices held by the executive managers and directors of KBC Bank, 31-12-2011

Company name	Registered office	Sector	Position	Listed (N= no)	Share of capital held (N= none)
Jan Maarten de Jong, Independent Director					
Heineken nv	Netherlands	breweries	Member of the Supervisory Board	AEX	N
Nutreco Holding nv	Belgium	food	Chairman of the Supervisory Board	N	N
AON Groep Nederland bv	Netherlands	risk management	Chairman of the Supervisory Board	N	N
CRH Plc	Ireland	construction	Non-Executive Director	NYSE - ISE - LSE	N
Onderlinge Levensverzekeringsmaatschappij 's-Gravenhage	Netherlands	life insurance	Chairman of the Supervisory Board	N	J
Julien De Wilde, Independent Director					
Nyrstar nv	Belgium	industry	Chairman of the Board of Directors	Euronext	N
Telenet Group Holding nv	Belgium	holding company	Independent Director	Euronext	N
Arseus	Netherlands	services sector	Director	Euronext	N
Agfa-Gevaert nv	Belgium	technology	Chairman of the 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/plastics	Independent Director	NYSE - Euronext	N
Cera Beheersmaatschappij nv	Belgium	management	Executive Director	N	N
Euro Pool System International BV	Netherlands	packaging	Director	N	N
Jean-Pierre Depaemelaere, Independent Director					
JPD Consult bvba	België	management	Business manager	N	N
DAF Trucks nv	Netherlands	transport	Member of the Supervisory Board	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
Luc Gijsens, Executive Director					
Gemma Frisius-Fonds K.U. Leuven nv	Belgium	financial sector	Director	N	40.00%
Pierre Konings, Director					
E-Capital II sa	Belgium	private equity fund	Chairman of the Board of Directors	N	N
Capricorn Cleantech Fund Investments Comm. VA	Belgium	investment company	Chairman	N	N
Control Tab nv	Belgium	holding company	Director	N	N
Immosem nv	Belgium	family holding company	Executive Director	N	N
Thomas Leysen, Chairman Board of Directors					
Umicore nv	Belgium	non-ferro metals	Chairman of the Board of Directors	Euronext	N
UCB nv	Belgium	pharmaceuticals	Director	Euronext	N
Corelio nv	Belgium	media	Chairman of the Board of Directors	N	N
De Vijver nv	Belgium	consultancy company	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
Walter Nonneman, Independent Director					
Cera Beheersmaatschappij nv	Belgium	management	Independent Director	N	N
Fluxys nv	Belgium	perator of gas transmission netwo	Independent Director	N	N
Marita Orlent-Heyvaert, Director					
INKAO-INVEST	Belgium	real estate	Executive Director	N	N
ROBOR nv	Belgium	real estate	Director	N	N
Gustaaf Sap, Director					
Cecan nv	Belgium	holding company	Chairman of the Board of Directors	N	N
Cecan Invest nv	Belgium	financial sector	Directors	N	N
Corelio nv	Belgium	media	Permanent representative	N	N
Patrick Vanden Avenne, Director					
Calibra Poultry nv	Belgium	poultry processing	Chairman of the Board of Directors	N	N
Biopower cvba	Belgium	industry	Vice-chairman of the Board of Directors	N	N
Bens nv	Belgium	food	Executive Director	N	N
Sininvest nv	Belgium	poultry	Director	N	N
Vanden Avenne - Vrieshuis nv	Belgium	holding company + refrigeration	Executive Director	N	N
Vanden Avenne - Ooigem nv	Belgium	compound feed	Executive Director	N	N
Lacotrans nv	Belgium	transport	Executive Director	N	N
Euro-Silo nv	Belgium	transfer and storage of grain	Director	N	N
Isarick nv	Belgium	management	Director	N	N
Harpaca nv	Belgium	management	Director	N	N
Larinvest nv	Belgium	holding company	Director	N	N
Ispahan nv	Belgium	management	Director	N	N
Bavarco bvba	Belgium	stockbreeding	Business manager	N	N
Bens Voeders nv	Belgium	transport	Director	N	N
BBQ NV	Belgium	investment company	Director	N	N
Bens Retail nv	Belgium	meat factory & wholesale	Executive Director	N	N
Vebo nv	Belgium	meat factory & wholesale	Director	N	N
Alia² cvba	Belgium	live stock feed	Director	N	N
Piet Vanthemsche, Director					
M.R.B.B. - Maatschappij voor Roerend Bezit van de Boerenbond cvba	Belgium	financial holding	Chairman of the Board of Directors	N	N
BB-Patrim cvba	Belgium	holding company	Chairman of the Board of Directors	N	N
Agri Investment Fund cvba	Belgium	holding company	Director	N	N
Gimv-Agri+ Investment Fund nv	Belgium	investment fund	Chairman of the Board of Directors	N	N
Dirk Wauters, Director					
Jala bvba	Belgium	management	Executive Director	N	N
Immo Falconis nv	Belgium	real estate	Director	N	N
Berkenstede nv	Belgium	real estate	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 of the Board of Directors	N	19.06%
SBB Accountants en Belastingconsulenten bv cvb	Belgium	Accountancy & consulting	Director	N	N
SBB Bedrijfsdiensten bv cvba	Belgium	Accountancy & consulting	Director	N	N
M.R.B.B. cvba	Belgium	holding company	Executive Director	N	N
Agri Investment Fund cvba	Belgium	holding company	Director	N	N
Acerta cvba	Belgium	holding company	Director	N	N
Covalis nv	Belgium	abbattoirs & meat processing	Director	N	N
Acerta Consulting cvba	Belgium	HR services	Director	N	N
Guido Poffé, General Manager					
Groep VTB-VAB nv	Belgium	road breakdown assistance	Director	N	74.81%
Omnia nv	Belgium	travel agency	Chairman of the Board of Directors	N	100.00%

Consolidated financial statements, IFRS

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TRANSLATION

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

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

Unqualified opinion on the consolidated financial statements

We have audited the consolidated financial statements of KBC Bank nv and its subsidiaries (collectively referred to as 'the Group') for the year ended 31 December 2011, prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium. These consolidated financial statements comprise the consolidated balance sheet as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated cashflow statement and the consolidated statement of changes in equity for the year then ended, as well as the summary of significant accounting policies and other explanatory notes. The consolidated balance sheet shows total assets of € 241.076 million and the consolidated statement of income shows a profit for the year, share of the Group, of € 347 million.

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

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

Responsibility of the statutory auditor

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the legal requirements and the auditing standards applicable in Belgium, as issued by the Institute of Registered Auditors (*Institut des Réviseurs d'Entreprises/Instituut van de Bedrijfsrevisoren*).

Société civile ayant emprunté la forme d'une société coopérative à responsabilité limitée
Burgerlijke vennootschap die de rechtsvorm van een coöperatieve vennootschap met beperkte aansprakelijkheid heeft aangenomen
RPM Bruxelles - RPR Brussel - T.V.A. - B.T.W. BE 0446.334.711
Banque - Fortis - Bank 210-0905900-69

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 2011 give a true and fair view of the Group's financial position as at 31 December 2011 and of the results of its operations and its cashflows in accordance with IFRS as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium.

Additional comments

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

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

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

Brussels, 19 March 2012

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

Pierre Vanderbeek
Partner

Christel Weymeersch
Partner

12PVDB0076

Consolidated income statement

In millions of EUR	Note	2010	2011
Net interest income	3	5 279	4 484
Interest income		9 621	10 942
Interest expense		- 4 341	- 6 458
Dividend income	4	51	33
Net result from financial instruments at fair value through profit or loss	5	- 277	2
Net realised result from available-for-sale assets	6	45	85
Net fee and commission income	7	1 638	1 565
Fee and commission income		2 222	2 098
Fee and commission expense		- 584	- 533
Other net income	8	259	- 50
TOTAL INCOME		6 995	6 119
Operating expenses	9	- 3 861	- 3 709
Staff expenses	10	- 1 864	- 1 807
General administrative expenses		- 1 790	- 1 734
Depreciation and amortisation of fixed assets		- 208	- 168
Impairment	11	- 1 635	- 1 659
on loans and receivables		- 1 485	- 1 331
on available-for-sale assets		- 12	- 182
on goodwill		- 85	- 81
on other		- 54	- 66
Share in results of associated companies	12	- 54	- 52
RESULT BEFORE TAX		1 445	699
Income tax expense	13	88	- 216
Net post-tax result from discontinued operations		0	0
RESULT AFTER TAX		1 533	483
Attributable to minority interest		139	136
of which relating to discontinued operations		*0*	*0*
Attributable to equity holders of the parent		**1 395**	**347**
of which relating to discontinued operations		*0*	*0*

- The KBC group unveiled a new strategic plan towards the end of 2009, which the European Commission used to decide whether KBC would be able to repurchase the securities sold to the government within a reasonable timeframe. The European Commission approved the plan at the end of November 2009. A number of adjustments were made to this plan in mid-2011, more information on which can be found in the ‘Strategy’ section (which has not been audited by the statutory auditor).
- It will be proposed that a total dividend of 1 620 million euros be paid for the 2011 financial year (1 500 million euros of which has already been paid as an interim dividend), subject to the approval of the General Meeting.
- The main items in the income statement are dealt with under ‘Results in 2011’ in the ‘Report of the Board of Directors’ section.

Consolidated statement of comprehensive income

In millions of EUR	2010	2011
RESULT AFTER TAX	1 533	483
attributable to minority interest	139	136
attributable to equity holders of the parent	1 395	347
OTHER COMPREHENSIVE INCOME		
Net change in revaluation reserve (AFS assets) - Equity	- 28	- 62
Fair value adjustments before tax	- 19	- 60
Deferred tax on fair value changes	1	- 1
Transfer from reserve to net profit	- 10	- 1
Impairment losses	3	1
Net gains/losses on disposal	- 12	- 1
Deferred income tax	0	0
Net change in revaluation reserve (AFS assets) - Bonds	- 337	23
Fair value adjustments before tax	- 745	- 189
Deferred tax on fair value changes	253	30
Transfer from reserve to net profit	156	183
Impairment losses	- 54	155
Net gains/losses on disposal	22	- 3
Amortization & impairment re assets transferred to L&R	284	81
Deferred income tax	- 97	- 50
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)	- 72	- 165
Fair value adjustments before tax	- 136	- 357
Deferred tax on fair value changes	56	134
Transfer from reserve to net profit	8	58
Gross amount	10	89
Deferred income tax	- 2	- 31
Net change in translation differences	76	- 126
Gross amount	12	- 34
Deferred taxes on income	64	- 92
Other movements	1	3
TOTAL COMPREHENSIVE INCOME	**1 174**	**156**
attributable to minority interest	150	121
attributable to equity holders of the parent	1 025	36

Consolidated balance sheet

ASSETS (in millions of EUR)	Note	31-12-2010	31-12-2011
Cash and cash balances with central banks		15 236	6 123
Financial assets	14-25	252 035	225 814
Held for trading	14-25	30 898	27 730
Designated at fair value through profit or loss	14-25	18 560	8 076
Available for sale	14-25	34 690	24 295
Loans and receivables	14-25	157 109	153 981
Held to maturity	14-25	10 495	10 958
Hedging derivatives	14-25	284	776
Fair value adjustments of hedged items in portfolio hedge of interest rate risk		218	197
Tax assets	27	2 305	2 406
Current tax assets		70	122
Deferred tax assets		2 235	2 284
Non-current assets held for sale and assets associated with disposal groups		54	3
Investments in associated companies	28	542	475
Investment property	29	457	552
Property and equipment	29	2 358	2 357
Goodwill and other intangible assets	30	1 711	1 544
Other assets	26	1 807	1 605
TOTAL ASSETS		276 723	241 076

LIABILITIES AND EQUITY (in millions of EUR)	Note	31-12-2010	31-12-2011
Financial liabilities	14-25	258 577	225 016
Held for trading	14-25	24 074	27 332
Designated at fair value through profit or loss	14-25	27 985	22 895
Measured at amortised cost	14-25	205 394	172 860
Hedging derivatives	14-25	1 124	1 929
Fair value adjustments of hedged items in portfolio hedge of interest rate risk		0	4
Tax liabilities	27	368	446
Current tax liabilities		281	233
Deferred tax liabilies		87	214
Liabilities associated with disposal groups		0	0
Provisions for risks and charges	31	554	852
Other liabilities	32-33	3 081	2 665
TOTAL LIABILITIES		262 580	228 983
Total equity		14 142	12 093
Parent shareholders' equity	34	13 193	11 117
Minority interests		950	975
TOTAL LIABILITIES AND EQUITY		276 723	241 076

Consolidated statement of changes in equity

In millions of EUR	Issued and paid up share capital	Share premium	Mandatorily convertible bonds	Treasury shares	Revaluation reserve (AFS assets)	Hedging reserve (cashflow hedges)	Reserves	Translation differences	Parent shareholders' equity	Minority interests	Total equity
31-12-2010											
Balance at the beginning of the period	8 948	2 492	0	0	- 17	- 374	1 468	- 349	12 168	849	13 016
Net result for the period	0	0	0	0	0	0	1 395	0	1 395	139	1 533
Other comprehensive income for the period	0	0	0	0	- 369	- 72	1	70	- 370	11	- 358
Total comprehensive income	**0**	**0**	**0**	**0**	**- 369**	**- 72**	**1 396**	**70**	**1 025**	**150**	**1 175**
Dividends	0	0	0	0	0	0	0	0	0	0	0
Capital increase	0	- 1 269	0	0	0	0	1 269	0	0	0	0
Purchases of treasury shares	0	0	0	0	0	0	0	0	0	0	0
Sales of treasury shares	0	0	0	0	0	0	0	0	0	0	0
Results on (derivatives on) treasury shares	0	0	0	0	0	0	0	0	0	0	0
Impact business combinations	0	0	0	0	0	0	0	0	0	0	0
Change in minorities	0	0	0	0	0	0	0	0	0	- 49	- 49
Total change	**0**	**- 1 269**	**0**	**0**	**- 369**	**- 72**	**2 665**	**70**	**1 025**	**101**	**1 126**
Balance at the end of the period	**8 948**	**1 222**	**0**	**0**	**- 386**	**- 446**	**4 134**	**- 279**	**13 193**	**950**	**14 142**
of which revaluation reserve for shares					91						
of which revaluation reserve for bonds					- 477						
of which revaluation reserve for other assets than bonds and shares					0						
of which relating to non-current assets held for sale and disposal groups					0			0	0		0
31-12-2011											
Balance at the beginning of the period	**8 948**	**1 222**	**0**	**0**	**- 386**	**- 446**	**4 134**	**- 279**	**13 193**	**950**	**14 142**
Net result for the period	0	0	0	0	0	0	347	0	347	136	483
Other comprehensive income for the period	0	0	0	0	- 38	- 166	3	- 111	- 311	- 15	- 326
Total comprehensive income	**0**	**0**	**0**	**0**	**- 38**	**- 166**	**351**	**- 111**	**36**	**121**	**156**
Dividends	0	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	0
Purchases of treasury shares	0	0	0	0	0	0	0	0	0	0	0
Sales of treasury shares	0	0	0	0	0	0	0	0	0	0	0
Results on (derivatives on) treasury shares	0	0	0	0	0	0	0	0	0	0	0
Impact business combinations	0	0	0	0	0	0	0	0	0	0	0
Change in minorities	0	0	0	0	0	0	0	0	0	- 95	- 95
Change in scope	0	0	0	0	11	0	0	0	11	0	11
Total change	**0**	**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**	**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						
of which relating to non-current assets held for sale and disposal groups					0			0	0		0

- For information on the number of shares, see Note 34.
- Besides the gross dividend of 622 million euros for financial year 2010, the ‘Dividends’ heading in 2011 includes an interim dividend of 1 500 million euros.

Consolidated cashflow statement

In millions of EUR	2010	2011
Operating activities		
Result before tax	1 445	699
Adjustments for:	1 567	1 615
Result before tax related to discontinued operations	0	0
Depreciation, impairment and amortisation of property and equipment, intangible assets, investment property and securities	358	515
Profit/Loss on the disposal of investments	- 101	- 99
Change in impairment on loans and advances	1 485	1 331
Change in other provisions	0	354
Other non realised gains or losses	- 229	- 537
Income from associated companies	54	52
Cashflows from operating profit before tax and before changes in operating assets and liabilities	3 012	2 313
Changes in operating assets (excl. cash & cash equivalents)	11 004	29 248
Loans and receivables	323	2 478
Available for sale	- 2 487	9 680
Held for trading	9 133	7 072
Designated at fair value through P&L	4 243	10 770
Hedging derivatives	- 208	- 751
Operating assets associated with disposal groups	0	0
Changes in operating liabilities (excl. cash & cash equivalents)	2 234	- 33 627
Deposits at amortised cost	2 472	- 21 085
Debt certificates at amortised cost	- 138	- 11 649
Financial liabilities held for trading	- 4 358	3 391
Financial liabilities designated at fair value through P&L	4 156	- 5 090
Liability-derivatives hedge accounting	102	806
Operating liabilities associated with disposal groups	0	0
Income taxes paid	- 279	- 232
Net cash from (used in) operating activities	15 972	- 2 297

In millions of EUR	2010	2011
Investing activities		
Purchase of held-to-maturity securities	- 3 409	- 1 894
Proceeds from the repayment of held-to-maturity securities at maturity	1 480	1 056
Acquisition of a subsidiary or a business unit, net of cash acquired (increase in participation intrests included)	- 112	0
Proceeds from the disposal of a subsidiary or business unit, net of cash disposed (decrease in participation intrests included)	905	498
Purchase of shares in associated companies	0	- 18
Proceeds from the disposal of shares in associated companies	0	0
Dividends received from associated companies	14	19
Purchase of investment property	- 17	- 31
Proceeds from the sale of investment property	10	13
Purchase of intangible fixed assets (excl. goodwill)	- 37	- 45
Proceeds from the sale of intangible fixed assets (excl. goodwill)	8	7
Purchase of property and equipment	- 423	- 556
Proceeds from the sale of property and equipment	159	194
Net cash from (used in) investing activities	- 1 423	- 757
Financing activities		
Purchase or sale of treasury shares	0	0
Issue or repayment of promissory notes and other debt securities	- 1 313	- 2 155
Proceeds from or repayment of subordinated liabilities	539	- 897
Principal payments under finance lease obligations	0	0
Proceeds from the issuance of share capital	0	0
Proceeds from non-voting core-capital securities	0	0
Proceeds from the issuance or repayment of preference shares	0	0
Dividends paid	0	- 2 122
Net cash from (used in) financing activities	- 774	- 5 175
Change in cash and cash equivalents		
Net increase or decrease in cash and cash equivalents	13 775	- 8 229
Cash and cash equivalents at the beginning of the period	3 518	17 650
Effects of exchange rate changes on opening cash and cash equivalents	357	10
Cash and cash equivalents at the end of the period	17 650	9 431
Additional information		
Interest paid	- 4 341	- 6 458
Interest received	9 621	10 942
Dividends received (including equity method)	65	52
Components of cash and cash equivalents		
Cash and cash balances with central banks	15 235	6 121
Loans and advances to banks repayable on demand and term loans to banks	6 934	11 821
Deposits from banks repayable on demand and redeemable at notice	- 4 519	- 8 511
Cash and cash equivalents included in disposal groups	0	0
Total	17 650	9 431
of which not available	0	0

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

	2010		2011
in millions of EUR	KBC Peel Hunt Ltd.	Global Convertible Bonds & Asian Equity Derivatives businesses	Centea
Purchase or sale	Sale	Sale	Sale
Percentage of shares bought (+) or sold (-) in the relevant year	100.00%	-	100.00%
Total share percentage at the end of the relevant year	0.00%	-	0.00%
For business unit/segment	Group Centre	Group Centre	Group Centre
Deal date (month and year)	november 2010	november 2010	july 2011
Incorporation of the result of the company in the result of the group until:	30-09-2010	19-11-2010	30-06-2011
Purchase price or sale price	86	866	527
Cashflow for acquiring or selling companies less cash and cash equivalents acquired or sold	75	824	498
Assets & liabilities bought or sold			
Cash and cash balances with central banks	0	0	23
Financial assets	511	906	9 856
Held for trading	26	864	0
Designated at fair value through profit or loss	0	0	1 233
Available for sale	2	0	1 200
Loans and receivables	483	42	7 424
Held-to-maturity investments	0	0	0
Hedging derivatives	0	0	0
of which: cash and cash equivalents	*11*	*42*	*30*
Financial liabilities	405	391	8 637
Held for trading	15	391	0
Designated at fair value through profit or loss	0	0	0
Measured at amortised cost	389	0	8 637
Hedging derivatives	0	0	0
of which: cash and cash equivalents	*0*	*0*	*0*

Notes on the accounting policies

Note 1 a: Statement of compliance

The consolidated financial statements, including all the notes, were authorised for issue on 22 March 2012 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 2011 and have been applied in this report. The amendments in question do not have any material impact.

- IAS 24 (Related Party Disclosures). The definition of a related party has been clarified and a partial exemption from the disclosure requirements provided for government-related entities. However, where a reporting entity is exempt from the general disclosure requirements, other information (identity, nature of the related party relationship, nature and amount of the transaction) has to be disclosed.
- IFRIC 14 (The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction).
- IFRIC 19 (Extinguishing Financial Liabilities with Equity Instruments (to be measured at fair value)).
- Improvements to existing standards (published in May 2010): a set of amendments to existing standards and interpretations.

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

- In November 2009, the IASB issued IFRS 9 (Financial Instruments) on the classification and measurement of financial assets, as a replacement for the relevant requirements of the present IAS 39 (Financial Instruments: Recognition and Measurement). The mandatory effective date of this new standard has recently been postponed until 1 January 2015. However, the European Union has still to endorse the standard for use in its territory. An impact study is an inherent part of the IFRS 9 programme currently underway at KBC.
- Amendment to IAS 12 (Income tax – Deferred Tax: Recovery of Underlying Assets). No impact due to the fact that KBC measures investment property at cost.
- Amendment to IFRS 7 (Financial Instruments: Disclosures – Transfers of Financial Assets), which becomes effective on or after 1 January 2012. More detailed disclosures are required for transferred financial assets that are derecognised in their entirety, but where the entity has a continuing involvement in them (for instance, collateral provided for such assets) or for assets that have not been derecognised in their entirety.
- IFRS 10, 11 and 12 are the new consolidation standards that will become effective on or after 1 January 2013. IFRS 10 includes a new definition of control, which can lead to changes in the scope of consolidation. Under IFRS 11 (Joint Arrangements), it is specified that *joint ventures* must be accounted for using the equity method and no longer by proportionate consolidation. IFRS 12 combines all the disclosure requirements for subsidiaries, joint arrangements, associates and *structured entities* (the new name for Special Purpose Entities). It is expected that this will lead to a limited change in KBC's scope of consolidation.
- IFRS 13 (Fair Value Measurement) provides guidance on how the fair value of an asset or liability should be measured when required by another IFRS standard. The standard will become effective on 1 January 2013. KBC expects that there will only be a minor change in the way that fair values are determined. The main consequence for KBC will be the requirement of expanded disclosures.
- Amendment to IAS 19 (Employee Benefits), which will become effective on or after 1 January 2013. The main change concerns the elimination of the corridor, which – under the current standard – permits actuarial gains and losses to be spread over several years. From that point on, such gains and losses will have to be recognised in other comprehensive income (with no recycling in profit or loss). The required disclosures will also be changed and expanded.

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

Changes to the notes to the balance sheet in 2011:
- Note 18: as a result of amendments to IFRS 7, maximum credit exposure now also has to be presented on a net basis, account taken of any collateral or credit enhancement held.
- Note 25: the presentation of the notional amounts of derivatives has changed, i.e. they are now referred to as 'Notional amounts purchased' on the assets side and 'Notional amounts sold' on the liabilities side. This change applies solely to options. The reference figures have also been restated.
- Note 35: non-financial assets are no longer included under 'Guarantees/collateral received'. The distinction between financial and non-financial guarantees has also been modified, with personal guarantees and credit insurance now classified as financial guarantees. Information about the carrying value of financial assets pledged by KBC as collateral is now included under this note, whereas it had previously been recorded under Note 18. The reference figures have also been restated.

Changes in the presentation of segment reporting in 2011:
- See 'Notes on segment reporting'.

Note 1 b: Summary of significant accounting policies

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

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

b Effects of changes in foreign exchange rates

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

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

c Financial assets and liabilities (IAS 39)

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

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

The IAS 39 classifications are as follows:

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

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

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

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

- *Held-for-trading liabilities*. These are liabilities held with the intention of repurchasing them in the short term. All derivatives with a negative replacement value are also considered to be held for trading unless they are designated 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 interest rate swaps is included in net interest income. Hedge accounting is discontinued once the hedge accounting requirements are no longer met or if the hedging instrument expires or is sold. In this case, the gain or loss recorded in equity on the hedged position (for fixed-income financial instruments) will be taken to profit or loss on an accruals basis until maturity.

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

For cashflow hedges, derivatives hedging the risks are measured at fair value, with those fair value gains or losses determined to be an effective hedge being recognised separately in equity. Accrued interest income from interest rate swaps is included in net interest income. The ineffective portion of the hedge is recognised in income for the financial year. Hedge accounting will be discontinued if the hedge accounting criteria are no longer met. In this case, the derivatives will be treated as held-for-trading derivatives and measured accordingly.

Foreign currency funding of a net investment in a foreign entity is accounted for as a hedge of that net investment. This form of hedge accounting is used for investments not denominated in euros. Translation differences (account taken of deferred taxes) on the funding are recorded in equity, along with translation differences on the net investment.

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

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

d Goodwill and other intangible assets

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

e Property and equipment (including investment property)

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

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

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

Rounded figures

k Changes made to accounting policies in 2011

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

Notes on segment reporting

Note 2 a: Segment reporting based on the management structure

The group's segments or business units

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

Segment reporting is based on this format, but:

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

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

- The (40%) portion of ČSOB's results in the Czech Republic, which relates to the originally planned public offering of a minority stake in that company – and which had previously been recognised under Group Centre – was reallocated to the Central & Eastern Europe Business Unit.
- The results of Kredyt Bank (Poland), which had previously been included in the Central & Eastern Business Unit, have now been moved to Group Centre (to join the other companies earmarked for divestment).
- Due to the retroactive adjustment of these figures, the 'underlying result after tax, attributable to equity holders of the parent' was as follows in 2010:
    - Central & Eastern Europe Business Unit: 393 million euros in the previous annual report, 557 million euros in this one;
    - Group Centre: 30 million euros in the previous annual report, -134 million euros in this one;
    - The results for the other business units and for the group as a whole remained unchanged.

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

- Belgium (retail banking, asset management, private banking in Belgium; companies earmarked for divestment under the strategic plan are recognised under Group Centre).
- Central & Eastern Europe (retail banking, asset management, private banking and merchant banking in the Czech Republic, Slovakia, Hungary 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. Exceptions are only made for those charges that cannot clearly be allocated to a specific segment (such charges are recognised under Group Centre) and KBC Bank (which is assigned to various segments and to Group Centre using allocation rules).
- The funding cost of goodwill related to participating interests held by KBC Bank 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 product or per service (or group of products or services), since the information is prepared at consolidated level chiefly for each business unit, and not per customer group or product group.

Underlying results by segment

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

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

- Exceptional items that do not regularly occur during the normal course of business are eliminated in the underlying results (such as losses and gains relating to investments in CDOs, to trading positions that were unwound due to the discontinuation of activities of KBC Financial Products, and to actual divestments). In view of their exceptional nature and materiality, it is important to separate out these items in order to gain a full understanding of the results trend.
- In the IFRS figures, many of the ALM hedging derivatives (i.e. those that do not qualify for fair value hedge accounting for a portfolio hedge of interest rate risk) were – up to and including 2010 – regarded as trading instruments and, consequently, interest relating to these instruments appeared under 'Net result from financial instruments at fair value', whereas interest earned on the related assets appears under 'Net interest income'. In the underlying figures, interest on these derivatives has therefore been moved to 'Net interest income' (the heading under which interest income generated by the related assets is recognised), without this having any impact on the net result. As of 2011, however, interest on ALM hedging derivatives has also been included in the IFRS figures under 'Net interest income' (see Note 1a).
- The fair value changes (due to marking-to-market) of the above ALM hedging instruments appear under 'Net result from financial instruments at fair value', whereas most of the related assets are not recognised at fair value. To limit the volatility arising from the marking-to-market of these instruments, a government bond portfolio was classified as 'measured at fair value through profit or loss' (fair value option). The remaining volatility stemming from the fair value changes of these ALM hedging derivatives relative to the fair value changes in the relevant bond portfolio is excluded from the underlying results.
- In the IFRS figures, income from professional market activities is divided up among different components. While trading profit is recognised under 'Net result from financial instruments at fair value', the funding costs and the fees and commission paid to realise this trading profit are recognised under 'Net interest income' and 'Net fee and commission income', respectively. Moreover, a portion of the other income items also relates to market activities. In the underlying figures, all market-activity-related components have been moved to 'Net result from financial instruments at fair value', without this having any impact on the net result.
- The IFRS figures take into account the effect of changes in own credit risk when measuring the fair value of financial liabilities designated at fair value through profit or loss. The resultant valuation adjustments have an impact on the net result. Since this is a non-operating item, its impact is excluded from the underlying figures.

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 statement	2010	2011
Result after tax, attributable to equity holders of the parent (underlying)			**1 174**	**635**
+ Changes in fair value of ALM hedging instruments	1	Net result from financial instruments at fair value, Income tax expense	- 185	- 268
+ Gains/losses relating to CDOs	2	Net result from financial instruments at fair value, Income tax expense	847	- 287
+ Fair value of CDO-related guarantee and commitment fees	3	Net result from financial instruments at fair value, Income tax expense	- 57	- 43
+ Impairment on goodwill and associated companies	4	Impairment on goodwill and on other	- 115	- 81
+ Result from legacy structured derivatives business (KBC Financial Products)		Net result from financial instruments at fair value, Income tax expense	- 372	50
+ Changes in fair value of own debt instruments (due to own credit risk)	5	Net result from financial instruments at fair value, Income tax expense	39	359
+ Results on divestments	6	Other net income	77	- 18
Other		-	- 15	0
Result after tax, attributable to equity holders of the parent (IFRS)			1 395	347

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

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

2 Relates primarily to changes in the fair value of CDO exposures (see Notes 5 and 22), changes in provisions for and payment of CDO-related claims. Also includes the recognition of a deferred tax asset of 0.4 billion euros in 2010 (see Note 13).

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

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

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

6 In 2010, includes mainly the sale of the Global Convertible Bonds and Asian Equity Derivatives activities in KBC FP.

Underlying results by segment (business unit)

In millions of EUR	Belgium Business unit	CEE Business unit	Merchant Banking Business unit	Group Centre excluding interseg-ment eliminations	Inter-segment eliminations	KBC Bank
UNDERLYING INCOME STATEMENT 2010						
Net interest income	1 456	1 477	836	716	- 2	4 483
Dividend income	11	2	6	1	0	19
Net result from financial instruments at fair value through profit or loss	48	138	539	40	0	766
Net realised result from available-for-sale assets	19	10	3	5	0	37
Net fee and commission income	960	380	225	133	1	1 699
Other net income	36	41	- 83	30	- 10	14
TOTAL INCOME	**2 531**	**2 047**	**1 526**	**926**	**- 11**	**7 019**
Operating expenses[a]	- 1 376	- 1 078	- 564	- 760	11	- 3 767
Impairment	- 86	- 350	- 796	- 276	0	- 1 507
on loans and receivables	- 82	- 340	- 789	- 274	0	- 1 485
on available-for-sale assets	- 4	0	- 7	0	0	- 12
on goodwill	0	0	0	0	0	0
on other	0	- 9	1	- 2	0	- 10
Share in results of associated companies	0	10	0	- 64	0	- 54
RESULT BEFORE TAX	**1 069**	**630**	**166**	**- 174**	**0**	**1 692**
Income tax expense	- 333	- 72	- 20	47	0	- 378
Net post-tax result from discontinued operations	0	0	0	0	0	0
RESULT AFTER TAX	**736**	**559**	**146**	**- 127**	**0**	**1 314**
attributable to minority interests	114	1	16	7	0	140
attributable to equity holders of the parent	**622**	**557**	**130**	**- 134**	**0**	**1 174**
[a] Of which non-cash expenses:	- 42	- 86	- 33	- 55	0	- 216
Depreciation and amortisation of fixed assets	- 44	- 85	- 29	- 46	0	- 204
Other	1	- 1	- 4	- 9	0	- 12
Acquisitions of non current assets*	31	137	275	55	0	498
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[a]	- 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

* 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 422 million euros, compared with 622 million euros in 2010. The 200-million-euro decline was due almost entirely to impairment recorded on Greek government bonds and the recognition of a provision for the 5-5-5 investment product. As mentioned above, the results of divested companies or companies scheduled for divestment have been reallocated to the Group Centre.

Net interest income totalled 1 530 million euros in 2011, a year-on-year increase of 5% that was attributable primarily to higher income related to lending and deposits. Although the net interest margin at KBC Bank fell slightly – by 4 basis points to 1.42% – loan and deposit volumes went up by 6% and 5%, respectively, in the space of a year.

Net fee and commission income amounted to 852 million euros, down 11% on the figure for 2010. This decline was accounted for by several factors, including lower fee and commission *income* from asset management activities (cf. reduced entry and management fees for investment funds), and reflects the more difficult investment climate. It was only partially offset by the higher commission on the sale of Belgian state notes. At 138 billion euros, assets under management fell by 6% year-on-year, due to the combined effect of lower volumes and, to a lesser extent, lower prices.

As regards the other income items, the net realised result from available-for-sale assets totalled 23 million euros (up 4 million euros), dividend income amounted to 6 million euros, the net result from financial instruments at fair value through profit or loss stood at 41 million euros, and other net income came to -131 million euros. The latter was 168 million euros less than in 2010, 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 1 456 million euros in 2011. That is roughly 6% more than a year earlier, attributable in part to the increased contribution to the Belgian deposit protection fund, higher staff expenses and inflation in general. The underlying cost/income ratio amounted to 63%. Excluding the provision for the 5-5-5 investment product, the figure came to 59%.

Impairment recorded on loans and receivables amounted to a low 59 million euros in 2011. As in previous years, this resulted in a very favourable credit cost ratio of 10 basis points (15 basis points in 2010). Approximately 1.5% of the Belgian retail loan portfolio was non-performing at year-end 2011, unchanged from the year-earlier figure. Impairment on available-for-sale assets related primarily to Greek government bonds (-41 million euros on account of the decrease in their market value).

Central & Eastern Europe Business Unit

In 2011, the Central & Eastern Europe Business Unit generated a net profit of 289 million euros, down almost half on the year-earlier 557 million euros. This was due primarily to impairment recorded on Greek government bonds and additional loan loss provisioning in Hungary and Bulgaria.

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

Net interest income totalled 1 473 million euros in 2011, a year-on-year decline of 1% on an organic basis. In organic terms, the business unit's loan portfolio grew by 6% in 2011, with substantial growth in the Czech Republic and Slovakia and a decline primarily in Hungary. The total volume of deposits in the region went up by 4% in 2011 (attributable mainly to the Czech Republic). The average interest margin was 3.29% in 2011, virtually unchanged from its 2010 level.

Net fee and commission income came to 413 million euros in 2011, a year-on-year increase in organic terms of 4% that was attributable to a number of factors, including a rise in fee and commission income from payments. Assets under management in the business unit stood at around 11 billion euros at the end of the year. As regards the other income items, the net realised result from available-for-sale assets totalled 27 million euros, dividend income amounted to 2 million euros, the net result from financial instruments at fair value through profit or loss stood at 70 million euros, and other net income came to 36 million euros.

Operating expenses amounted to 1 084 million euros. On an organic basis, that is more or less the same as in the previous year, with various factors cancelling each other out. For instance, the expense item also included the special bank tax in Hungary, which had an adverse effect of 54 million euros in 2010 and 2 million euros in

2011 (the latter figure was lower because it was possible to set off some of the loan loss provisions for foreign-currency mortgages against the special bank tax). The underlying cost/income ratio for this business unit stood at 54%, in line with the 53% recorded in 2010.

Impairment on loans and receivables (loan loss provisions) came to 477 million euros, compared with 340 million euros in 2010. Loan loss provisions in the Czech Republic and Slovakia were down on their 2010 level. However, there was a significant increase in Bulgaria (106 million euros in 2011) and Hungary (288 million euros in 2011, more than twice as much as the previous year owing mainly to a new law that allows foreign-currency loans to be repaid in local currency at a preferential exchange rate). Consequently, the overall credit cost ratio rose from 116 basis points in 2010 to 159 basis points in 2011. At year-end 2011, around 5.6% of the loan portfolio in the four home markets combined was non-performing, compared with 5.3% a year earlier. Other impairment charges related primarily to Greek government bonds (125 million euros in 2011 on account of the decrease in their market value).

Merchant Banking Business Unit

In 2011, the Merchant Banking Business Unit generated a net result of -113 million euros, compared with 130 million euros a year earlier. The performance in 2011 was affected by provisioning for the 5-5-5 investment product in Belgium, the weaker performance of the dealing room and – as was the case in 2010 – relatively high loan loss provisions for Ireland. Excluding Ireland, the underlying net result for the business unit would have been in the region of 209 million euros for the year.

As already mentioned, the results of group companies scheduled to be divested or already divested under the strategic plan have been reallocated to the Group Centre.

Total income amounted to 1 228 million euros, 20% less than its 2010 level.

Net interest income totalled 663 million euros in 2011, which was 21% lower than its year-earlier level, attributable in part to the loan portfolio (which has been scaled back by 14% in the space of two years). The decline in the size of the loan portfolio reflects the group's strategy of refocusing on its home markets, which resulted in a run-down of the international loan portfolios not related to those markets. The volume of deposits fell sharply (by 45%), primarily on account of a drop in institutional and corporate deposits outside the home markets, arising from risk aversion in some foreign markets to the euro area and the downgrading by Standard & Poor's of KBC Bank's short-term rating.

The net result from financial instruments at fair value through profit or loss came to 405 million euros, a year-on-year decline of some 25% which is attributable to a weaker performance in the dealing room and the negative trend in credit value adjustments on derivatives.

Net fee and commission income totalled 202 million euros, down 10% and again related largely to the run-down of activities (including the sale of a number of entities of KBC Securities). As regards the other income items, the net realised result from available-for-sale assets stood at 35 million euros, dividend income amounted to 7 million euros, and other net income came to -84 million euros. The latter item was adversely affected in 2010 by the recognition of -175 million euros for irregularities identified at KBC Lease UK, and in 2011 by the recognition of -167 million euros for the 5-5-5 investment product.

Operating expenses totalled -564 million euros, virtually unchanged from the year-earlier figure (with the impact of a reduction in activities, slightly higher staff expenses and a number of other factors offsetting each other). The cost/income ratio ended the year at 46% – or 41% excluding the impact of the provision for the 5-5-5 product – compared with 37% in 2010.

Impairment recorded on loans and receivables amounted to 725 million euros, lower than the 789 million euros recorded in 2010. This decrease was accounted for mainly by KBC Bank in Belgium, and related in particular to US asset-backed securities. As in 2010, relatively high impairment charges were recorded at KBC Ireland for the Irish loan portfolio (510 million euros in 2011 compared with 525 million euros in 2010). Nevertheless, at business unit level, the credit cost ratio fell slightly to 136 basis points in 2011, compared with 138 basis points in 2010. Excluding Ireland, those figures would have been 59 basis points and 67 basis points for 2011 and 2010, respectively. At year-end 2011, around 7.8% of the business unit's loan portfolio was non-performing, compared with 5.2% a year earlier. Other impairment charges amounted to 37 million euros in 2011, which related, among other things, to Greek government bonds (16 million euros for the year, on account of the decrease in the market value of these bonds) and to investment property (21 million euros).

Group Centre

In 2011, the Group Centre generated underlying net profit of 28 million euros, as opposed to a loss of 134 million euros a year earlier. As already mentioned, the changes to the strategic plan in mid-2011 have also been incorporated into the figures retroactively. In concrete terms, that means that the results of ČSOB in the

Czech Republic are now fully recognised in the Central & Eastern Europe Business Unit (40% had previously been allocated to the Group Centre) and that the results of Kredyt Bank in Poland (previously reported under the Central & Eastern Europe Business Unit) are now recognised under the Group Centre. The reference figures have been restated in each case.

The bulk of the Group Centre's underlying net result was attributable to companies scheduled for divestment under the strategic plan. Together, they accounted for an underlying result of 108 million euros in 2011, compared with 12 million euros in 2010. This can be broken down by former business unit as follows:

Result of group companies scheduled for divestment under the strategic plan (in millions of EUR)	2011	2010
Result of group companies scheduled for divestment under the strategic plan	108	12
Formerly recognised under Belgium Business Unit (Centea – stated in the results until sold in mid-2011)	23	58
Formerly recognised under Central & Eastern Europe Business Unit (chiefly Absolut Bank, NLB group, Kredyt Bank)	67	-62
Formerly recognised under Merchant Banking Business Unit (Antwerp Diamond Bank, KBC Deutschland, etc.)	18	16

The Central & Eastern Europe Business Unit generated a net profit of 67 million euros, as opposed to a loss of 62 million euros in 2010. This improved performance was due primarily to lower impairment on loans and receivables at Kredyt Bank (73 million euros) and Absolut Bank (62 million euros).

The main negative impact in Belgium was the sale of Centea, whose earnings for just the first half of the year were included in the results.

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 31-12-2010					
Total loans to customers	51 892	28 981	49 120	21 332	151 326
Of which mortgage loans	26 890	10 503	12 809	11 234	61 436
Of which reverse repos	0	4 057	5 932	0	9 989
Customer deposits	70 122	38 767	75 613	17 505	202 007
Of which repos	0	3 219	12 179	0	15 398
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

Note 2 b: Segment reporting based on geographic area

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

In millions of EUR	Belgium	Central and Eastern Europe and Russia	Rest of the world	KBC Bank
2010				
Total income from external customers (underlying)	3 104	2 731	1 183	7 019
31-12-2010				
Total assets (period-end)	183 692	58 184	34 846	276 723
Total liabilities (period-end)	171 337	52 667	38 576	262 580
Acquisitions of non-current assets* (period end)	264	179	55	498
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

* 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	2010	2011
Total	**5 279**	**4 484**
Interest income	**9 621**	**10 942**
Available-for-sale assets	1 218	1 062
Loans and receivables	6 682	6 572
Held-to-maturity investments	419	495
Other assets not at fair value	25	32
Subtotal, interest income from financial assets not measured at fair value through profit or loss	*8 344*	*8 162*
of which : impaired financial assets	*90*	*84*
Financial assets held for trading	352	1 749
Hedging derivatives	333	518
Other financial assets at fair value through profit or loss	592	513
Interest expense	**- 4 341**	**- 6 458**
Financial liabilities measured at amortised cost	- 3 225	- 3 325
Other	- 5	- 3
Subtotal, interest expense for financial liabilities not measured at fair value through profit or loss	*- 3 230*	*- 3 328*
Financial liabilities held for trading	- 85	- 1 997
Hedging derivatives	- 774	- 766
Other financial liabilities at fair value through profit or loss	- 253	- 368

(*) including interest on ALM derivatives as of FY2011: +1 474 million euro interest income and -1 913 million euro interest expense

Note 4: Dividend income

In millions of EUR	2010	2011
Total	51	33
Breakdown by type	51	33
Held-for-trading shares	31	13
Shares initially recognised at fair value through profit or loss	3	2
Available-for-sale shares	16	18

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

In millions of EUR	2010	2011
Total	- 277	2
Breakdown by type		
Trading instruments (including interest* and fair value changes in trading derivatives)	- 290	- 318
Other financial instruments initially recognised at fair value through profit or loss	- 298	43
Of which: gains/losses own credit risk	*53*	*484*
Foreign exchange trading	311	356
Fair value adjustments in hedge accounting	0	- 80
Microhedge	2	3
Fair value hedges	2	0
Changes in the fair value of the hedged item	35	- 117
Changes in the fair value of the hedging derivatives, including discontinuation	- 33	117
Cashflow hedges	1	3
Changes in the fair value of the hedging derivatives, ineffective portion	1	3
Hedges of net investments in foreign operation, ineffective portion	0	0
Portfolio hedge of interest rate risk	- 2	0
Fair value hedges of interest rate risk	0	0
Changes in the fair value of the hedged item	35	- 25
Changes in the fair value of the hedging derivatives, including discontinuation	- 35	25
Cashflow hedges of interest rate risk	- 2	0
Changes in the fair value of the hedging instrument, ineffective portion	- 2	0
Discontinuation of hedge accounting in the case of a cash flow hedge	0	- 82

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

- Changes in the value of CDOs (as recognised under 'Trading instruments' in the above table): this results component also includes the effect of value changes in CDOs held in portfolio. In 2010, the improvement in the market price for corporate credit – as reflected in credit default swap spreads – had a positive impact on the value of CDOs held by KBC (roughly 0.3 billion euros). On balance, there was a deterioration 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 (details of which can be found in 'Additional information'). Associated cost: 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.

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), part KBC Bank	2010	2011
Cash guarantee (for the third tranche)	-30	- 21
Equity guarantee (for the second tranche)	-56	- 45
Total recognised in the income statement	-86	- 66

- '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 the impact of changes in own credit risk, see Note 23.
- Use of ALM derivatives: except for micro-hedging derivatives, which are used to only a limited extent in the group, the interest for ALM derivatives classified under 'Portfolio hedge of interest rate risk' is recognised under 'Net interest income'. Changes in the fair value of these derivatives are also recognised under 'Net result from financial instruments at fair value through profit or loss', but due to the fact that changes in the fair value of the hedged assets are also recognised under this heading – and the hedging is effective – the balance of this heading is zero. For other ALM derivatives, the interest in question will be recognised under 'Net interest income' from 2011 on (recognised under 'Net result from financial instruments at fair value

through profit or loss' until 2010, when it came to -425 million euros). The fair value changes are recognised under 'Net result from financial instruments at fair value through profit or loss', but are curtailed in part by changes in the fair value of a bond portfolio that is classified as 'financial instruments initially recognised at fair value through profit or loss' (see accounting policies).

- The effectiveness of the hedge is determined according to the following methods:
  - For fair value micro hedging, the *dollar offset method* is used on a quarterly basis, which requires changes in the fair value of the hedged item to offset changes in the fair value of the hedging instrument within a range of 80%-125%, which is currently the case.
  - For cashflow micro hedges, the designated hedging instrument is compared with a *perfect hedge* of the hedged cashflows on a prospective (by BPV measurement) and retrospective basis (by comparing the fair value of the designated hedging instrument with the *perfect hedge*). The effectiveness of both tests must fall within a range of 80%-125%, which is currently the case.
  - For fair value hedges for a portfolio of interest rate risk, effectiveness is assessed on the basis of the rules set out in the European version of IAS 39 (carve-out). IFRS does not permit net positions to be reported as hedged items, but does allow hedging instruments to be designated as a hedge of a gross asset position (or a gross liabilities position, as the case may be). Specifically, care is taken to ensure that the volume of assets (or liabilities) in each maturity bucket is greater than the volume of hedging instruments allocated to the same bucket.
- Day 1 profit: when the transaction price in a non-active market differs from the fair value of other observable market transactions in the same instrument or the fair value based on a valuation technique whose variables include only data from observable markets, the difference between the transaction price and the fair value (day 1 profit) is taken to profit or loss. If this is not the case (i.e. the variables do not include only data from observable markets), day 1 profit is reserved and is released in profit or loss during the life and until the maturity of the financial instrument. Movements in deferred day 1 profit are summarised as follow:

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

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

In millions of EUR	2010	2011
Total	45	85
Breakdown by portfolio		
Fixed-income securities	24	54
Shares	21	31

Note 7: Net fee and commission income

In millions of EUR	2010	2011
Total	1 638	1 565
Fee and commission income	2 222	2 098
Securities and asset management	1 114	895
Commitment credit	251	301
Payments	521	576
Other	336	326
Fee and commission expense	- 584	- 533
Commission paid to intermediaries	- 124	- 109
Other	- 461	- 424

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

Note 8: Other net income

In millions of EUR	2010	2011
Total	259	- 50
Of which net realised result following		
The sale of loans and receivables	4	- 31
The sale of held-to-maturity investments	1	- 6
The sale of financial liabilities measured at amortised cost	0	- 1
Other: of which:	254	- 12
Irregularities in KBC Lease UK	- 175	15
Income concerning leasing at the KBC Lease-group	76	96
Income from consolidated private equity participations	54	48
Provisions re 5/5/5 loans	0	- 334
Realised gains or losses on divestments	111	68

- Gains and losses on divestments. In 2010, this item had related to the sale of KBC Financial Products' Global Convertible Bonds and Asian Equity Derivatives businesses. In 2011, it related primarily to Centea (a gain of 63 million euros; the sale also generated a net result from financial instruments at fair value through profit or loss of -85 million euros relating to the reduction in cashflow hedges that had an economic link with Centea).
- Irregularities at KBC Lease UK. Internal audits conducted at KBC Lease UK in 2010 revealed irregularities in a significant number of contracts that had been introduced by a particular broker. The necessary amounts have been recognised to cover the maximum potential net cost of these irregularities. KBC Lease UK has engaged in a number of actions to recover amounts from various sources,
- Provision for the 5-5-5 investment product. In April and May 2008, KBC Bank and its Belgian subsidiaries sold 670 million euros' worth of structured 5-5-5 first-to-default bonds (scheduled to mature in April and May 2013) to retail and institutional customers. These bonds are linked to the creditworthiness of Belgium, France, Spain, Italy and Greece. An ISDA-defined credit event in one of these countries would adversely affect the invested capital and no further coupons would be paid. As a result of the Greek financial crisis, KBC Bank decided to reassure all retail customers holding 5-5-5 bonds and announced its intention to purchase the bonds at a price equal to the invested capital less any coupons paid by the issuer (all amounts before charges and taxes) should a credit event occur. At balance sheet date, no credit events had occurred. At the end of 2011, the financial markets estimated that the probability of a credit event occurring before May 2013 in one of those five countries was higher than 50%, which prompted KBC to recognise a provision of 334 million euros through profit or loss. For more information, see Note 42 (Post-balance-sheet events).

Note 9: Operating expenses

In millions of EUR	2010	2011
Total	- 3 861	- 3 709
Breakdown by type		
Staff expenses	- 1 864	- 1 807
Share based payment: equity settled	0	0
Share based payment: cash settled	0	- 3
General administrative expenses	- 1 790	- 1 734
Depreciation and amortisation of fixed assets	- 208	- 168

- General administrative expenses include repair and maintenance expenses, advertising costs, rent, professional fees, various (non-income) taxes, utilities and other such expenses. The figure includes expenses related to the special tax imposed on financial institutions in Hungary (54 million euros for 2010 and 2 million euros for 2011, deductible expense. The amount was lower in 2011, because a portion of the losses incurred by the group as a result of the new law on foreign-currency mortgages could be set off against the bank tax due in Hungary (see below)).
- Share-based payments are included under staff expenses. The main cash-settled share-based payment arrangements concern 4 million euros in costs related to a phantom stock plan (included under 'Staff expenses' for 2011). The main equity-settled share-based payments are described below.

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

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

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

		2010		2011
Options	Number of options[1]	Average exercise price	Number of options[1]	Average exercise price
Outstanding at beginning of period	882 253	48.09	609 630	50.70
Granted during period	0	-	0	0.00
Exercised during period	-4 527	28.41	0	0.00
Expired during period	-268 096	44.47	- 31 328	41.98
Outstanding at end of period [2]	609 630	50.70	578 302	51.17
Exercisable at end of period	595 030	49.82	571 002	50.87

[1] In share equivalents

[2] 2010: Range of exercise prices 27.8-97.94 euros; w eighted average residual term to maturity: 25 months.
2011: Range of exercise prices 27.8-97.94 euros; w eighted average residual term to maturity: 14 months.

Note 10: Personnel

	2010	2011
Total average number of persons employed (in full-time equivalents)	**38 972**	**37 663**
Breakdown by employee classification		
Blue-collar staff	731	623
White-collar staff	37 321	36 822
Senior management	920	218

- From 2011, the senior management figures reflect only those persons appointed to such positions by the Executive Committee of KBC Bank NV. As they had previously also included persons who were considered as senior management at local level, the figures for 2010 are not comparable with those for 2011.

Note 11: Impairment (income statement)

In millions of EUR	2010	2011
Total	- 1 635	- 1 659
Impairment on loans and receivables	- 1 485	- 1 331
Breakdown by type		
Specific impairments for on-balance-sheet lending	- 1 452	- 1 314
Provisions for off-balance-sheet credit commitments	- 19	16
Portfolio-based impairments	- 14	- 33
Impairment on available-for-sale assets	- 12	- 182
Breakdown by type		
Shares	- 12	- 14
Other	0	- 168
Impairment on goodwill	- 85	- 81
Impairment on other	- 54	- 66
Intangible assets, other than goodwill	0	- 2
Property and equipment and investment property	- 4	- 29
Held-to-maturity assets	0	- 34
Associated companies (goodwill)	- 31	0
Other	- 18	- 1

- 'Impairment on loans and receivables' are accounted for primarily by loans and advances to customers. This item included 0.5 billion euros (in both 2010 and 2011) for loan loss provisioning in Ireland (Merchant Banking Business Unit) due to the economic situation in that country, especially on the real estate market. In the Central & Eastern Europe Business Unit, impairment charges came to 477 million euros in 2011, compared with 340 million euros in 2010. The figure for 2011 was adversely affected by the new law on foreign-currency mortgages in Hungary and by additional provisioning for the legacy portfolio in Bulgaria. These negative factors were partly offset by a net reversal of 41 million euros at Absolut Bank (2010: a net allocation of 21 million euros), 39 million euros at Kredyt Bank (2010: 112 million euros) and 25 million euros at Antwerp Diamond Bank (2010: 70 million euros) (only in the Group Centre).
- 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). No impairment was recognised on sovereign bonds issued by other European countries, due to the fact that there was no evidence on balance sheet date to suggest that future cashflows relating to these securities would be adversely affected. Impairment on Greek sovereign bonds was calculated as follows for 2011:
  - available-for-sale portfolio: the difference between amortised cost and fair value at year-end 2011, which resulted in a pre-tax impairment of 170 million euros being recognised in the income statement;
  - held-to-maturity portfolio: the difference between amortised cost and fair value at year-end 2011, which resulted in a pre-tax impairment of 33 million euros being recognised in the income statement;
  - consequently, the carrying value of Greek sovereign bonds at year-end 2011 was an average 31% of the nominal amount of the bonds in these portfolios;
  - bonds held in the trading book and the portfolio designated at fair value through profit or loss: already recorded at fair value, so no additional adjustment is required.
- Impairment on goodwill. In 2011, this heading included *inter alia* 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 2010, it had included *inter alia* 52 million euros for group companies in Romania and Poland. In most cases, the impairment reflects the difference between the carrying value before impairment and the value in use. For more information on goodwill, see Note 30.
- Impairment on other. In 2010, this heading had included primarily impairment charges of 31 million euros for the minority shareholding in Nova Ljubljanska banka (based on higher loan losses).
- 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	2010	2011
Total	- 54	- 52
of which NLB	- 64	- 59

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

Note 13: Income tax expense

In millions of EUR	2010	2011
Total	88	- 216
Breakdown by type	88	- 216
Current taxes on income	- 279	- 232
Deferred taxes on income	367	16
Tax components		
Profit before tax	1 445	699
Income tax at the Belgian statutory rate	33,99%	33,99%
Income tax calculated	- 491	- 237
Plus/minus tax effects attributable to	579	22
Differences in tax rates, Belgium - abroad	142	91
Tax-free income	223	300
Adjustments related to prior years	19	13
Adjustments, opening balance of deferred taxes due to change in tax rate	4	- 5
Unused tax losses and unused tax credits to reduce current tax expense	0	0
Unused tax losses and unused tax credits to reduce deferred tax expense	558	72
Reversal of previously recognised deferred tax due to tax losses	- 13	- 1
Other (mainly non-deductible expenses)	- 355	- 447
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*	398	319

* Reserves of joint or other subsidiaries, associated companies and branches that, at certain entities, w ill 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 2010, the Belgian tax authorities decided that a waiver of intercompany debt, related to losses on a CDO portfolio incurred in the past year, was tax deductible, provided certain conditions were met. In practice, this meant that KBC was able to recognise deferred tax income of 0.4 billion euros in the second quarter of 2010.

Notes on the financial assets and liabilities on the balance sheet

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

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 divest-ments in 2011[2]
FINANCIAL ASSETS, 31-12-2010									
Loans and advances to credit institutions and investment firms [a]	696	1 808	0	13 044	-	-	-	15 548 [c]	15 544
Loans and advances to customers [b]	4 173	6 953	0	140 200	-	-	-	151 326	143 853
Discount and acceptance credit	0	0	0	119	-	-	-	119	114
Consumer credit	0	0	0	4 273	-	-	-	4 273	4 023
Mortgage loans	0	380	0	61 056	-	-	-	61 436	55 383
Term loans	4 173	6 507	0	61 454	-	-	-	72 135	71 203
Finance leasing	0	0	0	4 909	-	-	-	4 909	4 909
Current account advances	0	0	0	4 801	-	-	-	4 801	4 721
Securitised loans	0	0	0	0	-	-	-	0	0
Other	0	66	0	3 588	-	-	-	3 654	3 500
Equity instruments	1 717	16	613	-	-	-	-	2 346	2 346
Debt instruments issued by	7 708	9 591	33 455	3 405	10 246	-	-	64 405	61 999
Public bodies	5 806	8 833	29 634	109	10 009	-	-	54 390	51 988
Credit institutions and investment firms	739	247	2 442	224	178	-	-	3 830	3 830
Corporates	1 162	511	1 379	3 073	58	-	-	6 184	6 180
Derivatives	16 304	-	-	-	-	211	-	16 515	16 515
Total carrying value excluding accrued intrest income	30 598	18 368	34 068	156 649	10 246	211	0	250 140	240 257
Accrued interest income	300	192	621	459	250	73	0	1 895	1 835
Total carrying value including accrued interest income	30 898	18 560	34 690	157 109	10 495	284	0	252 035	242 092
[a] Of which reverse repos [3]								*2 284*	*2 284*
[b] Of which reverse repos [3]								*9 989*	*9 989*
[c] Of which loans and advances to banks repayable on demand and term loans to banks at not more than three months								*6 934*	*6 930*
FINANCIAL ASSETS, 31-12-2011									
Loans and advances to credit institutions and investment firms [a]	4 600	305	0	14 394	-	-	-	19 299 [c]	
Loans and advances to customers [b]	203	3 716	0	136 159	-	-	-	140 078	
Discount and acceptance credit	0	0	0	137	-	-	-	137	
Consumer credit	0	0	0	3 909	-	-	-	3 909	
Mortgage loans	0	178	0	57 118	-	-	-	57 296	
Term loans	203	3 368	0	61 867	-	-	-	65 438	
Finance leasing	0	11	0	4 647	-	-	-	4 658	
Current account advances	0	0	0	4 981	-	-	-	4 981	
Securitised loans	0	0	0	0	-	-	-	0	
Other	0	159	0	3 500	-	-	-	3 660	
Equity instruments	1 027	26	479	-	-	-	-	1 532	
Debt instruments issued by	4 300	3 948	23 387	2 881	10 693	-	-	45 208	
Public bodies	3 101	3 594	20 600	224	10 512	-	-	38 031	
Credit institutions and investment firms	648	196	1 857	203	154	-	-	3 059	
Corporates	551	157	930	2 454	27	-	-	4 119	
Derivatives	17 530	-	-	-	-	618	-	18 148	
Total carrying value excluding accrued interest income	27 660	7 995	23 865	153 434	10 693	618	0	224 266	
Accrued interest income	70	81	429	546	265	158	0	1 548	
Total carrying value including accrued interest income	27 730	8 076	24 295	153 981	10 958	776	0	225 814	
[a] Of which reverse repos [3]								*5 982*	
[b] Of which reverse repos [3]								*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*	

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

[2] Total excluding divestments finalised in 2011 (Centea) (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 divest-ments in 2011[1]
FINANCIAL LIABILITIES, 31-12-2010									
Deposits from credit institutions and investment firms [a]	21	6 920	-	-	-	-	21 643	28 584 [c]	28 584
Deposits from customers and debt certificates [b]	648	20 991	-	-	-	-	180 368	202 007	193 655
Deposits from customers	0	17 089	-	-	-	-	138 766	155 855	148 800
Demand deposits	0	57	-	-	-	-	48 588	48 645	47 971
Time deposits	0	17 032	-	-	-	-	44 631	61 663	61 477
Savings deposits	0	0	-	-	-	-	40 260	40 260	34 070
Special deposits	0	0	-	-	-	-	4 005	4 005	4 005
Other deposits	0	0	-	-	-	-	1 282	1 282	1 277
Debt certificates	648	3 902	-	-	-	-	41 602	46 152	44 855
Certificates of deposit	0	22	-	-	-	-	15 408	15 430	15 430
Customer savings certificates	0	0	-	-	-	-	2 155	2 155	858
Convertible bonds	0	0	-	-	-	-	0	0	0
Non-convertible bonds	648	3 600	-	-	-	-	14 935	19 183	19 183
Convertible subordinated liabilities	0	0	-	-	-	-	0	0	0
Non-convertible subordinated liabilities	0	280	-	-	-	-	9 104	9 384	9 384
Derivatives	22 263	0	-	-	-	849	-	23 112	23 110
Short positions	1 119	0	-	-	-	-	-	1 119	1 119
in equity instruments	10	0	-	-	-	-	-	10	10
in debt instruments	1 110	0	-	-	-	-	-	1 110	1 110
Other	0	0	-	-	-	-	2 594	2 594	2 529
Total carrying value excluding accrued interest expense	24 051	27 911	-	-	-	849	204 605	257 416	248 998
Accrued interest expense	23	74	-	-	-	276	789	1 161	1 118
Total carrying value including accrued interest expense	24 074	27 985	-	-	-	1 124	205 394	258 577	250 116
[a] *Of which repos* [2]								*8 212*	*8 212*
[b] *Of which repos* [2]								*15 398*	*15 398*
[c] *Of which deposits from banks repayable on demand*								*4 519*	*4 519*
FINANCIAL LIABILITIES, 31-12-2011									
Deposits from credit institutions and investment firms [a]	853	3 831	-	-	-	-	21 277	25 961 [c]	
Deposits from customers and debt certificates [b]	4 289	18 967	-	-	-	-	148 349	171 605	
Deposits from customers	3 774	14 680	-	-	-	-	122 015	140 469	
Demand deposits	0	0	-	-	-	-	38 184	38 184	
Time deposits	3 774	14 680	-	-	-	-	45 895	64 348	
Savings deposits	0	0	-	-	-	-	32 633	32 633	
Special deposits	0	0	-	-	-	-	3 887	3 887	
Other deposits	0	0	-	-	-	-	1 417	1 417	
Debt certificates	514	4 288	-	-	-	-	26 334	31 136	
Certificates of deposit	0	20	-	-	-	-	5 398	5 417	
Customer savings certificates	0	0	-	-	-	-	710	710	
Convertible bonds	0	0	-	-	-	-	0	0	
Non-convertible bonds	514	4 167	-	-	-	-	12 014	16 695	
Convertible subordinated liabilities	0	0	-	-	-	-	0	0	
Non-convertible subordinated liabilities	0	101	-	-	-	-	8 212	8 313	
Derivatives	21 666	0	-	-	-	1 602	-	23 267	
Short positions	497	0	-	-	-	-	-	497	
in equity instruments	4	0	-	-	-	-	-	4	
in debt instruments	493	0	-	-	-	-	-	493	
Other	0	0	-	-	-	-	2 421	2 421	
Total carrying value excluding accrued interest expense	27 304	22 799	-	-	-	1 602	172 047	223 751	
Accrued interest expense	27	96	-	-	-	328	813	1 264	
Total carrying value including accrued interest expense	27 332	22 895	-	-	-	1 929	172 860	225 016	
[a] *Of which repos* [2]								*6 574*	
[b] *Of which repos* [2]								*17 243*	
[c] *Of which deposits from banks repayable on demand*								*8 511*	

[1] Total excluding divestments finalised in 2011 (Centea) (to enable comparison with the figures for 31 December 2011).

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

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

	Held for trading	Designa-ted at fair value	Available for sale	Loans and receiva-bles	Held to maturity	Hedging derivatives	Measured at amortised	Total
FINANCIAL ASSETS, 31-12-2010								
Belgium	3 505	7 141	16 761	75 535	706	103	-	103 751
Central and Eastern Europe and Russia	8 439	596	9 224	35 990	8 680	180	-	63 109
Rest of the world	18 954	10 823	8 704	45 584	1 109	0	-	85 175
Total carrying value, including accrued interest income	30 898	18 560	34 690	157 109	10 495	284	-	252 035
FINANCIAL ASSETS, 31-12-2011								
Belgium	3 031	6 132	12 644	72 901	1 088	548	-	96 344
Central and Eastern Europe and Russia	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 LIABILITIES, 31-12-2010								
Belgium	3 175	1 208	-	-	-	929	89 948	95 260
Central and Eastern Europe and Russia	1 143	5 299	-	-	-	124	44 456	51 022
Rest of the world	19 755	21 478	-	-	-	72	70 990	112 295
Total carrying value, including accrued interest expense	24 074	27 985	-	-	-	1 124	205 394	258 577
FINANCIAL LIABILITIES, 31-12-2011								
Belgium	1 289	4 059	-	-	-	1 750	82 868	89 966
Central and Eastern Europe and Russia	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

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, 31-12-2010								
Not more than one year	6 333	9 437	6 323	47 089	1 331	-	-	70 514
More than one year	2 213	9 106	9 243	106 053	9 164			135 778
Not specified *	22 351	16	19 124	3 967	0	284	-	45 743
Total carrying value, incl.accrued interest	30 898	18 560	34 690	157 109	10 495	284	-	252 035
FINANCIAL 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 LIABILITIES, 31-12-2010								
Not more than one year	1 317	23 830	-	-	-	-	129 816	154 964
More than one year	480	4 153					34 812	39 445
Not specified *	22 277	2	-	-	-	1 124	40 766	64 168
Total carrying value, incl.accrued interest	24 074	27 985	-	-	-	1 124	205 394	258 577
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

* 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

Impaired financial assets

in millions of EUR	Held for trading	Designa-ted at fair value	Available for sale	Loans and receiva-bles	Held to maturity	Hedging derivatives	Total
FINANCIAL ASSETS, 31-12-2010							
Unimpaired assets	30 898	18 560	34 474	151 499	10 495	284	246 210
Impaired assets	-	-	488	10 520	0	-	11 008
Impairment	-	-	- 273	- 4 910	0	-	- 5 183
Total carrying value incl.accrued interest	30 898	18 560	34 690	157 109	10 495	284	252 035
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

- 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.

Impairment details

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

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

- As regards 'Other' in 2011, the -399 million euros recognised in the 'Individual impairment' column related largely to the reversal of impairment on the sale of Atomium bonds.
- For information regarding the impact of changes in impairment on the income statement, see Note 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, 31-12-2010		
Loans & advances	3 677	1 316
Debt instruments	0	1
Derivatives	0	0
Total	3 677	1 317
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 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	31-12-2010			31-12-2011		
Maximum credit exposure	Gross amounts	Collateral received to mitigate the maximum exposure to credit risk	Net amount	Gross amounts	Collateral received to mitigate the maximum exposure to credit risk	Net amount
Equity	2 346	1	2 345	1 532	0	1 532
Debt instruments	64 405	0	64 405	45 208	0	45 208
Loans & advances	166 874	84 607	82 266	159 378	79 995	79 383
Of which designated at fair value through profit or loss	8 761	8 418	343	4 022	3 743	279
Derivatives	16 515	1 536	14 979	18 148	1 485	16 663
Other (including accrued interest)	36 669	9 276	27 392	35 441	7 936	27 505
Total	286 808	95 422	191 387	259 707	89 416	170 291

- 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, 31-12-2010						
Loans and advances to credit institutions and investment firms	13 044	13 214	-	-	-	-
Loans and advances to customers	140 200	141 322	-	-	-	-
Debt instruments	3 405	3 464	10 246	10 437	-	-
Accrued interest	459	459	250	250	-	-
Total, incl.accrued interest	157 109	158 460	10 495	10 686	-	-
FINANCIAL 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 LIABILITIES, 31-12-2010						
Deposits from credit institutions and investment firms	-	-	-	-	21 643	22 065
Deposits from customers and debt certificates	-	-	-	-	180 368	181 951
Other	-	-	-	-	2 594	2 594
Accrued interest	-	-	-	-	789	789
Total, incl.accrued interest	-	-	-	-	205 394	207 399
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

Note 20: Financial assets and liabilities measured at fair value – fair value hierarchy

In millions of EUR				31-12-2010				31-12-2011
Fair value hierarchy	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value								
Held for trading								
Loans and advances to credit institutions	0	686	10	696	0	4 600	0	4 600
Loans and advances to customers	0	4 173	0	4 173	0	203	0	203
Equity instruments	537	187	993	1 717	170	108	749	1 027
Debt instruments	5 669	1 424	614	7 708	2 994	1 108	198	4 300
Derivatives	63	13 783	2 458	16 304	22	12 033	5 475	17 530
Accrued interest				300				70
Designated at fair value								
Loans and advances to credit institutions	0	1 808	0	1 808	0	305	0	305
Loans and advances to customers	0	6 927	26	6 953	0	3 689	27	3 716
Equity instruments	0	15	1	16	0	18	8	26
Debt instruments	9 079	237	274	9 591	3 642	169	136	3 948
Accrued interest				192				81
Available for sale								
Equity instruments	369	35	210	613	223	70	187	479
Debt instruments	31 703	1 420	332	33 455	20 893	2 316	178	23 387
Accrued interest				621				429
Hedging derivatives								
Derivatives	0	211	0	211	0	618	0	618
Accrued interest				73				158
Total, incl.accrued interest	47 419	30 907	4 919	84 431	27 945	25 236	6 957	60 876
Financial liabilities measured at fair value								
Held for trading								
Deposits from credit institutions	0	0	21	21	0	853	0	853
Deposits from customers and debt certificates	0	624	24	648	0	4 285	4	4 289
Derivatives	44	15 850	6 369	22 263	55	12 240	9 370	21 666
Short positions	1 076	44	0	1 119	493	4	0	497
Other	0	0	0	0	0	0	0	0
Accrued interest				23				27
Designated at fair value								
Deposits from credit institutions	0	6 920	0	6 920	0	3 831	0	3 831
Deposits from customers and debt certificates	0	17 185	3 806	20 991	0	17 615	1 352	18 967
Other	0	0	0	0	0	0	0	0
Accrued interest				74				96
Hedging derivatives								
Derivatives	0	849	0	849	0	1 602	0	1 602
Accrued interest				276				328
Total, incl.accrued interest	1 120	41 471	10 220	53 183	548	40 430	10 726	52 156

- 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.

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

Note 21: Financial assets and liabilities measured at fair value – transfers between levels 1 and 2

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

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

Note 22: Financial assets and liabilities measured at fair value – focus on level 3

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

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

LEVEL 3 FINANCIAL LIABILITIES	Held for trading					Designated at fair value			Hedging derivatives
	Deposits from credit 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	0	105	5 512	20	0	0	3 414	0	0
Total gains/losses	0	- 89	- 1 425	0	0	0	- 149	0	0
in profit and loss*	0	- 89	- 1 425	0	0	0	- 149	0	0
in other comprehensive income	0	0	0	0	0	0	0	0	0
Issues	0	0	33	0	0	0	630	0	0
Repurchases/disposals	0	- 1	- 533	- 22	0	0	- 105	0	0
Transfers into level 3	28	0	2 496	0	0	0	0	0	0
Transfers out of level 3	0	0	- 45	0	0	0	0	0	0
Tranfers from/to financial liabilities regarding disposal groups	0	0	0	0	0	0	0	0	0
Translation differences	- 7	9	331	2	0	0	17	0	0
Changes in scope	0	0	0	0	0	0	0	0	0
Closing balance, 31-12-2010	21	24	6 369	0	0	0	3 806	0	0
Total gains/losses for the period included in profit and loss for liabilities held at the end of the period	0	- 89	- 1 134	0	0	0	- 2	0	0

* 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 **31-12-2011**, 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	3 806	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	0	0	- 1 528	0	0	0	0	0	0
Settlements	- 20	- 6	- 411	0	0	0	- 267	0	0
Transfers into level 3	0	0	0	0	0	0	0	0	0
Transfers out of level 3	0	0	0	0	0	0	- 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	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'.

** The 'Other' amounts in the 'Derivatives' column under 'Held-for-trading' relate to an adjustment resulting from a refinement of the method for transferring derivatives on the balance sheet to the level 3 movements table. Some level 3 assets are associated or economically hedged with identical level 3 liabilities, which means that KBC's exposure to unobservable inputs is lower than would appear from the gross figures given in the table.

- KBC uses a Gaussian Copula Mixture model to value all the remaining CDOs of KBC Financial Products. This model models the distribution of default moments and probabilities of the underlying ABS and corporate 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 the calibration with CDX and iTraxx credit spread indices.
- The CDO notes are valued at the lower of: (1) the value of the CDO notes based on the Gaussian Copula Mixture model (after market value adjustments for illiquidity) and (2) the expected fundamental value (including expected discounted coupons for the next six quarters) of the CDO notes at year-end. This valuation method was used to reflect a reserve for model risk relating to unobservable inputs.
- Results of profit/loss sensitivity tests on the current model for CDOs originated by KBC Financial Products, in which credit spreads of the underlying assets are shifted are given in the table below. Correlation changes have not been included. This test takes into account the full guarantee agreement with the Belgian State (see below) and a counterparty value adjustment of 70% for MBIA. The scope includes the entire remaining (hedged and unhedged) portfolio of CDOs structured by KBC Financial Products. CDOs that have reached maturity or been sold or unwound are not included.

Profit/loss sensitivity test based on corporate and ABS credit spread indices (in billions of EUR)

	Spreads -50%	Spreads -20%	Spreads -10%	Spreads +10%	Spreads +20%	Spreads +50%
31-12-2010	0.6	0.2	0.1	-0.1	-0.2	-0.4
31-12-2011	0.5	0.2	0.1	-0.1	-0.2	-0.4

- The above profit/loss sensitivity test does not take account of correlation changes. Given that correlation (of both the inner and outer tranches) is an important input in the Gaussian Copula Mixture model, a test was also carried out to calculate the combined influence of changes in the current valuation model's correlation and credit spread inputs on CDOs issued by KBC Financial Products. This test takes into account the full guarantee agreement with the Belgian State (see below) and a counterparty value adjustment of 70% for MBIA. The scope of this test is the same as in the above table. A widening of 50% in the credit spreads combined with an increase in correlation would lead to an additional loss of 0.2 billion euros, whereas a narrowing of 50% and a reduction in correlation would result in an additional gain of 0.6 billion euros (a loss of 0.3 billion euros and a gain of 0.5 billion euros, respectively, for 2010).

- The next table depicts the results of the profit/loss sensitivity tests performed on a counterparty value adjustment for MBIA in which not only the credit spreads of the underlying assets of the CDOs issued by KBC Financial Products change, but also the counterparty value adjustment for MBIA. The adjustment is currently 70%.

Profit/loss sensitivity tests based on corporate and ABS credit spread indices and on changes in the counterparty value adjustment for MBIA (in billions of EUR)*	Spreads -50%	Spreads -20%	Spreads -10%	Spreads +10%	Spreads +20%	Spreads +50%
31-12-2010						
MBIA 60%	0.9	0.4	0.3	0.1	0.0	-0.3
MBIA 70%	0.4	0.2	0.1	-0.1	-0.1	-0.3
MBIA 80%	0.3	0.0	-0.1	-0.3	-0.3	-0.5
MBIA 90%	0.2	-0.1	-0.2	-0.4	-0.5	-0.7
MBIA 100%	0.1	-0.3	-0.4	-0.6	-0.7	-1.0
31-12-2011						
MBIA 60%	0.5	0.3	0.2	0.1	0.0	-0.1
MBIA 70%	0.5	0.2	0.1	-0.1	-0.1	-0.3
MBIA 80%	0.4	0.0	-0.1	-0.2	-0.3	-0.5
MBIA 90%	0.3	-0.1	-0.2	-0.4	-0.4	-0.6
MBIA 100%	0.2	-0.2	-0.3	-0.5	-0.6	-0.8

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

- For more information on the structured credit portfolio (CDOs and other ABS), see the 'Value and risk management' section.

- Information on the guarantee agreement with the Belgian State to cover CDO exposure is provided in the 'Additional information' section. The fair value of the equity guarantee with the Belgian State (and the corresponding commitment fee) is measured using a level 3 model that reflects, among other things, movements in KBC's subordinated credit default swap spread and in the fair value of the hedged super senior exposure since the guarantee agreement was signed. If the fair value of the super senior positions were to improve by 10% on its year-end 2010 and year-end 2011 levels, this would lead to an additional charge of 4 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.

- Since the liquidity discount factor is an important input for calculating the current reserve for fund derivatives, a profit/loss sensitivity test was carried out for this purpose (on positions at 31 December 2011). The current liquidity discount factor is 20%. If this factor were to fall to 15%, 0.01 billion euros would have to be released from the current reserve (with a positive impact on results). If it were to increase to 25%, an additional reserve of 0.02 billion euros would have to be set aside (adversely affecting results). The equivalent figures for 2010 were 0.02 billion euros and 0.01 billion euros, respectively.

Note 23: Changes in own credit risk

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

- The fair value of financial liabilities designated at fair value through profit or loss takes account of own credit risk. Most of the financial liabilities designated at fair value through profit or loss relates to KBC IFIMA issues. The own credit risk of KBC IFIMA issues designated at fair value through profit or loss is measured using KBC's own funding spread. Taking into account this own credit risk, the total fair value of KBC IFIMA issues designated at fair value through profit or loss amounted to some 3.9 billion euros on 31 December 2011. The results of sensitivity tests – in which the funding spread is shifted – on the total fair value of KBC IFIMA issues is given in the table below.

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

	Spreads -50%	Spreads -20%	Spreads -10%	Spreads +10%	Spreads +20%	Spreads +50%
31-12-2010	-0.2	-0.07	-0.04	+0.04	+0.07	+0.2
31-12-2011	-0.4	-0.15	-0.08	+0.08	+0.15	+0.4

- The main difference in profit/loss sensitivity between the end of 2010 and the end of 2011 was caused by the width of the spreads. The spread averaged 200 basis points at year-end 2010, whereas it was 480 basis points at year-end 2011. Consequently, the impact of a percentage increase or decrease in these spreads was much greater in 2011 than in 2010.
- If no account is taken of the effect of changes in own credit risk, the difference between the carrying value and redemption price of the financial liabilities designated at fair value through profit or loss is limited (less than 0.1 billion euros).

Note 24: Reclassification of financial assets and liabilities

Financial assets reclassified out of 'available for sale' to 'loans and receivables' (in millions of EUR) - situation at **31-12-2011**

Carrying value			2 287
Fair value			2 071
	If not reclassifed (available for sale)	After reclassification (loans and receivables)	Impact
Impact on revaluation reserve (available-for-sale assets), before taxes	- 541	- 353	188
Impact on income statement, before taxes	- 14	5	19

- In October 2008, the International Accounting Standards Board (IASB) issued amendments to IAS 39 and IFRS 7 under 'Reclassification of financial assets'. Following the implementation of these amendments, the KBC group reclassified a number of assets out of the 'available for sale' category to the 'loans and receivables' category because they had become less liquid. On the date of reclassification, the assets in question met the definition of loans and receivables, and the group has the intention and ability to hold these assets for the foreseeable future or until maturity. KBC reclassified these assets on 31 December 2008. On the reclassification date (31 December 2008), the estimated recoverable amount of these assets came to 5 billion euros and the effective interest rate varied between 5.88% and 16.77%.
- In 2011, 0.2 billion euros' worth of Hungarian municipal bonds were reclassified out of the 'available for sale' category into the 'loans and receivables' category.
- The above reclassifications had a combined positive impact of 188 million euros on equity and 19 million euros on the income statement (where – besides reversals of specific impairment – 5 million euros was also reversed for portfolio-based impairment on loans and receivables).
- Other reclassifications 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.

Note 25: Derivatives

in millions of EUR	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
31-12-2010																
Total	16 304	22 263	721 297	701 465	30	101	4 466	4 466	176	529	19 788	19 757	5	218	5 457	5 457
Breakdown by type																
Interest rate contracts	8 865	10 585	448 004	433 190	30	101	4 466	4 466	130	523	19 369	19 369	5	218	5 457	5 457
Interest rate swaps	7 811	10 013	378 541	376 097	30	101	4 466	4 466	130	523	19 369	19 369	5	218	5 457	5 457
Forward rate agreements	4	3	6 207	13 266	0	0	0	0	0	0	0	0	0	0	0	0
Futures	12	0	6 558	8 000	0	0	0	0	0	0	0	0	0	0	0	0
Options	1 038	510	56 687	35 565	0	0	0	0	0	0	0	0	0	0	0	0
Forwards	0	59	10	262	0	0	0	0	0	0	0	0	0	0	0	0
Foreign exchange contracts	1 586	1 833	199 562	200 766	0	0	0	0	46	6	418	387	0	0	0	0
Forward foreign exchange operations/Currency forwards	192	268	100 757	100 189	0	0	0	0	0	1	34	34	0	0	0	0
Currency and interest rate swaps	1 163	1 333	75 597	76 651	0	0	0	0	46	5	304	262	0	0	0	0
Futures	0	0	17	17	0	0	0	0	0	0	0	0	0	0	0	0
Options	231	233	23 191	23 910	0	0	0	0	0	1	81	91	0	0	0	0
Equity contracts	2 160	2 775	31 320	34 571	0	0	0	0	0	0	0	0	0	0	0	0
Equity swaps	1 114	963	22 476	22 477	0	0	0	0	0	0	0	0	0	0	0	0
Forwards	9	1	13	4	0	0	0	0	0	0	0	0	0	0	0	0
Futures	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Options	1 030	1 782	8 824	7 987	0	0	0	0	0	0	0	0	0	0	0	0
Warrants	6	28	6	4 104	0	0	0	0	0	0	0	0	0	0	0	0
Credit contracts	3 645	7 035	41 834	32 360	0	0	0	0	0	0	0	0	0	0	0	0
Credit default swaps	3 578	7 035	41 028	31 554	0	0	0	0	0	0	0	0	0	0	0	0
Credit spread options	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total return swaps	67	0	806	806	0	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Commodity and other contracts	48	35	577	577	0	0	0	0	0	0	0	0	0	0	0	0

* including hedges of a net investment in a foreign operation

in millions of EUR	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
31-12-2011																
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

- The carrying values given in the tables are dirty prices for derivatives held for trading and clean prices for hedging derivatives. The accrued interest income on hedging derivatives amounted to 73 million euros in 2010 and 158 million euros in 2011, while the accrued interest expense came to 276 million euros in 2010 and 328 million euros in 2011.
- One way in which the group's ALM department manages the interest rate risk is to conclude derivatives contracts. The accounting mismatches attributable to these hedging activities (derivatives as opposed to assets or liabilities) are dealt with in two ways:
  - Portfolio hedges of interest rate risk: used to hedge the interest rate risk on a particular loan portfolio (term loans, home loans, instalment loans and straight loans) with interest rate swaps. The hedge is set up in accordance with the requirements of the carved-out version of IAS 39.
  - Financial assets and liabilities designated at fair value through profit or loss (the fair value option): used to reduce a measurement or recognition inconsistency ('an accounting mismatch' that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases). This method is used specifically to avoid the remaining accounting mismatches relating to the loan portfolio (measured at amortised cost) and the interest rate swaps (measured at fair value) in ALM. For this purpose, a (government) bond portfolio has been classified as a financial asset at fair value through profit or loss. The fair value option is also used for CDOs and certain financial liabilities with embedded derivatives whose economic risk and characteristics are closely related to those of the host contract (some KBC IFIMA issues), which would otherwise give rise to an accounting mismatch with the hedging instruments.
- In addition, KBC uses micro-hedge accounting permitted under IAS 39 to limit the volatility of results in the following cases:
  - Fair value hedges: used in certain asset-swap constructions, where KBC buys a bond on account of the credit spread. The interest rate risk of the bond is hedged by means of an interest rate swap. This technique is also applied to certain fixed-term debt instruments issued by KBC Bank.
  - Cashflow hedges: used primarily to swap floating-rate liabilities for a fixed rate.
  - Hedges of net investments in foreign operations: the exchange risk attached to foreign-currency investments is hedged by attracting funding in the currency concerned at the level of the investing entity.
- Usually one of the micro-hedging techniques that must be documented individually is used for large individual transactions that can clearly be separated out. For the purposes of ALM, which by definition is macro-management, use is made of the possibilities specifically provided for under IAS 39, namely the 'fair value option' and the 'portfolio hedge of interest rate risk' according to the carved-out version.
- As regards the relationship between risk management and hedge accounting policy, 'economic' management is given priority and the risks have to be hedged in accordance with the general ALM framework. It is then decided what the most efficient option is for limiting (any) resulting accounting mismatch using one of the above hedging techniques.
- For information on fair value adjustments in hedge accounting, see Note 5.
- The estimated cashflows from the cashflow hedging derivatives per time bucket break down is given in the table.

Estimated cashflows from the cashflow hedging derivatives (in millions of EUR)	Inflow	Outflow
Not more than three months	51	-58
More than three but not more than six months	94	-106
More than six months but not more than one year	175	-236
More than one but not more than two years	332	-484
More than two but not more than five years	810	-1 068
More than 5 years	1 943	-2 559

Notes on other balance sheet items

Note 26: Other assets

in millions of EUR	31-12-2010	31-12-2011
Total	1 807	1 605
Breakdown by type	1 807	1 605
Income receivable (other than interest income from financial assets)	824	503
Other	983	1 102

Note 27: Tax assets and tax liabilities

in millions of EUR	31-12-2010	31-12-2011
CURRENT TAXES		
Current tax assets	70	122
Current tax liabilities	281	233
DEFERRED TAXES	**2 148**	**2 070**
Tax assets by type of temporary difference	3 339	3 387
Employee benefits	189	173
Losses carried forward	879	957
Tangible and intangible fixed assets	70	74
Provisions for risks and charges	62	173
Impairment for losses on loans and advances	445	394
Financial instruments at fair value through profit or loss and fair value hedges	751	670
Fair value adjustments, available-for-sale assets, cash flow hedges and hedges of net investments in foreign entities	869	887
Other	74	59
Unused tax losses and unused tax credits	980	1
Deferred tax liabilities by type of temporary difference	1 191	1 317
Employee benefits	14	15
Losses carried forward	0	1
Tangible and intangible fixed assets	108	107
Provisions for risks and charges	35	36
Impairment for losses on loans and advances	110	116
Financial instruments at fair value through profit or loss and fair value hedges	506	578
Fair value adjustments, available-for-sale assets, cash flow hedges and hedges of net investments in foreign entities	271	324
Other	147	140
Recognised in the balance sheet as follows:		
Deferred tax assets	2 235	2 284
Deferred tax liabilities	87	214

- Unused tax losses and unused tax credits concern tax losses of group companies which are not capitalised due to insufficient proof of future taxable profit. Most unused tax losses and unused tax credits can be carried forward for 20 years or more.
- In 2010, the Belgian tax authorities decided that a waiver of intercompany debt, related to losses on a CDO portfolio incurred in the past year, was tax deductible, provided certain conditions were met. In practice, this meant that KBC was able to recognise deferred tax income of 0.4 billion euros in the second quarter of 2010.
- Deferred tax assets relating to tax losses carried forward are justified by the fact that – based on macroeconomic forecasts and the use of conservative scenarios – enough taxable profit will be available in the quite near future.
- The net change in deferred taxes (-78 million euros in 2011) breaks down as follows:
  - increase in deferred tax assets: +47 million euros;
  - increase in deferred tax liabilities: +125 million euros.
- The change in deferred tax assets is accounted for by:
  - the increase in deferred tax assets via the income statement: +97 million euros (owing primarily to losses carried forward (+73 million euros); and provisions for risks and charges (+112 million euros); financial instruments at fair value through profit or loss (-28 million euros); impairment relating to

losses on loans and advances (-18 million euros); employee benefits (-16 million euros); other (-31 million euros));
  - the increase in deferred tax assets consequent on the fall in the market value of cashflow hedges: +147 million euros;
  - the decrease in deferred tax assets due to changes in the scope of consolidation: -92 million euros;
  - the decrease in deferred tax assets on account of a significant rise in the market value of hedges of net investments in foreign operations: -92 million euros.
- The change in deferred tax liabilities is made up of the following:
  - the increase in deferred tax liabilities via the income statement: +81 million euros (owing primarily to financial instruments at fair value through profit or loss (+74 million euros); other (+7 million euros));
  - the increase in deferred tax liabilities consequent on the rise in the market value of available-for-sale securities: +37 million euros;
  - the increase in deferred tax liabilities consequent on the rise in the market value of cashflow hedges: +16 million euros;
  - the decrease in deferred tax liabilities due to changes in the scope of consolidation: -4 million euros.
- The deferred tax liabilities presented in the balance sheet are attributable primarily to KBC Bank and KBC Credit Investments. At the latter, they relate partially to the notional deduction of interest. A proposal to amend the law on notional interest deduction is currently being discussed. If the proposal is approved as it is currently formulated, KBC Credit Investments will have to accelerate the reduction of its deferred tax liabilities rather than gradually reducing them as it is currently doing. This would have a negative impact of around 55 million euros on the income statement in 2012 (based on figures calculated at year-end 2011; the actual amount will depend on the quarter in which the proposal is approved), although the negative effect would be neutralised in 2013 and 2014 as a gradual reduction would no longer be necessary.

Note 28: Investments in associated companies

in millions of EUR	31-12-2010	31-12-2011
Total	**542**	**475**
Overview of investments including goodwill		
NLB	488	424
Other	54	51
Goodwilll on associated companies		
Gross amount	210	210
Accumulated impairment	- 31	- 31
Breakdown by type		
Unlisted	542	475
Listed	0	0
Fair value of investments in listed associated companies	0	0
MOVEMENTS TABLE	**2010**	**2011**
Opening balance (1 January)	638	542
Acquisitions	0	0
Carrying value, transfers	0	0
Share in the result for the period	- 54	- 52
Capital increase	0	18
Dividends paid	- 14	- 19
Share of gains and losses not recognized in the income statement	4	- 12
Translation differences	1	- 2
Changes in goodwill	- 31	0
Transfer to or from non-current assets held for sale and disposal groups	0	0
Other movements	- 3	0
Closing balance (31 December)	542	475

- Associated companies are companies on whose management KBC exerts significant influence, without having direct or indirect full or joint control. In general, KBC has a 20% to 50% shareholding in such companies. Associated companies relate primarily to Nova Ljubljanska banka (group), which has the following key figures (taken from the latest available annual report – 2010): total assets of 17.9 billion euros, total liabilities of 16.9 billion euros, total income of 0.6 billion euros and a result after tax (group share) of -0.2 billion euros.
- Goodwill paid on associated companies is included in the nominal value of 'Investments in associated companies' shown on the balance sheet. An impairment test has been performed and the necessary impairment losses on goodwill have been recognised (see table). In 2010, impairment on goodwill related to Nova Ljubljanska banka (also see Note 11).

Note 29: Property and equipment and investment property

in millions of EUR	31-12-2010	31-12-2011
Property and equipment	**2 358**	**2 357**
Investment property	**457**	**552**
Rental income	36	41
Direct operating expenses from investments generating rental income	1	24
Direct operating expenses from investments not generating rental income	5	3

MOVEMENTS TABLE	Land and buildings	IT equipment	Other equipment	Total property and equipment	Investment property
2010					
Opening balance	1 391	56	935	2 382	461
Acquisitions	75	25	323	423	17
Disposals	- 17	- 1	- 141	- 159	- 10
Depreciation	- 73	- 33	- 44	- 150	- 13
Impairment					
recognised	- 3	0	- 1	- 4	- 1
reversed	2	0	0	2	0
Transfer to or from non-current assets held for sale and disposal groups	- 5	0	0	- 5	- 1
Translation differences	21	1	7	30	4
Changes in the scope of consolidation	- 2	0	- 3	- 5	0
Other movements	- 3	- 2	- 149	- 155	1
Closing balance	1 386	45	927	2 358	457
of which accumulated depreciation and impairment	949	228	693	1 870	90
of which expenditure on items in the course of construction	2	0	5	8	
of which finance lease as a lessee	0	0	1	1	
Fair value 31-12-2010					522
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 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

- 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
2010					
Opening balance	1 664	3	75	31	1 774
Acquisitions	4	2	22	13	41
Disposals	0	0	- 1	- 7	- 8
Adjustment resulting from subsequent identification	0	0	0	0	0
Amortisation	0	- 1	- 34	- 9	- 45
Impairment					
recognised	- 85	0	0	0	- 85
reversed	0	0	0	0	0
Transfer to or from non-current assets held for sale and disposal groups	0	0	0	0	0
Translation differences	27	0	1	1	29
Changes in the scope of consolidation	- 19	0	0	0	- 19
Other movements	19	1	- 5	8	23
Closing balance	1 611	5	59	36	1 711
of which accumulated amortisation and impairment	506	1	336	42	885
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

- 'Goodwill' includes the goodwill paid on companies included in the scope of consolidation and relating to the acquisition of activities. Goodwill paid on associated companies is included in the nominal value of 'Investments in associated companies' shown on the balance sheet. An impairment test has been performed and the necessary impairment losses on goodwill have been recognised (see table). This test is performed at least once a year and on a quarterly basis for investments where there is an indication of impairment. In the test, each entity is regarded as a separate cash-generating unit. Each entity has a specific risk profile and it is rare to have different profiles within a single entity.
- Impairment on goodwill under IAS 36 is recognised in profit or loss if the recoverable amount of an investment is lower than its carrying value. The recoverable amount is defined as the higher of the value in use (calculated based on discounted cashflow analysis) and the fair value (calculated based on multiple analysis, etc.) less costs to sell.
- The discounted cashflow method calculates the recoverable amount of an investment as the present value of all future free cashflows of the business. This method is based on long-term projections about the company's business and the resulting cashflows (i.e. projections for a number of years ahead (usually 20 years), and the terminal value of the business at the end of the specific projection period). The terminal growth rate is determined using a long-term average market growth rate. The present value of these future cashflows is calculated using a compound discount rate, which is based on the Capital Asset Pricing Model (CAPM). A risk-free rate, a market-risk premium (multiplied by an activity beta), and a country risk premium (to reflect the impact of the economic situation of the country where KBC is active) are also used in the calculation. KBC has developed 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)	31-12-2010	31-12-2011	Discount rates throughout the specific period of cashflow projections (31-12-2011)
Absolut Bank	375	358	16.9% - 10.3%
K&H Bank	248	219	16.6% - 10.3%
ČSOB (Czech Republic)	301	288	*
ČSOB (Slovak Republic)	188	188	12.2% - 9.8%
CIBANK	170	117	14.4% - 10.3%
Kredyt Bank	69	66	*
Rest	260	213	
Total	1 611	1 449	

* through multiple analysis

- The period to which the cashflow budgets and projections relate is primarily 20 years. This longer period is used to reflect the dynamism of the Central and Eastern European economies.
- The growth rate used to extrapolate the cashflow projections after the 20-year period is usually 2% above an inflation rate of 2%.
- A discount rate sensitivity analysis was performed. The discount rate for the first year was increased by 2% in absolute terms. Pursuant to the way in which discount rates (or changes in discount rates) are modelled, the increase in the discount rate for the first year is gradually and diminishingly carried forward as (higher) discount rates for the years ahead. Apart from the entity for which impairment had already been recorded in 2011 (CIBank), only one entity from the above list (ČSOB in Slovakia) would be subject to impairment based on the additional stress scenario (the recoverable value would equal the carrying amount if the discount rate in the first year were to increase by an absolute rate of 0.4% and if this increase were to be gradually and diminishingly carried forward to the discount rates for subsequent years).

Note 31: Provisions for risks and charges

in millions of EUR	Provision for restruc-turing	Provision for taxes and pending legal disputes	Other	Subtotal	Provision, off-balance-sheet credit commit-ments	Total
2010						
Opening balance	29	408	26	463	109	572
Movements with an impact on result						
Amounts allocated	25	37	7	68	117	185
Amounts used	- 20	- 77	- 5	- 102		- 102
Unused amounts reversed	- 1	- 9	- 4	- 14	- 101	- 115
Transfer to or from non-current liabilities regarding disposal groups	0	0	0	0	0	0
Change in consolidation scope	0	0	0	0	0	0
Other movements	- 6	27	3	24	- 10	14
Closing balance	27	386	26	439	115	554
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

- For most of the provisions recorded, no reasonable estimate can be made of when they will be used.
- Restructuring provisions were set aside mainly for (the consolidated entity in each case, i.e. including subsidiaries) KBC Financial Products (2010: 16 million euros, 2011: 16 million euros), and the Central and Eastern European subsidiaries of KBC Bank 2010: 5 million euros in total, 2011: 1 million euros in total) and KBC Lease Deutschland (2010: 0 million euros, 2011: 6 million euros).
- As regards provisions for taxes and pending legal disputes:
  - the remaining amount of the provision for commercial disputes involving CDOs came to 0.06 billion euros at the end of 2011;
  - see Note 8 for information relating to the 5-5-5 product;
  - see the information on legal disputes in the bullet points below.
- 'Other provisions' included those set aside for miscellaneous risks and future expenditure.
- As regards the most significant legal disputes pending, claims filed against KBC group companies are – in keeping with IFRS rules – treated on the basis of an assessment of whether they will lead to an outflow of resources (i.e. 'probable outflow', 'possible outflow' or 'remotely probable outflow'). Provisions are set aside for 'probable outflow' cases (see 'Notes on the accounting policies'). No provisions are constituted for 'possible outflow' cases, but information is provided in the financial statements if such cases might have a material impact on the balance sheet (i.e. when the claim could lead to a possible outflow of more than 25 million euros). All other claims ('remotely probable outflow'), of whatever magnitude, that represent a minor or no risk at all do not have to be reported. Nonetheless, for reasons of transparency, KBC also provides information on the current status of the most important cases in this category.
  The most important cases are listed below. The information provided is limited in order not to prejudice the position of the group in ongoing litigation.
- Probable outflow:
  - In 2003, a major case of fraud at K&H Equities Hungary was uncovered. Numerous customers suffered substantial losses on their securities portfolios as a result of unauthorised speculative transactions and possible misappropriations of funds. Instructions and portfolio overviews were forged or tampered with. In August 2008, criminal sentences were handed down. An appeal is pending. Most claims have already been settled either amicably or following an arbitral decision.

Appropriate provisions have been set aside for the claims still outstanding, taking into account compensation provided by an external insurer.

- From the end of 1995 until the beginning of 1997, KBC Bank and KB Consult were involved in the transfer of cash companies. KBC Bank and/or KB Consult were joined to proceedings in a number of cases. In addition, KB Consult, together with KBC Bank and KBC Group NV, was summoned to appear in the proceedings before the Bruges court sitting in chambers. On 9 November 2011, this court dismissed the charges against KBC Group NV, but KB Consult and KBC Bank were referred to the criminal court. However, the Belgian State has since lodged an appeal with the Indictment Division. A provision of 48 million euros has been constituted to deal with the potential impact of claims for damages in this respect. The transfer of a cash company is in principle completely legitimate. Nevertheless, it later transpired that certain purchasers were acting in bad faith since they did not make any investments at all and did not file tax returns for the cash companies they had purchased. KBC Bank and KB Consult immediately took the necessary measures to preclude any further involvement with these parties.
- In March 2000, Rebeo and Trustimmo, two subsidiaries of Almafin (a subsidiary of KBC Bank), together with four former directors of Broeckdal Vastgoedmaatschappij (a real estate company) were summoned by the Belgian Ministry of Finance to appear before the civil court in Brussels regarding non-payment of 16.7 million euros in taxes owed by Broeckdal. However, Broeckdal Vastgoedmaatschappij contested this claim and in December 2002 initiated court proceedings against the Belgian Ministry of Finance before the civil court in Antwerp. The civil case pending before the Brussels court has been suspended until final judgment has been passed in the tax-related proceedings pending before the Antwerp court. A provision of 26 million euros has been set aside to cover potential damages.

- Remotely probable outflow:
  - In the criminal proceedings that began on 3 April 2009 against eleven current and former directors and staff members of KBC Bank NV and Kredietbank SA Luxembourgeoise (KBL European Private Bankers SA (KBL EPB)) accused of co-operation in tax evasion committed by customers of KBC Bank NV and KBL EPB, the Brussels criminal court ruled on 8 December 2009 that the criminal proceedings were inadmissible. The court judged that, given the extraordinary and doubtful circumstances in which the documents submitted by the public prosecutor came into the hands of the judicial authorities, they could not be used as evidence in legal proceedings. Following a close investigation into the way in which the disputed documents were incorporated into the proceedings, the court ruled that the criminal investigation had not been carried out in a fair and impartial manner. On 10 December 2010, the Brussels Court of Appeal confirmed the initial ruling and stressed that the investigating judge had not acted impartially. The Public Prosecutor's Office has appealed this decision. On 31 May 2011, the Court of Cassation handed down a judgment confirming the decision of the Court of Appeal in Brussels. Consequently, the criminal case is now closed.

Note 32: Other liabilities

in millions of EUR	31-12-2010	31-12-2011
Total	**3 081**	**2 665**
Breakdown by type		
Retirement benefit plans or other employee benefits	916	820
Accrued charges (other than from interest expenses on financial liabilities)	745	666
Other	1 420	1 179

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

Note 33: Retirement benefit obligations

in millions of EUR	31-12-2010	31-12-2011
DEFINED BENEFIT PLANS		
Reconciliation of defined benefit obligations		
Defined benefit obligations at the beginning of the period	1 662	1 527
Current service Cost	94	82
Interest cost	69	75
Plan amendments	- 6	0
Actuarial gain/(loss)	- 146	126
Benefits paid	- 118	- 110
Exchange differences	2	4
Curtailment	- 2	- 2
Transfer due to IFRS 5	0	0
Changes in the scope of consolidation	- 20	- 2
Other	- 8	9
Defined benefit obligation at end of the period	1 527	1 708
Reconciliation of the fair value of plan assets		
Fair value of plan assets at the beginning of the period	1 203	1 253
Actual return on plan assets	92	82
Employer contributions	72	112
Plan participant contributions	17	18
Benefits paid	- 110	- 105
Exchange differences	2	1
Settlements	0	- 2
Transfer due to IFRS 5	0	0
Changes in the scope of consolidation	- 22	- 1
Other	- 1	5
Fair value of plan assets at the end of the period	1 253	1 363
of which financial instruments issued by the group	11	4
Funded Status		
Plan assets in excess of defined benefit obligations	- 226	- 294
Unrecognised net actuarial gains	- 228	- 100
Unrecognised transaction amount	0	0
Unrecognised past service cost	0	0
Unrecognised assets	- 2	0
Unfunded accrued/prepaid pension cost	- 456	- 396
Movement in net liabilities or net assets		
Unfunded accrued/prepaid pension cost at the beginning of the period	- 467	- 456
Net periodic pension cost	- 70	- 48
Employer contributions	72	114
Exchange differences	0	0
Transfer due to IFRS 5	0	0
Changes in the scope of consolidation	- 2	0
Other	10	- 5
Unfunded accrued/prepaid pension cost at the end of the period	- 456	- 396
Amounts recognised in the balance sheet		
Prepaid pension cost	25	30
Reimbursement rights	- 3	0
Accrued pension liabilities	- 479	- 426
Unfunded accrued/prepaid pension cost	- 456	- 396

Amounts recognised in the income statement		
Current service cost	94	82
Interest cost	69	75
Expected return on plan assets	- 66	- 73
Adjustments to limit prepaid pension cost	0	- 1
Amortisation of unrecognized prior service costs	- 2	0
Amortisation of unrecognized net (gains)/losses	- 6	- 15
Employee contributions	- 1	- 18
Curtailments	- 17	- 2
Settlements	- 2	- 1
Changes in the scope of consolidation	0	0
Actuarially determined net periodic pension cost*	70	47
Actual return on plan assets (in %)	**7.8%**	**6.5%**
Principal actuarial assumptions used (based on weighted averages)		
Discount rate	4.0%	4.6%
Expected rate of return on plan assets	5.3%	5.5%
Expected rate of salary increase	3.4%	3.1%
Rate of pension increase	0.4%	0.4%
DEFINED CONTRIBUTION PLANS		
Expenses for defined contribution plans	0	0

- The pension claims of the staff of the various KBC group companies are covered by pension funds and group insurance schemes, the most important of which are defined benefit plans. The main defined benefit plans are those managed by the OFP Pensioenfonds KBC and the OFP Pensioenfonds Senior Management KBC which cover KBC Bank, KBC Insurance (since 2007) and most of their Belgian subsidiaries, and the KBC Insurance group insurance scheme (for staff employed prior to 1 January 2007). The assets of these first two plans are managed chiefly by KBC Asset Management. The benefits are dependent on, among other things, the employee's years of service, as well as on his/her remuneration in the years leading up to his/her retirement. The annual funding requirements for these plans are determined based on standard actuarial cost methods.
- The expected return on plan assets (ROA) is calculated on the basis of the OLO rate, account taken of the strategic asset allocation for the assets under management.
  ROA = (X x rate on OLO T years) + (Y x (rate on OLO T years + 3%)) + (Z x (rate on OLO T years + 1.75%)), where:
  T = term of the OLO used for the discount rate;
  X = percentage of fixed-income securities;
  Y = percentage of shares;
  Z = percentage of real estate.
  The risk premiums of 3% and 1.75%, respectively, are based on the anticipated long-term returns from shares and real estate.

Additional information retirement benefit obligations, in millions of eur

Evolution main items shown in the table	2007	2008	2009	2010	2011
Defined benefit obligations	1 528	1 612	1 662	1 527	1 708
Fair value of plan assets	1 307	1 090	1 259	1 309	1 363
Unfunded accrued or prepaid pension cost	-475	-476	-467	- 456	- 396
Composition of the main defined benefit plans of the group		**shares**	**bonds**	**real estate**	**cash**
31-12-2010					
KBC Pension fund		43.0%	45.0%	9.0%	3.0%
31-12-2011					
KBC Pension fund		33.0%	52.0%	9.0%	6.0%
Impact of changes in the assumptions used in the actuarial calculation of plan assets and gross liabilities*	**2007**	**2008**	**2009**	**2010**	**2011**
Impact on plan assets	-1	0	0	0	0
Impact on gross liabilities	-7	-86	-18	-84	-76
Expected contributions in 2012					
KBC Pension fund					92

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

Note 34: Parent shareholders' equity

in number of shares	31-12-2010	31-12-2011
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
2010	
Opening balance	915 228 482
Conversion of mandatorily convertible bonds into shares	0
Other movements	0
Closing balance	915 228 482
2011	
Opening balance	915 228 482
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 2011, 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 (KBC Group NV shares), see Note 9.
- For information on the authorisation to increase capital, see the 'Company annual accounts' section.
- Preference shares (366 million at year-end 2010; 370 million 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 made a first repayment to the Belgian State of 0.5 billion euros (plus a 15% penalty). This was recognised in the balance sheet at year-end 2011 (with 0.5 billion euros shifting from equity to liabilities and the penalty being deducted from equity by presenting it as a liability).

Other notes

Note 35: Commitments and guarantees granted and received

in millions of EUR	31-12-2010	31-12-2011
Credit commitments - undrawn amount		
Given	32 574	33 669
Irrevocable	20 806	21 338
Revocable	11 769	12 331
Received	678	186
Financial guarantees		
Given	12 255	12 411
Guarantees received / collateral	53 956	47 776
For impaired and past due assets	4 808	3 981
For assets that are not impaired or past due assets	49 148	43 795
Other commitments		
Given	130	143
Irrevocable	130	143
Revocable	0	0
Received	0	0
Carrying value of financial assets pledged as collateral for		
Liabilities	29 972	45 223
Contingent liabilities	4 151	4 682

- The definition of financial guarantees was changed in 2011 and the reference figures restated (see Note 1a).
- The fair value of financial guarantees is based on the available market value,
- KBC Group NV irrevocably and unconditionally guarantees all the sums, indebtedness, obligations and liabilities outstanding on 31 December 2011 listed in Section 5 (c) of the Irish Companies (Amendment) Act of the following Irish companies, which are consequently eligible for exemption from certain disclosure requirements, pursuant to Section 17 of the Irish Companies (Amendment) Act 1986:

  - KBC Financial Services (Ireland) Limited;
  - KBC Fund Management Limited.

  Since both companies are included in the scope of consolidation, this is an intragroup transaction and the guarantee is not included in the above table.

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

Collateral 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	31-12-2010	31-12-2011	31-12-2010	31-12-2011
Financial assets	15 423	10 470	9 015	7 018
Equity instruments	37	12	0	0
Debt instruments	15 199	10 255	9 015	7 018
Loans & advances	184	202	0	0
Cash	4	1	0	0
Non-financial assets	0	4	0	0
Property and equipment	0	4	0	0
Investment property	0	0	0	0
Other	0	0	0	0

Collateral obtained by taking possession during the period	31-12-2010	31-12-2011
Non-current assets held-for-sale	0	0
Property and equipment	4	0
Investment property	0	170
Equity and debt instruments	43	0
Cash	218	237
Other	15	8
Total	281	414

Note 36: Leasing

In millions of EUR	31-12-2010	31-12-2011
Finance lease receivables		
Gross investment in finance leases, receivable	5 790	5 489
At not more than one year	1 668	1 464
At more than one but not more than five years	2 814	2 690
At more than five years	1 308	1 335
Unearned future finance income on finance leases	836	826
Net investment in finance leases	4 915	4 659
At not more than one year	1 440	1 277
At more than one but not more than five years	2 461	2 340
At more than five years	1 014	1 043
Of which unguaranteed residual values accruing to the benefit of the lessor	12	10
Accumulated impairment for uncollectable lease payments receivable	192	191
Contingent rents recognised in income	105	104
Operating lease receivables		
Future aggregate minimum rentals receivable under non-cancellable leases*	859	432
Not more than one year	311	148
More than one but not more than five years	519	261
More than five years	28	23
Contingent rents recognised in income	2	0

*As from 2011, the residual values of operating leases have no longer been included in future aggregate minimum rentals (in 2010, 426 million euros).

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

Note 37: Related-party transactions

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

	31-12-2010								31-12-2011							
	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	404	382	145	107	24 050	929	2 608	28 625	254	160	200	119	18 679	1 016	4 118	24 546
Loans and advances	240	55	97	73	71	0	1 938	2 474	0	58	144	85	762	0	3 352	4 401
Current accounts	240	2	1	0	0	0	511	753	0	2	1	0	0	0	527	530
Term loans	0	53	96	73	71	0	1 425	1 718	0	56	143	85	762	0	2 824	3 870
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	2	2	0	0	0	0	0	0	1	1
Equity instruments	106	194	30	26	0	0	13	368	43	82	34	25	0	0	0	184
Trading securities	6	0	0	0	0	0	12	18	0	0	0	0	0	0	0	0
Investment securities	100	194	30	26	0	0	0	350	43	82	34	25	0	0	0	184
Other receivables	58	133	18	8	23 980	929	658	25 784	211	19	22	9	17 917	1 016	766	19 961
Liabilities	298	915	172	32	264	0	5 971	7 652	1 992	718	145	30	70	0	6 009	8 965
Deposits	24	886	132	32	176	0	3 862	5 112	1 723	710	132	30	0	0	4 524	7 120
Deposits	14	885	131	32	176	0	3 841	5 079	1 716	709	131	30	0	0	4 518	7 105
Other	10	1	1	0	0	0	21	33	7	1	1	0	0	0	6	15
Other financial liabilities	250	23	20	0	0	0	1 808	2 101	250	5	0	0	0	0	1 160	1 415
Debt certificates		1	20	0	0	0	1 807	1 828	0	0	0	0	0	0	1 160	1 160
Subordinated liabilities	250	22	0	0	0	0	0	273	250	5	0	0	0	0	0	256
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	24	6	21	0	88	0	301	439	20	3	12	0	70	0	325	430
Income statement	- 7	10	- 2	2	659	23	- 727	- 41	- 2	19	1	4	680	28	- 743	- 13
Net interest income*	- 4	8	- 1	2	659	23	- 59	628	- 6	17	- 1	2	680	28	- 81	638
Dividend income	0	2	4	0	0	0	0	6	3	2	4	1	0	0	0	10
Net fee and commission income	0	0	- 3	0	0	0	141	139	0	0	- 1	0	0	0	155	154
Other income	0	1	0	0	0	0	7	8	3	2	0	0	0	0	7	12
Other expenses	- 3	- 1	- 2	0	0	0	- 816	- 823	- 1	- 2	- 1	0	0	0	- 824	- 828
Guarantees																
Guarantees issued by the group								0								0
Guarantees received by the group								0								0

*Restated figure for "other" in 2010

Transactions with key management personnel, in millions of EUR	31-12-2010	31-12-2011
Total[1]	5	9
Breakdown by type of remuneration		
Short-term employee benefits	3	4
Post-employment benefits	2	5
Defined benefit plans	2	5
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	52 100	35 100
Granted	0	0
Exercised	0	0
Changes in composition of directors	- 17 000	- 14 800
At the end of the period	35 100	20 300
Advances and loans granted to the directors and partners	**1**	**2**

[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 CVBA, MRBB, KBC Insurance Group and KBL 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 of KBC Bank NV.
- In 2009, KBC entered into a guarantee agreement with the Belgian State to cover most of its potential downside risk exposure to CDOs. Included in the 2011 results is the related cost (-66 million euros) which is recognised in 'Net result from financial instruments at fair value through profit or loss'.

Note 38: Statutory auditor's remuneration

In 2011, KBC Group NV and its subsidiaries paid Ernst & Young Bedrijfsrevisoren BCVBA fees amounting to a total of 10 677 580 euros for standard audit services (10 879 376 euros in 2010). Remuneration paid for other services came to 3 338 400 euros in 2011 (2 213 612 euros in 2010), viz.: other certifications: 920 561 euros; tax advice: 174 338 euros; other non-audit assignments: 2 243 501 (977 610, 96 735 and 1 139 267 euros, respectively, in 2010).

Note 39: List of subsidiaries and associated companies at year-end 2011

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
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 Sporiteľna a.s.	Bratislava - SK	--	100
Istrofinance s.r.o.	Bratislava - SK	--	100
Československá Obchodní Banka a.s.	Prague - CZ	--	100
Auxilium a.s.	Prague - CZ	--	100
Bankovní Informační Technologie s.r.o.	Prague - CZ	--	100
Centrum Radlická a.s.	Prague - CZ	--	100
ČSOB Asset Management a.s.	Prague - CZ	--	61,77
ČSOB Factoring a.s.	Prague - CZ	--	100
ČSOB Investiční Společnost a.s.	Prague - CZ	--	88,22
ČSOB Investment Banking Service a.s.	Prague - CZ	--	100
ČSOB Leasing a.s.	Prague - CZ	--	100
ČSOB Leasing Pojisťovaci Maklér s.r.o.	Prague - CZ	--	100
ČSOB Penzijní fond Stabilita a.s.	Prague - CZ	--	100
ČSOB Property Fund a.s.	Prague - CZ	--	71,44
Merrion Properties a.s.	Prague - CZ	--	71,44
Property Skalika s.r.o.	Bratislava - SK	--	71,44
Hypoteční Banka a.s.	Prague - CZ	--	100
CIBANK AD	Sofia - BG	--	100
Management of Assets for Sale - 2 EOOD	Sofia - BG	--	100
Katarino Spa Hotel EAD	Sofia - BG	--	100
IIB Finance Ireland	Dublin - IE	--	100
KBC Finance Ireland	Dublin - IE	--	100
KBC Asset Management NV	Brussels - BE	0469.444.267	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
KBC Towarzystwo Funduszy Inwestycyjnych a.s.	Warszawa - PL	--	44,74
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 Company	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 Mortgage Finance	Dublin - IE	--	100
KBC Nominees Limited	Dublin - IE	--	100
Linkway Developments Limited	Dublin - IE	--	100
Maurevel Investment Company Limited	Dublin - IE	--	100
Merrion Commercial Leasing Limited	Surrey - GB	--	100
Merrion Equipment Finance Limited	Surrey - GB	--	100
Merrion Leasing Assets Limited	Surrey - GB	--	100
Merrion Leasing Finance Limited	Surrey - GB	--	100
Merrion Leasing Industrial Limited	Surrey - GB	--	100
Merrion Leasing Limited	Surrey - GB	--	100
Merrion Leasing Services Limited	Surrey - GB	--	100
Monastersky Limited	Dublin - IE	--	100
Needwood Properties Limited	Dublin - IE	--	100
Phoenix Funding 2 Limited	Dublin - IE	--	100
Phoenix Funding 3 Limited	Dublin - IE	--	100
Phoenix Funding 4 Limited	Dublin - IE	--	100
Quintor Limited	Dublin - IE	--	100
Rolata Limited	Douglas - IM	--	100
KBC Clearing NV	Amsterdam - NL	--	100
KBC Commercial Finance NV	Brussels - BE	0403.278.488	100
KBC Consumer Finance NV	Brussels - BE	0473.404.540	100
KBC Credit Investments NV	Brussels - BE	0887.849.512	100
KBC Financial Products UK Limited	London - GB	--	100
Baker Street Finance Limited	Jersey - GB	--	100
Baker Street USD Finance Limited	Jersey - GB	--	100
Dorset Street Finance Limited	Jersey - GB	--	100
Hanover Street Finance Limited	Jersey - GB	--	100
KBC Financial Products Hong Kong Limited	Hong Kong - HK	--	100
Pembridge Square Limited	Jersey - GB	--	100
Regent Street Finance Limited	Jersey - GB	--	100
Sydney Street Finance Limited	Jersey - GB	--	100

Name	Registered office	National identification number	Share of capital held at group (%)
KBC Financial Holding Inc.	Wilmington - US	--	100
KBC Financial Products (Cayman Islands) Limited "Cayman I"	George Town - KY	--	100
KBC Financial Products USA Inc.	Wilmington - US	--	100
Pacifica Group LLC	Wilmington - US	--	100
Equity Key LLC	Wilmington - US	--	100
Equity Key Real Estate Option LLC	San Diego - US	--	100
EK002 LLC	San Diego - US	--	100
EK003 LLC	San Diego - US	--	100
EK045 LLC	San Diego - US	--	100
Lonsdale LLC	Wilmington - US	--	100
Midas Life Settlements LLC	Delaware - US	--	100
Upright RM Holdings LLC	New York - US	--	100
Reverse Mortgage Trust I	New York - US	--	100
Upright Holdings FP Inc.	New York - US	--	100
World Alliance Financial Corporation	New York - US	--	100
KBC Financial Products International Limited "Cayman III"	George Town - KY	--	100
KBC Investments Hong Kong Limited	Hong Kong - HK	--	100
KBC Investments Asia Limited	Hong Kong - HK	--	100
KBC Investments Cayman Islands Limited "Cayman IV"	George Town - KY	--	100
KBC Investments Cayman Islands V Limited	George Town - KY	--	100
KBC Investments Limited	London - GB	--	100
KBC Internationale Financieringsmaatschappij NV	Rotterdam - NL	--	100
KBC Lease Holding NV	Leuven - BE	0403.272.253	100
Fitraco NV	Leuven - BE	0425.012.626	100
KBC Autolease NV	Leuven - BE	0422.562.385	100
KBC Bail France sas	Lyon - FR	--	100
KBC Bail Immobilier France sas	Paris - FR	--	100
KBC Immolease NV	Leuven - BE	0444.058.872	100
KBC Lease Belgium NV	Leuven - BE	0426.403.684	100
KBC Autolease Polska Sp z.o.o.	Warszawa - PL	--	100
KBC Lease France SA	Lyon - FR	--	100
KBC Lease (Nederland) BV	Bussum - NL	--	100
KBC Lease (UK) Limited	Surrey - GB	--	100
KBC Lease (Deutschland) GmbH & Co. KG	Kronberg - DE	--	92
KBC Lease (Deutschland) Vermietungs GmbH	Kronberg - DE	--	92
KBC Vendor Lease (Deutschland) Service GmbH	Kronberg - DE	--	92
KBC Vendor Finance (Deutschland) GmbH	Kronberg - DE	--	92
Protection One Service GmbH	Kronberg - DE	--	92
KBC Lease (Deutschland) Verwaltungs GmbH	Kronberg - DE	--	76
KBC Lease España SA	Madrid - ES	--	100
KBC Lease Italia S.p.A.	Verona - IT	--	100
KBC Lease (Luxembourg) SA	Bertrange - LU	--	100
Romstal Leasing IFN SA	Boekarest - RO	--	100
Securitas sam	Monaco - MC	--	100
KBC North American Finance Corporation	New York - US	--	100
KBC Private Equity NV	Brussels - BE	0403,226,228	100
Boxco NV	Harelbeke - BE	0874.529.234	95
Allbox NV	Harelbeke - BE	0417.348.339	95
Degen Emballages SA	Herstal - BE	0425.206.230	95
Verkoopkantoor Allbox en Desouter NV	Harelbeke - BE	0419.278.540	95
Descar NV	Harelbeke - BE	0405.322.613	95
Dynaco Group NV	Moorsel - BE	0893.428.495	89,54
Dynaco Europe NV	Moorsel - BE	0439.752.567	89,54
Dynaco USA Inc.	Mundelein - US	--	89,54
KBC ARKIV NV	Brussels - BE	0878.498.316	52
2 B Delighted NV	Roeselare - BE	0891.731.886	99,58
Wever & Ducré NV	Roeselare - BE	0412.881.191	99,58
Asia Pacific Trading & Investment Co Limited	Hong Kong - HK	--	99,58
Dark NV	Roeselare - BE	0472.730.389	99,58
Limis beyond light NV	Roeselare - BE	0806.059.310	99,58
Wever & Ducré BV	Den Haag - NL	--	99,58
Wever & Ducré GmbH	Herzogenrath - DE	--	99,58
Wever & Ducré Iluminación SL	Madrid - ES	--	99,58

Name	Registered office	National identification number	Share of capital held at group (%)
KBC Real Estate Luxembourg SA	Luxembourg - LU	--	100
KBC Real Estate NV	Brussels - BE	0404.040.632	100
Almafin Real Estate NV	Brussels - BE	0403.355.494	100
Almafin Real Estate Services NV	Brussels - BE	0416.030.525	100
Immo Arenberg NV	Brussels - BE	0471.901.337	100
Julienne Holdings S.à.r.l.	Luxembourg - LU	--	93
Julie LH BVBA	Brussels - BE	0890.935.201	93
Juliette FH BVBA	Brussels - BE	0890.935.397	93
KBC Vastgoedinvesteringen NV	Brussels - BE	0455.916.925	100
KBC Vastgoedportefeuille België NV	Brussels - BE	0438.007.854	100
KBC Rusthuisvastgoed NV	Brussels - BE	0864.798.253	100
Novoli Investors BV	Amsterdam - NL	--	83.33
Poelaert Invest NV	Brussels - BE	0478.381.531	100
Vastgoed Ruimte Noord NV	Brussels - BE	0863.201.515	100
KBC Securities NV	Brussels - BE	0437.060.521	100
Patria Finance a.s.	Prague - CZ	--	100
Patria Direct a.s.	Prague - CZ	--	100
K&H Bank Zrt.	Budapest - HU	--	100
K&H Csoportszolgáltató Központ Kft.	Budapest - HU	--	100
K&H Equities Consulting Private Limited Company	Budapest - HU	--	100
K&H Értékpapir Befektetési Alapkezelő Zrt.	Budapest - HU	--	100
K&H Factor Zrt.	Budapest - HU	--	100
K&H Alkusz Kft.	Budapest - HU	--	100
K&H Autófinanszirozó Pénzügyl Szolgátató Zrt.	Budapest - HU	--	100
K&H Autópark Bérleti és Szolgáltató Kft	Budapest - HU	--	100
K&H Eszközfinanszírozó Zrt	Budapest - HU	--	100
K&H Eszközlizing Gép-és Thrgj. Bérleti Kft	Budapest - HU	--	100
K&H Ingatlanlizing Zrt	Budapest - HU	--	100
K&H Lizing Zrt.	Budapest - HU	--	100
Kredyt Bank SA	Warszawa - PL	--	80
Kredyt Lease SA	Warszawa - PL	--	80
Kredyt Trade Sp z.o.o.	Warszawa - PL	--	80
Reliz SA	Katowice - PL	--	80
Loan Invest NV "Institutionele VBS naar Belgisch recht"	Brussels - BE	0889.054.884	100
Old Broad Street Invest NV	Brussels - BE	0871.247.565	100
111 OBS Limited Partnership	London - GB	--	100
111 OBS (General Partner) Limited	London - GB	--	100
Żagiel SA	Warszawa - PL	--	100
KBC Bank: subsidiaries that are not fully consolidated			
111 OBS (Nominee) Limited (1)	London - GB	--	100
2 B Delighted Italia Srl (1)	Torino - IT	--	99.58
Aldersgate Finance Limited (1)	Jersey - GB	--	100
Almaloisir & Immobilier sas (1)	Nice - FR	--	100
Apicinq NV (1)	Brussels - BE	0469.891.457	100
Apitri NV (1)	Brussels - BE	0469.889.873	100
Applied Maths Inc. (1)	Austin - US	--	65.92
Applied Maths NV (1)	St Martens Latem - BE	0453.444.712	65.92
Avebury Limited (1)	Dublin - IE	--	100
Bankowy Fundusz Inwestycyjny Serwis Sp z.o.o. (1)	Warszawa - PL	--	80
Brussels North Distribution NV (1)	Brussels - BE	0476.212.887	100
Clifton Finance Street Limited (1)	Jersey - GB	--	100
ČSOB Nadacia (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

Name	Registered office	National identification number	Share of capital held at group (%)
Di Legno Interiors NV (1)	Genk - BE	0462.681.783	62.50
DLI International NV (1)	Genk - BE	0892.881.535	62.50
Eurincasso s.r.o. (1)	Prague - CZ	--	100
Fulham Road Finance Limited (1)	Jersey - GB	--	100
Gulliver Kereskedelmi és Szolgátató Kft.(1)	Budapest - HU	--	100
Immo-Antares NV (2)	Brussels - BE	0456.398.361	100
Immo-Basilix NV (2)	Brussels - BE	0453.348.801	100
Immo-Beaulieu NV (2)	Brussels - BE	0450.193.133	50
Immobilière Distri-Land NV (2)	Brussels - BE	0436.440.909	87.52
Immo Genk-Zuid NV (2)	Brussels - BE	0464.358.497	100
Immo Kolonel Bourgstraat NV (2)	Brussels - BE	0461.139.879	50
Immolease-Trust NV (1)	Brussels - BE	0406.403.076	100
Immo Lux-Airport SA (2)	Luxembourg - LU	--	100
Immo Marcel Thiry NV (2)	Brussels - BE	0450.997.441	100
Immo NamOtt NV (2)	Brussels - BE	0840.412.849	100
Immo NamOtt Tréfonds NV (1)	Brussels - BE	0840.620.014	100
Immo-Quinto NV (1)	Brussels - BE	0466.000.470	100
Immo Zenobe Gramme NV (2)	Brussels - BE	0456.572.664	100
IPCOS BV (1)	Boxtel - NL	--	60
IPCOS NV (1)	Heverlee - BE	0454.964.840	60
IPCOS (UK) Ltd (1)	Cambridge - GB	--	60
IPCOS ENGINEERING SOLUTION Pvt. Ltd (1)	Chandigarh - India	--	60
KB-Consult NV (1)	Brussels - BE	0437.623.220	100
KBC Alternative Investment Limited (1)	London - GB	--	100
KBC Diversified Fund (part of KBC AIM Master Fund) (1)	George Town - KY	--	100
KBC Financial Services (Ireland) Limited (1)	Dublin - IE	--	100
KBC International Finance NV (1)	Rotterdam - NL	--	100
KBC Life Harvest Capital Fund (1)	Dublin - IE	--	35.22
KBC Life Opportunity Fund (1)	Dublin - IE	--	51.86
KBC Private Equity Advisory Services Limited Liability Company (1)	Budapest - HU	--	100
KBC Private Equity Advisory Services Sp.z.o.o. (1)	Warszawa - PL	--	100
KBC Securities LLC (1)	Moscow - RU	--	100
KBC Structured Finance Limited (1)	Sydney - AU	--	100
Kredietfinance Corporation (June) Limited (1)	Surrey - GB	--	100
Kredietfinance Corporation (September) Limited (1)	Surrey - GB	--	100
Kredietlease (UK) Limited (1)	Surrey - GB	--	100
Kredyt Bank SA i TUiR WARTA SA (1)	Warszawa - PL	--	90
Lancier LLC (1)	Delaware - US	--	100
Limited liability company "Absolut Capital" (1)	Moscow - RU	--	95
LIZAR Sp z.o.o. (1)	Warszawa - PL	--	80
Luxembourg North Distribution SA (1)	Luxembourg - LU	--	100
Mechelen City Center NV (1)	Brussels - BE	0471.562.332	100
Mezzafinance NV (1)	Brussels - BE	0453.042.260	100
Motokov a.s. (1)	Prague - CZ	--	69.10
Newcourt Street Finance Limited (1)	Jersey - GB	--	100
NV ACTIEF NV (1)	Brussels - BE	0824.213.750	57.14
Oxford Street Finance Limited (1)	Jersey - GB	--	100
Patria Finance CF a.s. (1)	Prague - CZ	--	100
Patria Finance Online a.s. (1)	Prague - CZ	--	100
Patria Finance Slovakia a.s. (1)	Bratislava - SK	--	100
Pericles Invest NV (1)	Brussels - BE	0871.593.005	50.00
Property LM s.r.o. (1)	Bratislava - SK	--	71.44

Name	Registered office	National identification number	Share of capital held at group (%)
Quasar Securitisation Company NV (1)	Brussels - BE	0475.526.860	100
Quercus Scientific NV (1)	Sint-Martens-Latem -	0884.920.310	65,92
Radiant Limited Partnership (1)	Jersey - GB	--	80,00
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
Tormenta Investment Sp.z.o.o. (1)	Warszawa - PL	--	100
Vermögensverwaltungsgesellschaft Merkur mbH (1)	Bremen - DE	--	100
Weyveld Vastgoedmaatschappij NV (1)	Brussels - BE	0425.517.818	100
Willowvale Company (1)	Dublin - IE	--	100
Zipp Skutery Sp.z.o.o. (1)	Przasnysz - PL	--	100
KBC Bank: joint subsidiaries that are proportionally consolidated			
Českomoravská Stavební Spořitelna (CMSS)	Prague - CZ	--	55
Immobiliare Novoli S.p.A.	Firenze - IT	--	44,98
KBC Goldstate Fund Management Co. Limited	Sjanghai - CN	--	25,41
Union KBC Asset Management Private Limited	Mumbai - IN	--	25,41
KBC Bank: joint subsidiaries that are not proportionally consolidated (1)			
Atrium Development SA	Luxembourg - LU	--	25
Barbarahof NV	Leuven - BE	0880.789.197	30
Consorzio Sandonato Est	Firenze - IT	--	20,32
Covent Garden Development NV	Brussels - BE	0892.236.187	25
Covent Garden Real Estate NV	Zaventem - BE	0872.941.897	50
Flex Park Prague s.r.o.	Prague - CZ	--	50
FM-A Invest NV	Diegem - BE	0460.902.725	50
Jesmond Amsterdam NV	Amsterdam - NL	--	50
Miedziana Sp z.o.o.	Warszawa - PL	--	47,75
Panton Kortenberg Vastgoed NV "Pako Vastgoed"	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
Prague Real Estate NV	Zaventem - B	0876.309.678	50
Real Estate Participation NV	Zaventem - BE	0473.018.817	50
Resiterra NV	Leuven - BE	0460.925.588	50
Rumst Logistics II NV	Diegem - BE	0880.830.076	50
Rumst Logistics III NV	Diegem - BE	0860.829.383	50
Sandonato Parcheggi Srl	Firenze - IT	--	44,98
Sandonato Srl	Firenze - IT	--	44,98
UNION KBC Trustee Company Private Limited	Mumbai - IN	--	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			
ČSOB Pojišťovna a.s.	Pardubice - CZ	--	25
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	--	25,00

Name	Registered office	National identification number	Share of capital held at group (%)
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
BCC Corporate NV	Brussels - BE	0883.523.807	23,95
Bedrijvencentrum Regio Roeselare NV	Roeselare - BE	0428.378.724	22,22
Bedrijvencentrum Rupelstreek NV	Aartselaar - BE	0427.329.936	33,33
Czech Banking Credit Bureau a.s.	Prague - CZ	--	20
Etoiles d'Europe sas	Paris - FR	--	45
Isabel NV	Brussels - BE	0455.530.509	25,33
Justinvest NV	Antwerp - BE	0476.658.097	33,33
Prvni Certifikační Autorita a.s.	Prague - CZ	--	23,25
Rabot Invest NV	Antwerp - BE	0479.758.733	25
Sea Gate Logistics NV	Aalst - BE	0480.040.627	25
Xenarjo cvba	Mechelen - BE	0899.749.531	22,95

Remark: In the overview of subsidiaries, Special Purpose Vehicles (SPVs) established by KBC are presented as 'having a share of capital held at group level' of 100% if they comply with IFRS consolidation rules (SIC 12). Among other things, these rules take account of the decision-making powers of the management body of these SPVs.

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

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

- 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 group level 31-12-2010	31-12-2011	Comments
None				
Exclusions				
Centea	Full	100.00	–	Sold on 1 July 2011
Name changes				
None				
Nova Ljubljanska banka	Equity	30.57	25.00	5.57% decrease
Absolut Bank	Full	95.00	99.00	4.00% increase
KBC Consumer Finance NV	Full	60.01	100.00	39.99% increase

Apart from the effect of the sale of Centea, changes in the scope of consolidation had only a limited impact on both the income statement and balance sheet in 2011. The sale of Centea was finalised on 1 July 2011, which means that the group results only include Centea's results for the first six months of 2011 (16 million euros after tax). Also see Note 8.

Note 41: Risk management

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

Note 42: Post-balance-sheet events

Events after balance sheet date are those events, favourable and unfavourable, that occur between the balance sheet date (31 December 2011) and the date when the financial statements are authorised for issue by the Board of Directors. They include both adjusting events after balance sheet date (events that provide evidence of conditions that existed at the balance sheet date) and non-adjusting events after balance sheet date (events that are indicative of conditions that arose after the balance sheet date). Adjusting events in principle lead to an adjustment of the financial statements for the financial period preceding the event, whereas non-adjusting events in principle only influence the financial statements for the following period.

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

- On 23 January 2012, another part of KBC Private Equity's portfolio was divested. KBC Private Equity and the other shareholders of Dynaco Group NV (Dynaco) reached an agreement with Assa Abbloy AB for the acquisition of Dynaco. The deal is expected to be completed in the first half of 2012, following approval by the relevant anti-trust authorities. It will not have any significant impact on KBC's results or capital.
- In January 2012, two CDOs were unwound, reducing the notional CDO exposure by a further 1.7 billion euros. This did not lead to any significant capital savings and had a negative impact of -0.1 billion euros on the income statement.
- On 8 March 2012, the Greek government sealed a debt swap deal with the private sector. The impact this will ultimately have on KBC's results – bearing in mind that KBC had already taken impairment charges on Greek sovereign bonds (-69% at year-end 2011) – depends on the fair value of the new bonds received in exchange for the old securities. This value will be determined in part by the market rate for Greek bonds when the exchange takes place. On 9 March 2012, the ISDA declared that Greece's debt restructuring was a credit event for CDS contracts, because the Greek government had used the collective-action clause to force unwilling bond holders to participate. Due to KBC's commitment towards retail customers holding 5-5-5 bonds, the group had already set aside a provision of 334 million euros by year-end 2011 (see Note 8). The final impact on KBC's results depends partly on the outcome of the auction being organised by the ISDA on 19 March for settling CDS contracts.
- On 8 March 2012, an agreement was reached with Value Partners Ltd for the sale of KBC Asset Management's 49% stake in KBC Goldstate (China). The deal has yet to be approved by China's Ministry of Commerce and will not have any material impact on KBC's earnings or capital.
- On 28 February 2012, Banco Santander SA and KBC announced that they had agreed to merge Bank Zachodni WBK SA and Kredyt Bank SA in Poland. With almost 900 branches and more than 3.5 million retail customers, the merged bank will be Poland's third largest in terms of deposits, loans, number of branches and profit. Following the proposed merger, Santander will own approximately 76.5% of the merged bank and KBC around 16.4%. Banco Santander has undertaken to help KBC reduce its stake in the merged bank from 16.4% to below 10% immediately after the merger. In addition, KBC intends to sell its remaining stake. Following the deconsolidation of Kredyt Bank as a result of the proposed merger, and after the committed reduction of KBC's holding to below 10% shortly after registration of the merger, approximately 0.7 billion euros' worth of capital will be released at group level (based on market valuations at the time the deal was announced), predominantly based on a reduction in risk-weighted assets. At group level, this will have a positive impact on KBC's tier-1 capital of around 0.8%, or 0.9% when the group sells its entire shareholding (both percentages calculated at year-end 2011). Moreover, based on market valuations at the time it was announced, the deal will positively affect KBC's income statement by some 0.1 billion euros, which will be recognised when it is completed. The merger is subject to independent evaluation by Bank Zachodni WBK and Kredyt Bank, and to obtaining regulatory approval from the Polish Financial Supervision Authority and relevant competition clearance. Banco Santander has also undertaken to acquire Żagiel, KBC's consumer finance operation in Poland, at adjusted net asset value and likewise subject to obtaining competition clearance. For additional information, see the press release at www.kbc.com. The legal information and disclaimer provided in that press release apply in full.

Note 43: General information (IAS 1)

Name	KBC Bank NV.
Incorporated	17 March 1998.
Country of incorporation	Belgium.
Registered office	Havenlaan 2, 1080 Brussels, Belgium.
VAT 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 have been filed with the National Bank of Belgium. Decisions on the appointment, resignation and dismissal of members of the Executive Committee and the Board of Directors are published in the *Appendices to the Belgian Official Gazette*. Financial reports about the company and convening notices of general meetings of shareholders are published in the financial press and/or on www.kbc.com. Copies of the company's annual reports are available at its registered office 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. Holders of bonds, warrants or certificates issued in co-operation with the company are entitled to attend the General Meeting in an advisory voting capacity.

In order to be admitted to the General Meeting, the holders of bearer bonds or bearer warrants, and the holders of bearer certificates issued in co-operation with the company, must deposit their securities at least four business days prior to the meeting at the company's registered office or at another place designated in the convening notice. They will be admitted to the General Meeting on production of proof of their identity and of the certificate showing that their securities were deposited in time.

The owners of registered bonds, warrants or certificates issued in co-operation with the company must also notify the registered office in writing, at least four business days prior to the meeting, of their intention to attend the General Meeting.

Holders of book-entry bonds, warrants or certificates issued in co-operation with the company, who wish to be admitted to the General Meeting must, at least four business days prior to the meeting, deposit at the registered office or at another place designated in the convening notice, a certificate drawn up by the recognised account holder or by the clearing house, attesting to the non-availability of the bonds, warrants or certificates until the date of the General Meeting.

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 25/04/2012

concerning the financial year covering the period from 01/01/2011 till 31/12/2011

Previous period from 01/01/2010 till 31/12/2010
The amounts of the previous financial year are / ~~are not~~ ** identical to those which have been previously published.

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

	Period on the Board in 2011	End of current term of office
CHAIRMAN OF THE BOARD OF DIRECTORS:		
Mr. Jan HUYGHEBAERT, Prins van Oranjelaan 10, 1180 Brussel	9 months	
Dhr. Thomas LEYSEN, Dennenlaan 9a, 2020 Antwerpen	8 months, of which 3m as Chairman	2015
CHAIRMAN OF THE EXECUTIVE COMMITTEE		
Mr. Jan VANHEVEL, Max Hermanlei 8, 2930 Brasschaat	entire year	2014

Members: see next page

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* Optional Statement
** Delete where appropriate

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

Members:

Ms. Sonja DE BECKER, Meerbeekstraat 20, 3071 Erps-Kwerps	4 months	
Mr. Jan Maarten DE JONG, P.C. Hooftstraat 175B, NL 1071 BW Amsterdam	entire year	2013
Mr. Danny DE RAYMAEKER, Brabançonnestraat 84, 3000 Leuven	entire year	2012
Mr. Julien DE WILDE, Jabekestraat 49, 9230 Wetteren	entire year	2014
Mr. Jean-Pierre DEPAEMELAERE, Zeedijk (ODK) 450/0401, 8670 Koksijde	entire year	2013
Mr. Franky DEPICKERE, Izegemstraat 203, 8770 Ingelmunster	entire year	2015
Mr. Luc DISCRY, Bosduifdreef 4, 2970 Schilde	entire year	2014
Mr. Lucien GIJSENS, Oudenaardsesteenweg 44, 9000 Gent	8 months	2015
Mr. John HOLLOWS, Vlaamse Gaaienlaan 11, 3080 Tervuren	entire year	2013
Mr. Pierre KONINGS, Prins van Oranjelaan 178, 1180 Brussel	entire year	2013
Mr. Walter NONNEMAN, Molenstraat 245, 9150 Kruibeke	entire year	2012
Ms. Marita ORLENT-HEYVAERT, Richard Orlentstraat 2, 2070 Zwijndrecht	entire year	2013
Mr. Luc PHILIPS, Platanenlaan 14, 1820 Perk	4 months	
Mr. Luc POPELIER, Voosdonk 21, 2801 Heffen	entire year	2013
Mr. Gustaaf SAP, Stationsstraat 70, 8730 Beernem	entire year	2013
Mr. Johan THIJS, Moorsemsestraat 260, 3130 Betekom	entire year	2013
Mr. Patrick VANDEN AVENNE, Desselgemsestraat 15, 8710 Ooigem	entire year	2013
Mr. Piet VANTHEMSCHE, Tombergstraat 57, 1750 St.-Martens-Lennik	8 months	2015
Mr. Guido VAN OEVELEN, Marrainenplein 10 bus 0001, 3000 Leuven	entire year	2014
Mr. Marko VOLJČ, Winston Churchilllaan 161, PB 15, 1180 Ukkel	entire year	2014
Mr. Dirk WAUTERS, Bovenbosstraat 17, 3052 Blanden	entire year	2013
Mr. Marc WITTEMANS, Beatrijslaan 91, 3110 Rotselaar	entire year	2014

AUDITOR:

ERNST & YOUNG Bedrijfsrevisoren BCVBA, De Kleetlaan 2, 1831 Diegem
represented by 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	3.760.708.769,55	7.619.285.107,06
II. Treasury bills eligible for refinancing at central banks		10200	165.054.445,90	870.317.904,43
III. Loans and advances to credit institutions	5.1	10300	26.924.528.524,15	37.606.914.135,95
A. Repayable on demand		10310	1.720.280.616,39	2.846.786.432,93
B. Other loans and adv. (with agreed maturity dates)		10320	25.204.247.907,76	34.760.127.703,02
IV. Loans and advances to customers	5.2	10400	72.278.706.191,74	78.155.963.631,12
V. Debt securities and other fixed-income securities	5.3	10500	33.150.549.668,01	39.639.690.686,87
A. Issued by public bodies		10510	17.353.882.230,83	26.545.268.222,73
B. Issued by other borrowers		10520	15.796.667.437,18	13.094.422.464,14
VI. Shares and other variable-yield securities	5.4	10600	374.757.704,57	503.629.901,15
VII. Financial fixed assets	5.5/ 5.6.1	10700	15.823.170.497,22	15.738.845.397,40
A. Participating interests in affiliated enterprises		10710	14.220.850.090,90	13.670.739.635,28
B. Participating interests in other enterprises linked by participating interests		10720	470.935.822,87	488.996.049,75
C. Other shares held as financial fixed assets		10730	22.501.254,26	76.028.818,76
D. Subordinated loans to affiliated enterprises and to other enterprises linked by participating interests		10740	1.108.883.329,19	1.503.080.893,61
VIII. Formation expenses and intangible fixed assets	5.7	10800	220.930,13	748.796,47
IX. Tangible fixed assets	5.8	10900	696.756.473,85	691.105.816,33
X. Own shares		11000	0,00	0,00
XI. Other assets	5.9	11100	2.066.932.221,17	2.088.784.403,25
XII. Participating interests in affiliated enterprises	5.10	11200	13.833.846.475,07	12.817.647.948,04
TOTAL ASSETS		19900	169.075.231.901,36	195.732.933.728,07

	Notes	Code	Current Period	Previous Period
LIABILITIES				
THIRDPARTY FUNDS		201/208	158.770.927.092,64	185.515.935.475,60
I. Amounts owed to credit institutions	5.11	20100	17.963.840.837,59	22.939.910.671,94
A. Repayable on demand		20110	4.451.948.420,06	3.528.284.455,83
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	13.511.892.417,53	19.411.626.216,11
II. Amounts owed to customers	5.12	20200	110.964.205.587,16	122.684.276.178,86
A. Savings deposits		20210	29.261.061.048,18	30.432.311.094,84
B. Other debts		20220	81.703.144.538,98	92.251.965.084,02
1. repayable on demand		20221	20.364.437.116,13	29.888.712.946,74
2. with agreed maturity dates or periods of notice		20222	61.338.707.422,85	62.363.252.137,28
3. as a result of the rediscounting of trade bills		20223	0,00	0,00
III. Debts evidenced by certificates	5.13	20300	2.961.562.348,59	12.797.161.903,75
A. Debt securities and other fixed-income securities in circulation		20310	667.393.147,92	1.550.586.000,52
B. Other		20320	2.294.169.200,67	11.246.575.903,23
IV. Other liabilities	5.14	20400	1.505.986.649,90	2.173.919.398,94
V. Accrued charges and deferred income	5.15	20500	15.794.084.371,13	14.619.047.589,95
VI. Provisions and deferred taxes		20600	668.844.742,58	376.795.383,46
A. Provisions for liabilities and charges		20610	657.556.200,87	367.485.093,78
1. Pensions and similar obligations		20611	55.064.389,68	52.448.416,67
2. Taxation		20612	0,00	0,00
3. Other liabilities and charges	5.16	20613	602.491.811,19	315.036.677,11
B. Deferred taxes		20620	11.288.541,71	9.310.289,68
VII. Fund for general banking risks		20700	0,00	0,00
VIII. Subordinated liabilities	5.17	20800	8.912.402.555,69	9.924.824.348,70
OWN FUNDS		209/213	10.304.304.808,72	10.216.998.252,47
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	46.870.807,98
A. Legal reserve		21210	119.265.760,88	33.881.377,81
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	12.989.430,17
D. Reserves available for distribution		21240	0,00	0,00
XIII. Profits (losses (-)) brought forward (+)/(-)		21300	2.003.589,02	105.109,23
TOTAL LIABILITIES		29900	169.075.231.901,36	195.732.933.728,07

	Notes	Code	Current period	Previous period
OFF BALANCE SHEET CAPTIONS				
I. Contingent liabilities	5.22	30100	31.347.237.628,82	38.424.219.103,07
A. Non-negotiated acceptances		30110	34.683.129,30	49.589.773,95
B. Guarantees serving as direct credit substitutes		30120	3.864.261.409,83	5.024.489.317,33
C. Other guarantees		30130	25.494.663.222,34	31.514.154.894,04
D. Documentary credits		30140	1.953.629.867,35	1.835.985.117,75
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	31.183.517.950,97	32.656.847.413,03
A. Firm credit commitments		30210	1.111.222.977,01	3.302.529.981,03
B. Commitments as a result of spot purchases of transferable or other securities		30220	62.070.153,11	68.928.761,11
C. Undrawn margin on confirmed credit lines		30230	30.002.303.034,00	29.276.267.968,00
D. Underwriting and placing commitments		30240	7.921.786,85	9.120.702,89
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	181.500.209.821,06	196.787.806.750,27
A. Assets held by the credit institution for fiduciary purposes		30310	3.006.247.139,48	3.260.725.930,77
B. Safe custody and equivalent items		30320	178.493.962.681,58	193.527.080.819,50
IV. Uncalled amounts of share capital		30400	28.829.978,05	36.749.818,55

INCOME STATEMENT (presentation in vertical form)

		Notes	Code	Current Period	Previous period
I. Interest receivable and similar income		5.23	40100	4.659.377.363,36	4.643.105.355,32
A. Of which: from fixed-income securities			40110	1.439.255.108,85	1.644.540.378,98
II. Interest payable and similar charges			40200	3.214.905.714,85	3.192.088.731,62
III. Income from variable-yield securities		5.23	40300	2.458.613.372,93	1.315.643.765,86
A. From shares and other variable-yield securities			40310	10.341.334,09	15.941.176,43
B. From participating interests in affiliated enterprises			40320	2.442.306.581,51	1.294.006.033,62
C. From participating interests in other enterprises linked by participating interests			40330	3.090.084,21	3.124.586,32
D. From other shares held as financial fixed assets			40340	2.875.373,12	2.571.969,49
IV. Commissions receivable		5.23	40400	884.954.819,62	1.026.419.919,06
A. Brokerage and related commissions			40410	460.972.206,57	551.606.356,15
B. Management, consultancy and conservation commissions			40420	36.586.039,45	36.244.483,40
C. Other commissions received			40430	387.396.573,60	438.569.079,51
V. Commissions payable			40500	216.506.969,97	230.218.670,74
VI. Profit (loss) on financial transactions	(+)/(-)	5.23	40600	-327.095.445,52	15.478.876,79
A. On trading of securities and other financial instruments			40610	-97.635.058,07	-27.734.686,45
B. On disposal of investment securities			40620	-229.460.387,45	43.213.563,24
VII. General administrative expenses			40700	1.775.330.332,85	1.694.141.290,01
A. Remuneration, social security costs and pensions			40710	805.237.465,89	769.128.690,36
B. Other administrative expenses			40720	970.092.866,96	925.012.599,65
VIII. Depreciation/amortization of and other write-downs on formation expenses, intangible and tangible fixed assets			40800	41.992.734,39	44.747.796,00
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	-192.806.675,52	-1.803.254.799,47
X. Decrease in write-downs on the investment portfolio of debt securities, shares and other fixed-income or variable-yield securities	(+)/(-)		41000	-79.588.660,08	-81.236.035,77
XI. Utilization and write-backs of provisions for liabilities and charges other than those included in the off balance sheet captions	(+)/(-)		41100	76.555.196,96	3.497.873.451,53
XII. Provisions for liabilities and charges other than those included in the off balance sheet captions			41200	382.188.452,06	75.994.791,85
XIII. Transfer from (Transfer to) the fund for general banking risks	(+)/(-)		41300	0,00	0,00
XIV. Other operating income		5.23	41400	241.904.495,14	319.139.938,21
XV. Other operating charges		5.23	41500	47.548.503,41	42.589.062,48
XVI. Profits (losses) on ordinary activities before taxes	(+)/(-)		41600	2.043.441.759,36	3.653.390.128,83

	Notes	Code	Current period	Previous period
XVII. Extraordinary income		41700	422.749.889,20	580.556.427,88
A. Adjustments to depreciation/amortization of and to other write-downs on intangible and and tangible fixed assets		41710	0,00	1.440.090,32
B. Adjustments to write-downs on financial fixed assets		41720	85.589.440,60	577.503.430,47
C. Adjustments to provisions for extraordinary liabilities and charges		41730	3.053.961,14	517.788,24
D. Gain on disposal of fixed assets		41740	333.990.125,79	555.115,78
E. Other extraordinary income	5.25	41750	116.361,67	540.003,07
XVIII. Extraordinary charges		41800	778.722.182,12	3.620.720.850,28
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	639.923.660,87	3.424.023.786,85
C. Provisions for extraordinary liabilities and charges (+/-)		41830	0,00	4.732.186,38
D. Loss on disposal of fixed assets		41840	136.187.114,78	190.212.787,86
E. Other extraordinary charges	5.25	41850	2.611.406,47	1.752.089,19
XIX. Profits (Losses) for the period before taxes (+/-)		41910	1.687.469.466,44	613.225.706,43
XIXbis. A. Transfer to deferred taxes		41921	3.555.745,39	4.234.220,77
B. Transfer from deferred taxes		41922	42.400.033,88	114.718.420,25
XX. Income taxes (+/-)	5.26	42000	18.641.031,51	46.223.886,39
A. Income taxes		42010	33.747.219,95	65.800.997,22
B. Adjustement of income taxes and write-back of tax provisions		42020	15.106.188,44	19.577.110,83
XXI. Profits (Losses) for the period (+/-)		42100	1.707.672.723,42	677.486.019,52
XXII. Transfer to untaxed reserves (+/-)		42200	14.937,93	141.536,72
XXIII. Profit (Losses) for the period available for appropriation (+/-)		42300	1.707.687.661,35	677.627.556,24

APPROPRIATION ACCOUNT

		Code	Current period	Previous period
A. Profit (loss) to be appropriated	(+)/(-)	49100	1.707.792.770,58	-3.154.196.359,15
1. Profit (loss) for the period available for appropriation	(+)/(-)	(42300)	1.707.687.661,35	677.627.556,24
2. Profit (loss) to be carried forward	(+)/(-)	(21300P)	105.109,23	-3.831.823.915,39
B. Transfers from capital and reserves		49200	0,00	3.831.823.915,39
1. From capital and share premium account		49210	0,00	1.269.231.530,96
2. From reserves		49220	0,00	2.562.592.384,43
C. Transfers to capital and reserves		49300	85.384.383,07	33.881.377,81
1. To capital and share premium account		49310	0,00	0,00
2. To the legal reserve		49320	85.384.383,07	33.881.377,81
3. To other reserves		49330	0,00	0,00
D. Profit (loss) to be carried forward	(+)/(-)	49400	2.003.589,02	105.109,23
E. Shareholders' contribution in respect of losses		49500	0,00	0,00
F. Profit to be distributed		49600	1.620.404.798,49	643.641.069,20
1. Dividends		49610	1.619.954.413,14	622.355.367,76
2. Director's or manager's entitlements		49620	0,00	771.849,32
3. Other allocations		49630	450.385,35	20.513.852,12

NOTES

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

	Code	Current period	Previous period
A. FOR THE CAPTION AS A WHOLE	(10300)	26.924.528.524,15	37.606.914.135,95
1. Loans and advances to affiliated enterprises	50101	20.365.712.454,00	25.172.255.781,94
2. Loans and advances to other enterprises linked by participating interests	50102	5.629.599,00	21.696.505,29
3. Subordinated loans and advances	50103	38.021.724,57	5.746.070,57
B. OTHER LOANS AND ADVANCES TO CREDIT INSTITUTIONS (with agreed maturity dates or periods of notice)	(10320)	25.204.247.907,76	34.760.127.703,02
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	19.108.505.893,14	
b. Over 3 months up to 1 year	50106	2.531.351.316,60	
c. Over 1 year up to 5 years	50107	3.184.847.270,76	
d. Over 5 years	50108	299.385.833,08	
e. Undated	50109	80.157.594,18	

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

	Code	Current Period	Previous Period
1. Loans to affiliated enterprises	50201	16.272.355.949,00	18.472.743.928,93
2. Loans to other enterprises linked by participating interests	50202	56.092.855,00	64.721.208,95
3. Subordinated loans	50203	2.340.905.549,62	1.762.490.440,40
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	26.849.378.583,88	
b. Over 3 months up to 1 year	50206	3.404.351.317,25	
c. Over 1 year up to 5 years	50207	10.218.426.067,33	
d. Over 5 years	50208	27.389.609.727,00	
e. Undated	50209	4.416.940.496,28	
6. Breakdown of customer loans based on the type of debtor			
a. Claims on government	50210	2.214.250.905,17	1.377.189.644,79
b. Retail exposures	50211	15.670.759.793,94	16.710.579.371,80
c. Claims on enterprises	50212	54.393.695.492,63	60.068.194.614,53
7. Breakdown by type :			
a. Trade bills (including own acceptance)	50213	70.938.075,91	
b. Loans and advances as a result of leasing and similar agreements	50214	427.664.562,98	
c. Fixed-rate loans	50215	987.761.043,93	
d. Mortgage loans	50216	11.257.434.884,37	
e. Other term loans with a maturity over 1 year	50217	38.278.170.991,92	
f. Other loans and advances	50218	21.256.736.632,63	
8. Geographical breakdown			
a. Belgian origin	50219	54.929.165.803,54	
b. Foreign	50220	17.349.540.388,20	
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)	33.150.549.668,01	39.639.690.686,87
1. Securities issued by affiliated enterprises	50301	14.388.965.191,00	11.240.885.431,14
2. Securities issued by enterprises linked by participating interests	50302	5.048.340,00	4.935.000,00
3. Securities representing subordinated loans	50303	287.206.568,81	319.122.287,22
4. Country analysis of the securities issued			
a. By public bodies	50304	12.899.846.326,71	
b. By other borrowers	50305	4.454.035.904,12	
c. Belgian issuers other than public bodies	50306	11.135.884.177,84	
d. Foreign issuers other than public bodies	50307	4.660.783.259,34	
5. Listing			
a. Book value of listed securities	50308	32.774.854.466,04	
b. Market value of listed securities	50309	32.193.670.735,23	
c. Book value of unlisted securities	50310	375.695.201,97	
6. Maturities			
a. Remaining maturity of up to one year	50311	3.754.561.929,52	
b. Remaining maturity of over one year	50312	29.395.987.738,49	
7. Analysis by portfolio			
a. Trading portfolio	50313	2.082.170.386,71	
b. Investment portfolio	50314	31.068.379.281,30	
8. Trading portfolio			
a. Difference between market value (if higher) and acquisition cost (for securities marked to market)	50315	30.723.410,00	
b. Difference between market value (if higher) and carrying value (for securities valued in accordance with Art. 35ter §2 para. 2)	50316	0,00	
9. Investment portfolio			
a. Difference between redemption value (if higher) and carrying value	50317	885.088.175,14	
b. Difference between redemption value (if lower) and carrying value	50318	816.266.325,54	

		Codes	Current period	Previous period
B. ANALYSIS OF THE CARRYING VALUE OF INVESTMENT SECURITIES				
1 . As at end of the preceding period		50323P	xxxxxxxxxxxxxxx	36.957.423.436,20
2 . Movements during the the period		50319	-5.521.715.107,20	
a . Acquisitions		50320	8.039.037.293,48	
b . Sales		50321	-12.806.679.346,10	
c . Adjustments by application of Article 35ter §4 and 5	(+/-)	50322	-754.073.054,58	
3 . Acquisition cost as at end of the period		50323	31.435.708.329,00	
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	489.206.971,59
6 . Movements during the the period		50327	-121.877.923,99	
a . Recorded		50328	123.825.853,41	
b . Excess written back		50329	-44.668.784,40	
c . Cancellations		50330	-218.892.592,55	
d . Transfers from one caption to another	(+/-)	50331	17.857.599,55	
7 . Write-downs as at end of the period		50332	367.329.047,60	
8 . Carrying value as at end of the period		(50314)	31.068.379.281,30	

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

	Code	Current Period	Previous Period
A. GENERAL REPORT	(10600)	374.757.704,15	503.629.901,15
1. Country analysis of the issuers of securities			
a. Belgian issuers	50401	2.778.049,50	1.074.752,38
b. Foreign issuers	50402	371.979.654,65	502.555.148,77
2. Listing			
a. Carrying value	50403	344.218.940,61	
b. Market value	50404	345.906.973,35	
c. Carrying value of unlisted securities	50405	30.538.763,54	
3. Analysis by portfolio			
a. Trading portfolio	50406	338.923.685,94	
b. Investment portfolio	50407	35.834.018,21	
4. Trading portfolio			
a. Difference between market value (if higher) and acquisition cost (for securities marked to market)	50408	27.327.375,00	
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	29.183.765,38
2. Movements during the the period		50410	12.219.382,01	
a. Acquisitions		50411	24.401.837,08	
b. Sales		50412	-12.510.338,35	
c. Other adjustments	(+/-)	50413	327.883,28	
3. Acquisition cost as at end of the period		50414	41.403.147,39	
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	4.952.867,26
6. Movements during the period		50418	616.261,92	
a. Recorded		50419	522.258,47	
b. Excess written back		50420	-90.670,74	
c. Cancellations		50421	0,00	
d. Transfers from one caption to another	(+)/(-)	50422	184.674,19	
7. Write-downs as at end of the period		50423	5.569.129,18	
8. Carrying value as at end of the period		(50407)	35.834.018,21	

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	7.668.422.875,97	7.069.897.281,72
b. Participating interests in enterprises that are not credit institutions	50502	6.552.427.214,93	6.600.842.353,56
c. Participating interests in enterprises linked by participating interests that are credit institutions	50503	449.397.929,87	467.450.761,86
d. Participating interests in enterprises linked by participating interests that are not credit institutions	50504	21.537.893,00	21.545.287,89
e. Other shares held as financial fixed assets in enterprises that are credit institutions	50505	5.063.674,46	5.738.297,06
f. Other shares held as financial fixed assets in enterprises that are not credit institutions	50506	17.437.579,80	70.290.521,70
g. Subordinated loans in linked enterprises that are credit institutions	50507	1.014.809.524,99	1.341.251.903,36
h. Subordinated loans in linked enterprises that are not credit institutions	50508	16.869.602,90	84.624.788,95
i. Subordinated loans in enterprises with participation interests that are credit institutions	50509	75.000.000,00	75.000.000,00
j. Subordinated loans in enterprises with participation interests that are not credit institutions	50510	2.204.201,30	2.204.201,30
2. Listings			
a. Participating interests in affiliated listed enterprises	50511	790.431.269,11	
b. Participating interests in affiliated not listed enterprises	50512	13.430.418.821,79	
c. Participating interests in other enterprises linked by participating interests that are listed	50513	10.799.436,22	
d. Participating interests in other enterprises linked by participating interests that are not listed	50514	460.136.386,65	
e. Other shares held as financial fixed assets in enterprises that are listed	50515	1.402.591,59	
f. Other shares held as financial fixed assets in enterprises that are not listed	50516	21.098.662,67	
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	18.816.757.503,61
2. Movements during the period	50518	1.080.314.600,08	
a. Acquisitions	50519	1.763.166.059,41	
b. Sales and disposals	50520	-682.851.459,33	
c. Transfers from one caption to another (+/-)	50521	0,00	
3. Acquisition cost as at the end of the period	50522	19.897.072.103,69	
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	5.146.017.868,33
8. Movements during the period	50529	530.204.144,46	
a. Recorded	50530	615.793.583,05	
b. Excess written back	50531	0,00	
c. Acquisitions from third parties	50532	0,00	
d. Cancellations	50533	-85.589.438,59	
e. Transfers from one caption to another (+/-)	50534	0,00	
9. Write-downs as at end of the period	50535	5.676.222.012,79	
10. Net carrying value as at the end of the period	10710	14.220.850.090,90	

	Codes	Current period	Previous period
C. ANALYSIS OF THE CARRYING VALUE OF FIXED FINANCIAL ASSETS IN ENTERPRISES LINKED BY PARTICIPATING INTERESTS			
1. Acquisition cost as at end of the period	50540P	xxxxxxxxxxxxxxx	509.079.931,66
2. Movements during the period	50536	5.312.827,71	
a. Acquisitions	50537	5.447.168,00	
b. Sales and disposals	50538	-134.340,29	
c. Transfers from one caption to another (+/-)	50539	0,00	
3. Acquisition cost as at end of the period	50540	514.392.759,37	
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	20.083.881,91
8. Movements during the period	50547	23.373.054,60	
a. Recorded	50548	23.392.925,27	
b. Excess written back	50549	0,00	
c. Acquisitions from third parties	50550	0,00	
d. Cancellations	50551	-19.870,67	
e. Transfers from one caption to another (+/-)	50552	0,00	
9. Write-downs as at the end of the period	50553	43.456.936,51	
10. Net carrying value as at end of the period	10720	470.935.822,86	

		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	85.267.629,55
2. Movements during the period		50554	-52.790.414,20	
a. Acquisitions		50555	0,00	
b. Sales and disposals		50556	-52.790.414,20	
c. Transfers from one caption to another	(+/-)	50557	0,00	
3. Acquisition cost as at the end of the period		50558	32.477.215,35	
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	9.238.810,79
8. Movements during the period		50565	737.150,30	
a. Recorded		50566	737.150,30	
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	0,00	
9. Write-downs as at the end of the period		50571	9.975.961,09	
10. Net carrying value as at the end of the period		10730	22.501.254,26	

		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	1.425.876.692,31
2. Movements during the period		50572	-394.197.564,42	
a. Additions		50573	20.000.000,00	
b. Reimbursements		50574	0,00	
c. Write-downs		50575	0,00	
d. Amounts written back		50576	0,00	
e. Realized exchange gains/losses	(+)/(-)	50577	-4.442.378,42	
f. Other	(+)/(-)	50578	-409.755.186,00	
3. Net carrying value as at the end of the period		50579	1.031.679.127,89	
4. Accumulated write-downs as at the end of the period		50580	0,00	

F. ANALYSIS OF THE CARRYING VALUE OF SUBORDINATED LOANS TO ENTERPRISES LINKED BY PARTICIPATING INTERESTS

		Codes	Current period	Previous period
1. Net carrying value as at the end of the period		50588P	xxxxxxxxxxxxxxx	77.204.201,30
2. Movements during the period		50581	0,00	
a. Additions		50582	0,00	
b. Reimbursements		50583	0,00	
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	77.204.201,30	
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
							(+) or (-) (in thousands units)	
	Type	Number	%	%				
1. Affiliated enterprises								
Antwerpse Diamantbank NV Antwerpen BE, 0404.465.551	Ordinary	7.686.400	99,99	0,00				
CBC BANQUE SA Brussel BE, 0403.211.380	Ordinary	1.838.956	100,00	0,00				
Ceskoslovenska Obchodná Banka a.s. Bratislava SK,-	Ordinary	7.470	100,00	0,00				
Ceskoslovenska Obchodni Banka a.s. Praag CZ,-	Ordinary	292.750.000	100,00	0,00				
CIBANK AD Sofia, BG -	Ordinary	22.793.251	100,00	0,00				
Commercial bank "Absolut Bank" Moskou RU -	Ordinary	182.638.344	98,99	0,00				
Covent Garden Real Estate NV Zaventem, BE, 0872.941.897	Ordinary	750	50,00	0,00	31-dec-10	EUR	4.203	1.754
Gebema NV Brussel BE, 0461.454.338	Ordinary	1	0,00	0,00	31-dec-10	EUR	13.073	-871
IIB Finance Ireland Dublin IE,-	Ordinary Ordinary AUD Ordinary EUR Ordinary GBP Ordinary USD	2.166.999 700.000 109.965.585 104.000.000 116.000.000	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,-	Reg. Sh. HUF 2000	140.978.164.412	100,00	0,00				
KB Consult NV Brussel BE, 0437.623.220	Ordinary	364.543	99,95	0,00	31-dec-10	EUR	897	-6
KBC Alternative Investment Management Limited Londen BE, -	Ordinary	4.000.000	100,00	0,00	31-dec-10	USD	4.655	254
KBC Asset Management NV Brussel BE, 0469.444.267	Ordinary	2.730.644	47,35	4,51				
KBC Bank Deutschland AG 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,-	Common Shares	1.000	100,00	0,00				
KBC Bank Funding LLC III New York US,-	Common Shares	1.000	100,00	0,00				
KBC Bank Funding LLC IV New York US,-	Common Shares	1.000	100,00	0,00				
KBC Bank Funding Trust II New York US,-	Common Shares	1.000	100,00	0,00				
KBC Bank Funding Trust III New York US,-	Common Shares	1.000	100,00	0,00				
KBC Bank Funding Trust IV New York US,-	Common Shares	1.000	100,00	0,00				
KBC Bank Ireland Plc Dublin IE,-	Ordinary	819.238.509	100,00	0,00				
KBC Clearing NV Amsterdam NL,-	Ordinary	30.491	100,00	0,00				
KBC Commercial Finance NV Brussel BE, 0403.278.488	Ordinary	119.999	99,99	0,01				
KBC Consumer Finance NV Brussel BE, 0473.404.540	Ordinary	5.240	92,71	7,29				
KBC Credit Investments NV Brussel, BE 0887.849.512	Ordinary	4.999.999	99,99	0,00				
KBC Financial Holding Inc. Wilmington US,-	Ordinary	100	100,00	0,00				
KBC Financial Products Intern Cayman III George Town GB,-	Ordinary	100	100,00	0,00				

KBC Financial Products UK Limited Londen GB,-	Ordinary	350.100.000	100,00	0,00				
KBC Groep NV Brussel, BE, 0403.227.515	Ordinary	3.917.845	1,09	0,00				
KBC Ifima NV Rotterdam NL,-	Ordinary	10.585	100,00	0,00				
KBC Investments Hong Kong Limited Hong Kong, HK,-	Ordinary	130.000.000	100,00	0,00				
KBC Investments Limited Londen, UK,-	Ordinary	1.305.000.100	100,00	0,00				
KBC Lease Holding NV Leuven BE, 0403.272.253	Ordinary	478.471	99,99	0,01				
KBC Lease (UK) Limited Guildford GB,-	Ord. Shares of 1 GBP	7.327.865	34,00	66,00				
KBC North American Finance Corporation Delaware US,-	Ordinary	1.000	100,00	0,00				
KBC Private Equity NV Brussel BE, 0403.226.228	Ordinary Ordinary - 25% paid	445.416 73.502	85,84 14,16	0,00 0,00				
KBC Real Estate Luxembourg SA Luxemburg LU, -	Ordinary	99.947	99,95	0,05				
KBC Real Estate NV Brussel BE, 0404.040.632	Ordinary	638.358	99,99	0,01				
KBC Securities NV Brussel BE, 0437.060.521	Ordinary	1.898.517	99,95	0,05				
KBC Structured Finance Limited Melbourne AU,-	Ordinary	500.000	100,00	0,00	31-dec-10	AUD	188	-381
KBC Verzekeringen NV Leuven BE, 0403.552.563	Ordinary	1	0,00	0,00				
Kredyt Bank SA Warschau PL,-	Ordinary PLN	271.327.103	80,00	0,00				
Ligeva NV Brussel BE, 0437.002.519	Ordinary	1	0,02	99,98	31-dec-10	EUR	57.217	227
Mezzafinance NV Brussel BE, 0453.042.260	Ordinary	1	0,02	99,98	31-dec-10	EUR	2.297	60
NV ACTIEF NV Brussel BE, 0824.213.750	Cat "A"	600	80,00	0,00	opr.	EUR	87	-3
Old Broad Street Invest NV Brussel, BE, 0871.247.565	Ordinary	503.000	99,41	0,59				
Omnia CVBA Leuven BE, 0413.646.305	Ordinary	1	0,01	0,00	31-dec-10	EUR	1.229	175
Real Estate Participations NV Zaventem BE, 0473.018.817	Ordinary	500	50,00	0,00	31-dec-10	EUR	7.159	888
Zagiel a.s. Lublin PL,-	Ordinary	479.281	100,00	0,00				
2. Enterprises linked by participating interests >=20% en <= 50%								
Banking Funding Company NV Brussel BE, 0884.525.182	Ordinary	12.870	20,93	0,00	31-dec-10	EUR	801	55
BCC Corporate NV Brussel BE, 0883.523.807	Ordinary	5.747	23,95	0,00	31-dec-10	EUR	3.302	904
Bedrijvencentrum Regio Roeselare NV Roeselare BE, 0428.378.724	Ordinary	500	22,22	0,00	31-dec-10	EUR	574	37
Bedrijvencentrum Rupelstreek NV Aartselaar BE, 0427.329.936	Ordinary	5.000	33,33	0,00	31-dec-10	EUR	433	560
Bancontact-Mistercash NV Brussel BE, 0884.499.250	Ordinary	5.123	20,00	0,00	31-dec-10	EUR	185	35
Isabel NV Brussel BE, 0455.530.509	Ordinary	253.322	25,33	0,00	31-dec-10	EUR	12.732	1.561
Nova Ljubljanska Banka d.d. Ljubljana SL,-	Ordinary	2.765.282	25,00	0,00				
Xenarjo cvba Mechelen BE, 0899.749.531	Ordinary	1.009	22,95	0,00	31-dec-10	EUR	467	-562
3. Enterprises linked by participating interests >=10% en <= 20%								
Bedrijvencentrum Leuven NV Heverlee BE, 0428.014.676	Ordinary	40	9,52	0,00	31-dec-10	EUR	2.084	21
Bedrijvencentrum Vilvoorde NV	Ordinary	338	9,31	0,00	31-dec-10	EUR	1.330	15

Vilvoorde BE, 0434.222.577								
Bedrijvencentrum Westhoek NV Ieper BE, 0430.383.258	Ordinary	200	11,85	0,00	31-dec-10	EUR	425	-39
Bedrijvencentrum Zaventem NV Zaventem BE, 0426.496.726	Ordinary	350	11,64	0,00	31-dec-10	EUR	254	42
BH-Capital a.s. Prostejov CZ,-	Ordinary	717.300	14,06	0,00	31-dec-10	CZK	537.228	6.965
De Beitel NV Lier BE, 0869.799.196	Ordinary	25	16,34	0,00	31-dec-10	EUR	153	23
Designcenter De Winkelhaak Borgerhout BE, 0470.201.857	Cat. B	124	21,68	0,00	31-dec-10	EUR	2.006	22
Europay Belgium CV Brussel BE, 0434.197.536	Ordinary	4.857	14,19	1,82	31-dec-10	EUR	1.255	5.278
Retail Estates NV Ternat BE, 0434.797.847	Ordinary	347.886	7,50	1,58	31-dec-10	EUR	194.401	12.719
Visa Belgium CVBA Brussel BE, 0435.551.972	Ordinary	22	12,29	2,24	31-dec-10	EUR	8.159	5.431

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

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

The annual accounts of the enterprise:

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

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

C. are fully consolidated or proportionally consolidated in the reporting institution's accounts which have been prepared audited and published in accordance with the Royal Decree of 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	2.136.971,04
2. Movements during the period		50734	-1.008.037,40	
a. Acquisitions, including own construction		50735	76.699,95	
b. Sales and disposals		50736	-1.084.737,35	
c. Transfers from one caption to another	(+)/(-)	50737	0,00	
3. Acquisition cost as at end of the period		50738	1.128.933,64	
4. Amortizations and write-downs as at end of the period		50745P	xxxxxxxxxxxxxxx	1.388.174,57
5. Movements during the period		50739	-480.171,06	
a. Recorded		50740	576.884,62	
b. Excess written back		50741	0,00	
c. Acquisitions from third parties		50742	0,00	
d. Cancellations		50743	-1.057.055,68	
e. Transfers from one caption to another	(+)/(-)	50744	0,00	
6. Amortizations and write-downs as at the end of the period		50745	908.003,51	
7. Net carrying value as at the end of the period		50746	220.930,13	

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	1.146.741.249,67
2. Movements during the period	(+)/(-)	50801	25.952.644,87	
a. Acquisition, including own construction		50802	33.707.011,88	
b. Sales and disposals		50803	-7.853.851,38	
c. Transfers from one caption to another	(+)/(-)	50804	99.484,37	
3. Acquisition cost as at the end of the period		50805	1.172.693.894,54	
4. Revaluation surpluses as at the end of the period		50811P	xxxxxxxxxxxxxxx	65.365.890,41
5. Movements during the period	(+)/(-)	50806	-161.238,02	
a. Recorded		50807	0,00	
b. Acquisitions from third parties		50808	0,00	
c. Cancellations		50809	-161.238,02	
d. Transfers from one caption to another	(+)/(-)	50810	0,00	
6. Revaluation surpluses as at the end of the period		50811	65.204.652,39	
7. Amortizations and write-downs as at the end of the period		50818P	xxxxxxxxxxxxxxx	654.218.622,60
8. Movements during the period	(+)/(-)	50812	23.338.065,72	
a. Recorded		50813	27.557.822,57	
b. Excess written back		50814	0,00	
c. Acquisitions from third parties		50815	0,00	
d. Cancellations		50816	-4.311.389,04	
e. Transfers from one caption to another	(+)/(-)	50817	91.632,19	
9. Amortizations and write-downs as at the end of the period		50818	677.556.688,32	
10. Net carrying value as at the end of the period		50819	560.341.858,61	

		Codes	Current period	Previous period
B. PLANT, MACHINERY AND EQUIPMENT				
1. Acquisition cost as at the end of the period		50824P	xxxxxxxxxxxxxxx	13.656.327,32
2. Movements during the period	**(+)/(-)**	50820	-562.335,83	
a. Acquisition, including own construction		50821	498.138,50	
b. Sales and disposals		50822	-1.060.474,33	
c. Transfers from one caption to another	(+)/(-)	50823	0,00	
3. Acquisition cost as at the end of the period		50824	13.093.991,49	
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	12.558.317,50
8. Movements during the period	**(+)/(-)**	50831	-222.542,63	
a. Recorded		50832	648.874,98	
b. Excess written back		50833	0,00	
c. Acquisitions from third parties		50834	0,00	
d. Cancellations		50835	-945.535,18	
e. Transfers from one caption to another	(+)/(-)	50836	74.117,57	
9. Amortizations and write-downs as at the end of the period		50837	12.335.774,87	
10. Net carrying value as at the end of the period		50838	758.216,62	

		Codes	Current period	Previous period
C. FURNITURE AND VEHICLES				
1. Acquisition cost as at the end of the period		50843P	xxxxxxxxxxxxxxx	61.767.489,18
2. Movements during the period	**(+)/(-)**	50839	-9.955.008,03	
a. Acquisition, including own construction		50840	437.258,46	
b. Sales and disposals		50841	-10.392.266,49	
c. Transfers from one caption to another	(+)/(-)	50842	0,00	
3. Acquisition cost as at the end of the period		50843	51.812.481,15	
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	38.453.767,80
8. Movements during the period	**(+)/(-)**	50850	-7.513.584,12	
a. Recorded		50851	2.714.458,12	
b. Excess written back		50852	0,00	
c. Acquisitions from third parties		50853	0,00	
d. Cancellations		50854	-10.168.534,02	
e. Transfers from one caption to another	(+)/(-)	50855	-59.508,22	
9. Amortizations and write-downs as at the end of the period		50856	30.940.183,68	
10. Net carrying value as at the end of the period		50857	20.872.297,47	

		Codes	Current period	Previous period
D. LEASING AND OTHER SIMILAR RIGHTS				
1. Acquisition cost as at the end of the period		50862P	xxxxxxxxxxxxxxx	15.236.523,00
2. Movements during the period	(+)/(-)	50858	8.344.309,86	
a. Acquisition, including own construction		50859	8.344.309,86	
b. Sales and disposals		50860	0,00	
c. Transfers from one caption to another	(+)/(-)	50861	0,00	
3. Acquisition cost as at the end of the period		50862	23.580.832,86	
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	2.349.433,50
8. Movements during the period	(+)/(-)	50869	675.768,69	
a. Recorded		50870	675.768,69	
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	3.025.202,19	
10. Net carrying value as at the end of the period		50876	20.555.630,67	
11. Of which				
a. Land and buildings		50877	20.555.630,67	
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	211.749.973,38
2. Movements during the period	(+)/(-)	50880	4.974.082,56	
a. Acquisition, including own construction		50881	4.363.465,04	
b. Sales and disposals		50882	710.101,89	
c. Transfers from one caption to another	(+)/(-)	50883	-99.484,37	
3. Acquisition cost as at the end of the period		50884	216.724.055,94	
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	115.831.495,22
8. Movements during the period	(+)/(-)	50891	6.664.090,22	
a. Recorded		50892	9.818.925,19	
b. Excess written back		50893	0,00	
c. Acquisitions from third parties		50894	0,00	
d. Cancellations		50895	-3.106.599,09	
e. Transfers from one caption to another	(+)/(-)	50896	-48.235,88	
9. Amortizations and write-downs as at the end of the period		50897	122.495.585,44	
10. Net carrying value as at the end of the period		50898	94.228.470,50	

		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	1.446.583.587,49

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

	Code	Current period
1. Deferred charges	51001	21.481.847,54
2. Accrued income	51002	13.812.364.627,53

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	1.430.398.520,00	2.003.028.368,44
2. Amounts due to other enterprises linked by participating interests	51102	1.101.830,00	718.937,12
3. Breakdown of debts other than on sight according to their remaining maturity			
a. Up to 3 months	51103	12.420.496.041,34	
b. Over 3 months up to 1 year	51104	961.227.639,58	
c. Over 1 year up to 5 years	51105	128.620.549,53	
d. Over 5 years	51106	904.902,93	
e. Undated	51107	643.284,15	

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

	Code	Current period	Previous period
1. Affiliated enterprises	51201	30.950.675.069,00	30.313.854.707,19
2. Other enterprises linked by participating interests	51202	124.018.545,00	129.060.852,62
3. Breakdown according to the remaining maturity			
a. Repayable on demand	51203	20.364.437.116,13	
b. Up to 3 months	51204	56.258.098.330,82	
c. Over 3 months up to 1 year	51205	6.677.314.283,02	
d. Over 1 year up to 5 years	51206	23.431.430.487,24	
e. Over 5 years	51207	4.223.247.801,35	
f. Undated	51208	9.677.568,60	
4. Breakdown of debt owed to customers depending on the nature of the debtors			
a. Debt owed to government	51209	2.669.121.111,34	3.156.919.555,14
b. Debt owed to private persons	51210	40.157.364.162,11	38.448.780.202,38
c. Debt owed to enterprises	51211	68.137.720.313,71	81.078.576.421,34
5. Geographical breakdown of debt owed to customers			
a. Of Belgian origin	51212	66.061.772.397,48	
b. Of foreign origin	51213	44.902.433.189,68	

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	550.000,01
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	19.906.621,46
3. Breakdown of debt represented by certificates in accordance to their remaining maturity.			
a. Up to 3 months	51303	2.213.199.969,59	
b. Over 3 months up to 1 year	51304	200.756.073,65	
c. Over 1 year up to 5 years	51305	220.280.118,60	
d. Over 5 years	51306	327.326.186,75	
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	107.342.515,69
a. Overdue debts	51402	0,00
b. Unmatured debts	51403	107.342.515,69
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	36.042.609,36
b. Estimated tax liabilities	51408	71.299.906,25
4. Other liabilities		
Breakdown if the amount in this caption is significant		
Holiday allowance, remuneration and other personnel costs to be paid		204.091.333,66
Dividends still to be paid		119.954.413,14
Option contracts		904.026.111,57
Other		170.572.275,84

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

	Codes	Current period
1. Accrued charges	51501	15.723.166.565,05
2. Deferred income	51502	70.917.806,08

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	24.967.028,32
Credit commitments	49.496.253,81
Litigation and operational disputes	134.997.529,05
Provision for various risks and future expenses	2.318.571,76
Provision for disability payments	6.557.451,52
Provision bonds 5-5-5	331.868.608,26
Other	52.286.368,47

XVII. STATEMENT OF SUBORDINATED LIABILITIES (liabilities caption VIII)

	Codes	Current period	Previous period
1. Subordinated debts due to affiliated enterprises	51701	4.036.970.485,00	4.385.419.881,05
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	444.613.157,74

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	42.113.734	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	1.247.775.085	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	2.451.573.058	Subordinated Certificates Issued by KBC Bank On-tap	a) Unconditional
0006	EUR	176.009.410	Subordinated Time Deposits Issued by KBC Bank On-tap	a) Unconditional
0007	USD	243.894.486	On-tap Deposits originated by KBC IFIMA	a) Fiscal requalification
0008	USD	1.375.066	On-tap Finance	a) Fiscal requalification
0009	EUR	2.138.875.956	On-tap Deposits originated by KBC IFIMA	a) Fiscal requalification
0010	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
0011	EUR	4.365.038	On-tap Finance	a) Fiscal requalification
0012	CZK	2.500.000.000	18/05/2005-18/05/2016 Deposits originated by KBC IFIMA (2.500 million CZK)	a) Fiscal requalification
0013	EUR	99.581.757	18/05/2005-18/05/2016 Deposits originated by KBC IFIMA (3.000 million SKK)	a) Fiscal requalification
0014	EUR	48.131.182	21/12/2005-21/12/2020 Deposits originated by KBC IFIMA (1.450 million SKK)	a) Fiscal requalification
0015	EUR	280.000.000	30/06/1999 - perpetual Deposits originated by KBC Bank Funding Trust	a) Fiscal requalification and solvency test
0016	EUR	300.000.000	10/11/1999 - perpetual Deposits originated by KBC Bank Funding Trust	a) Fiscal requalification and solvency test
0017	USD	600.000.000	02/11/1999 - perpetual Deposits originated by KBC Bank Funding Trust	a) Fiscal requalification and solvency test
0018	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	142.331.969.599,59
b. In foreign currency (equivalent in EUR)	51902	26.743.262.301,77
2. Total liabilities		
a. In Euro	51903	147.380.641.769,36
b. In foreign currency (equivalent in EUR)	51904	21.694.590.132,00

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	16.296.606.011,93
Fixed pledge in respect of European Investment Bank credit facility	416.475.271,25
Asset Pledge requirement KBC New York	23.094.078,02
Asset Pledge Home Loan	1.931.335.340,23
b. Off-balance sheet	0,00
2. Collateral provided by the institution or irrevocably promised on its own assets as security for debts and commitments of third parties	
Options and futures	5.173.781.684,37

	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	22.333.177.574,00	29.515.582.948,27
2. Total contingent liabilities on behalf of companies linked by participating interests	52202	59.484.464,00	70.217.090,51
3. Total commitments with a potential credit risk to affiliated companies	52203	7.921.787,00	15.921.892,90
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)	4.659.377.363,36	4.643.105.355,32
* Belgian sites	52301	4.199.901.881,85	4.643.105.355,32
* Foreign offices	52302	459.475.481,52	0,00
b. Income from fixed-income securities: shares and other variable-yield securities	(40310)	10.341.334,09	15.941.176,43
* Belgian sites	52303	10.249.473,83	15.941.176,43
* Foreign offices	52304	91.860,26	0,00
c. Income from fixed-income securities: investments in affiliated companies	(40320)	2.442.306.581,51	1.294.006.033,62
* Belgian sites	52305	2.442.306.581,51	1.294.006.033,62
* Foreign offices	52306	0,00	0,00
d. Income from fixed-income securities: shares in companies linked by participating interests	(40330)	3.090.084,21	3.124.586,32
* Belgian sites	52307	3.090.084,21	3.124.586,32
* Foreign offices	52308	0,00	0,00
e. Income from fixed-income securities: other shares held as fixed financial assets	(40340)	2.875.373,12	2.571.971,49
* Belgian sites	52309	2.875.205,36	2.571.562,66
* Foreign offices	52310	167,76	408,83
f. Commissions received	(40400)	884.954.819,62	1.026.419.919,07
* Belgian sites	52311	824.408.976,33	952.707.863,80
* Foreign offices	52312	60.545.843,29	73.712.055,27
g. Profit on financial transactions	(40600)	-327.095.445,52	15.478.876,79
* Belgian sites	52313	-338.286.833,05	15.478.876,79
* Foreign offices	52314	11.191.387,53	0,00
h. Other operating income	(41400)	241.904.495,14	319.139.938,21
* Belgian sites	52315	230.732.227,57	266.624.446,89
* Foreign offices	52316	11.172.267,58	52.515.491,32
2. Employees on the personnel register			
a. Total number at the closing date	52317	10.235	10.514
b. Average number of employees in full-time equivalents	52318	9.221	9.520
* Management Personnel	52319	72	80
* Employees	52320	9.149	9.440
* Workers	52321	0	0
* Other	52322	0	0
c. Number of actual worked hours	52323	12.044.545	13.722.235
3. Personnel			
a. Remuneration and direct social benefits	52324	558.550.871,46	532.899.096,63
b. Employers' social security	52325	149.279.184,30	146.664.719,29
c. Employers' premiums for extra statutory insurance	52326	65.083.247,52	51.185.894,84
d. Other personnel	52327	28.512.697,32	33.932.466,08
e. Retirement and survivors' pensions	52328	3.811.465,29	4.446.513,52
4. Provisions for pensions and similar obligations			
a. Increase (+)	52329	38.915.392,83	17.993.296,57
b. Decrease (-)	52330	36.172.284,42	32.830.626,91

	Codes	Period	Previous period
5. Breakdown of other operating income if this represents a significant amount			
6. Other operating expenses			
a. Corporate taxes	52331	38.985.969,64	39.214.994,95
b. Other	52332	8.562.533,77	3.374.067,53
c. Analysis of other operating expenses if this represents a significant amount			
7. Operating revenue from affiliated companies	52333	5.531.258.763,00	4.705.187.591,11
8. Operating costs relating to affiliated companies	52334	3.167.674.797,00	3.232.155.128,78

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	69.516.762.082,00
* of which: not intended for hedging purposes	52404	69.515.761.951,00
b. Currency and interest rate swaps	52405	54.025.628.761,00
* of which: not intended for hedging purposes	52406	54.025.628.761,00
c. Currency futures	52407	145.411.054,00
* of which: not intended for hedging purposes	52408	145.411.054,00
d. Options on currencies	52409	18.884.459.774,00
* of which: not intended for hedging purposes	52410	18.884.459.774,00
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	367.075.934.014,00
* of which: not intended for hedging purposes	52414	366.653.475.162,00
b. Interest futures transactions	52415	17.855.746.823,00
* of which: not intended for hedging purposes	52416	17.855.746.823,00
c. Future Interest rate Agreements	52417	2.761.457.767,00
* of which: not intended for hedging purposes	52418	2.761.457.767,00
d. Interest rate options	52419	104.355.566.562,00
* of which: not intended for hedging purposes	52420	104.355.566.562,00
Other purchase and sales (sale / purchase price agreed between parties)		
e. Other option transactions	52421	11.357.732.593,00
* of which: not intended for hedging purposes	52422	11.357.732.593,00
f. Other futures transactions	52423	0,00
* of which: not intended for hedging purposes	52424	0,00
g. Other forward purchases and sales	52425	367.098.646,00
* 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	6.562.206.928,00
b. Difference between market value and book value	(+)/(-)	52428	226.949.873,00
2. Forward transactions in interest rate regarding ALM			
a. Nominal / notional reference amount on the closing date of accounts		52429	15.762.458.930,00
b. Difference between market value and book value	(+)/(-)	52430	-1.416.268.542,00
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	7.724.259.851,00
b. Difference between market value and book value	(+)/(-)	52432	-310.270.405,00

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	33.271.404,09
a. Taxes and withholding taxes due or paid	52602	12.501.694,19
b. Excess of income tax prepayments and of withholding taxes	52603	-6.845.669,41
c. Estimated additional charges for income taxes	52604	27.615.379,31
2. Income taxes for previous years	52605	475.815,86
a. Additional income taxes due or paid	52606	475.815,86
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		-932.503,92
The specific tax system applicable to gains and losses on shares		360.624.178,10
The application of the foreign tax credit scheme on dividends received		-1.988.764.423,20
Disallowed expenses (other than write-downs, losses on shares and corporation tax)		36.454.971,34

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)		197.816.821,63
Write-downs (not deductible) and write-backs (not taxable) on shares under financial fixed assets		-554.334.220,27

	Codes	Current period
5. Sources of deferred taxes		
a. Deferred tax assets	52608	1.679.726.776,50
* Accumulated tax losses deductible from future taxable profits	52609	1.679.726.776,50
* 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	7.650.025,07	7.684.028,44
b. By the reporting institution	52702	28.000.956,94	27.259.597,49
2. Amounts withheld on behalf of third parties as			
a. Payroll tax	52703	152.950.270,24	154.043.480,36
b. Withholding tax	52704	161.928.746,04	148.320.129,82

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:

Claims filed against KBC Bank and its companies are treated on the basis of an assessment of whether they will lead to an outflow of resources (i.e. whether the outflow is ‘probable’, ‘possible’ or ‘remotely probable’).
Provisions are set aside for ‘probable outflow’ cases.
No provisions are constituted for ‘possible outflow’ cases, but information is provided in the financial statements if such cases might have a material impact on the balance sheet (i.e. when the claim could lead to a possible outflow of more than 25 million euros).
All other claims (‘remotely probable outflow’), of whatever magnitude, that represent a minor or no risk at all do not have to be reported.

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

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

Remotely probable outflow:

In the criminal proceedings that began on 3 April 2009 against eleven current and former directors and staff members of KBC Bank and KBL European Private Bankers SA (KBL EPB) accused of co-operation in tax evasion committed by customers of KBC Bank and KBL EPB, the Brussels criminal court ruled on 8 December 2009 that the criminal proceedings were inadmissible. The court judged that, given the extraordinary and doubtful circumstances in which the documents submitted by the public prosecutor came into the hands of the judicial authorities, they could not be used as evidence in legal proceedings. Following a close investigation into the way in which the disputed documents were incorporated into the proceedings, the court ruled that the criminal investigation had not been carried out in a fair and impartial manner. On 10 December 2010, the Brussels Court of Appeal confirmed the initial ruling and stressed that the investigating judge had not acted impartially. The Public Prosecutor’s Office has appealed this decision. On 31 May 2011, the Court of Cassation handed down a judgment confirming the decision of the Court of Appeal in Brussels. Consequently, the criminal case is now closed.

ČSOB (and KBC Bank in one case) is involved in a number of court cases relating to the *Agreement on Sale of Enterprise* , concluded on 19 June 2000 between Investiční a Poštovní banka (IPB) and ČSOB and to the guarantees provided in this respect by the Czech Republic and the Czech National Bank. In one of these cases, ČSOB initiated arbitration proceedings in respect of the above guarantees at the International Chamber of Commerce on 13 June 2007 against the Czech Republic concerning payment of the equivalent of 62 million euros plus interest. The Czech government had filed a counterclaim, provisionally estimated at the equivalent of 1 billion euros plus interest. On 29 December 2010, an arbitral decision was issued in which ČSOB’s claim was allowed and the Czech government’s counterclaim dismissed in full. On 28 March 2011, the Czech Ministry of Finance filed a claim before the commercial court in Vienna to have the arbitral decision lifted; this new claim relates solely to the dismissal of the claim filed by ČSOB that had been allowed (and not to the Ministry’s counterclaim that had been dismissed).

Other significant liabilities.

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

KBC Asset Management NV
KBC Securities NV

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

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

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

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

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

	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.

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	7.017.015,00
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	3.594.170,22
b. To former directors and former managers	52905	5.454.387,58

	Codes	Current period
B. THE AUDITOR(S) AND THE PEOPLE HE (SHE) IS (ARE) RELATED TO		
1. Remuneration of the auditor(s)	52906	2.662.032,00
2. Fees for exceptional services or special services provided to the company by the auditor(s)		
a. Other audit services	52907	467.378,08
b. Tax advisory services	52908	0,00
c. Other non-audit services	52909	1.896.125,00
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	9.952.018.080,37
2. Financial instruments to be delivered by the institution to clients	53002	11.042.433.722,98
3. Financial instruments of clients held in custody by the institution	53003	176.973.041.258,42
4. Financial Instruments from clients given in custody by the institution	53004	123.625.611.499,07
5. Financial Instruments from clients held as collateral by the institution	53005	1.380.391.006,07
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	-232.805,00
Currency and interest rate swaps	-171.746.369,00
Interest rate swap agreements	-1.280.472.533,00
Other option transactions	0,00

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	

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SOCIAL REPORT (in euro)

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

STATEMENT OF THE PERSONS EMPLOYED

EMPLOYEES RECORDED IN THE STAFF REGISTER

During the current period and the previous period	Codes	1. Full-time *(current period)*	2. Part-time *(current period)*	3. Total (T) or total of full-time equivalents (FTE) *(current period)*		3P.Total (T) or total of full-time equivalents (FTE) *(previous period)*	
Average number of employees	100	6.252	3.420	8.648	(FTE)	8.839	(FTE)
Number of hours actually worked	101	8.931.414	2.943.078	11.874.492	(T)	12.044.545	(T)
Personnel costs	102	549.172.265,70	180.963.145,57	730.135.411,27	(T)	682.085.802	(T)
Advantages in addition to wages	103	xxxxxxxxxxxxxxxx	xxxxxxxxxxxxxxxx	15.610.306,27	(T)	16.319.309	(T)

	Codes	1. Full-time	2. Part-time	3. Total in full-time equivalents
At the closing date of the current period				
Number of employees recorded in the personnel register	105	6.222	3.452	8645.1
By nature of the employment contract				
Contract for an indefinite period	110	6.209	3.452	8632.1
Contract for a definite period	111	13	0	13
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	3.945	746	4448.3
primary education	1200	0	0	0
secondary education	1201	681	335	893.2
higher education (non-university)	1202	2.282	341	2524
university education	1203	982	70	1031.1
Female	121	0	0	4196.8
primary education	1210	0	0	0
secondary education	1211	318	890	895.8
higher education (non-university)	1212	1.383	1.431	2431.9
university education	1213	576	385	869.2
By professional category				
Management staff	130	57	1	57.8
Employees	134	6.165	3.451	8587.3
Workers	132	0	0	0
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	2	0
Number of hours actually worked	151	3.664	0
Charges of the enterprise	152	111.165,00	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	502	75	566.3
By nature of the employment contract				
Contract for an indefinite period	210	489	75	553.3
Contract for a definite period	211	13	0	13
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	473	342	678.87
By nature of the employment contract				
Contract for an indefinite period	310	472	342	677.87
Contract for a definite period	311	1	0	1
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	77	222	196.34
Early retirement	341	0	0	0
Dismissal	342	39	5	42.3
Other reason	343	357	115	440.23
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	3.039	5811	3.037
Number of training hours	5802	83.027	5812	99.140
Costs for the company	5803	7.413.749,18	5813	7.408.870,11
of which gross costs directly linked to the training	58031	7.222.546,83	58131	7.217.793,59
of which paid contributions and deposits in collective funds	58032	191.202,35	58132	191.076,52
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	2.648	5831	2.954
Number of training hours	5822	71.105	5832	99.850
Costs for the company	5823	4.362.555,71	5833	4.866.687,91
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 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)	**31/12/2011**	**31/12/2010**	**Difference**
Assets	**169 075 232**	**195 732 934**	**-26 657 702**
Cash at central banks and in hand	3 925 763	8 489 603	-4 563 840
Amounts receivable from credit institutions	26 924 529	37 606 914	-10 682 385
Amounts receivable from customers	72 278 706	78 155 964	-5 877 258
Bonds and other fixed-income securities	33 150 550	39 639 691	-6 489 141
Shares and other variable variable-yield securities	374 758	503 630	-128 872
Financial fixed assets	15 823 170	15 738 845	84 325
Formation expenses, intangible and tangible fixed assets	696 977	691 855	5 122
Other assets	2 066 932	2 088 784	-21 852
Deferred charges and accrued income	13 833 847	12 817 648	1 016 199
Liabilities	**169 075 232**	**195 732 934**	**-26 657 702**
Amounts payable to credit institutions	17 963 841	22 939 911	-4 976 070
Amounts payable to customers	110 964 206	122 684 276	-11 720 070
Debts represented by securities	2 961 562	12 797 162	-9 835 600
Other amounts payable	1 505 986	2 173 919	-667 933
Accrued charges and deferred income	15 794 084	14 619 049	1 175 035
Provisions for liabilities and charges and deferred taxes	668 845	376 795	292 050
Subordinated loans	8 912 403	9 924 824	-1 012 421
Equity	10 304 305	10 216 998	87 307

Total assets

Total assets fell by 26.7 billion euros to 169.1 billion euros. Efforts to reduce the balance sheet total were continued in 2011, with the aim of decreasing the risk-weighted assets and limiting the amount of capital required. Amounts payable to customers declined. The deposit base improved further for the core activities in the Belgian core market, whereas there was an outflow for the non-core activities in the professional segment. These latter activities are – by definition – volatile and the decline was attributable to the reduced appetite for European banks.

At the end of 2011, assets held abroad accounted for 44.1% of total assets (50.4% at the end of 2010). The foreign branches held 8% of the bank's total assets, down 8 percentage points year-on-year.

Cash at central banks and in hand

Cash at central banks and in hand fell by 4.6 billion euros to 3.9 billion euros, owing chiefly to reduced placements with the Fed, which came about as a result of the lower level of outstanding deposits in the New York branch.

Transactions with credit institutions

On balance, net borrowing from credit institutions came to 2.4 billion euros, as opposed to net lending of 7.8 billion euros in 2010. This net borrowing figure includes amounts receivable from credit institutions and reverse repos (amounts receivable from customers) on the one hand, and amounts payable to credit institutions and repos (amounts payable to customers) on the other. The amounts receivable from credit institutions went down by 10.7 billion euros to 26.9 billion euros, while reverse repos fell by 2.7 billion euros to 3.2 billion euros. The amounts payable to credit institutions decreased by 5 billion euros to 18 billion euros and repos went up by 1.8 billion euros to total 3.3 billion euros.

Amounts receivable from customers

Amounts receivable from customers fell by 5.9 billion euros to 72.3 billion euros. This decrease was attributable mainly to the impact of activities being scaled down at foreign branches and to the discontinuation of lending to KBC Investment Limited. On top of this, reverse repos fell by 2.7 billion euros. Mortgage loans were down 0.9 billion euros, owing to a securitisation operation of 3.2 billion euros (excluding this operation, they would have increased by 2.2 billion euros). Lending to companies in Belgium expanded by 1.6 billion euros.

Bonds and other fixed-income securities

The total portfolio of fixed-income securities fell by 6.5 billion euros to 33.2 billion euros. Securities issued by public authorities represent 52% of the portfolio.

The investment portfolio decreased by 5.4 billion euros to 31.1 billion euros, due mainly to bonds issued by public authorities being scaled back by 8.3 billion euros (primarily Italian and Belgian securities). The value of the notes in the Loan Invest securitisation vehicle increased by 2.4 billion euros in 2011.

The investment portfolio contains collateral debt obligations (CDOs) for which, in accordance with Belgian accounting policies, a provision was set aside for the full acquisition cost. Some CDOs still have a fair value, which totalled 1.2 million euros at year-end 2011.

The trading portfolio, which contains primarily government bonds and securities issued by credit institutions, went down by 1.1 billion euros to 2.1 billion euros, owing mainly to the reduction in securities from the so-called PIIGS countries and Belgian securities.

Financial fixed assets

Financial fixed assets came to 15.8 billion euros, a slight increase of 84 million euros resulting from the impact of various movements. The sale of Centea led to a decrease of 219 million euros, subordinated loans were reduced by 389 million euros, and write-downs accounted for a fall of 486 million euros. These movements were offset by capital increases totalling 1.3 billion euros.

Other asset items

‘Shares and other variable-yield securities’ consists primarily of a trading portfolio.

‘Other assets’ fell by 22 million euros to 2.1 billion euros. This heading comprises mainly the revaluation of foreign currency options and interest rate options.

‘Deferred charges and accrued income’ includes primarily accrued interest and the revaluation of derivatives (such as IRS). This item went up by 1 billion euros on account of derivatives being marked to market.

Amounts payable to customers and debts represented by securities

At year-end 2011, total customer deposits amounted to 113.9 billion euros, a decline of 21.6 billion euros resulting from the impact of various movements. As regards private customers, savings deposits decreased primarily as a result of the successful issue of the state note in November 2011. With regard to the markets, deposits with institutional market players fell, due to dwindling investor confidence towards European banks in general, fuelled by the European crisis. This crisis sparked the downgrades of various European banks, including KBC Bank. In addition, the activities in branches abroad continued to be scaled back.

This heading also includes the repos with non-credit institution counterparties, which were up 1.9 billion euros on their year-earlier figure.

Provisions for liabilities and charges and deferred taxes

The provision for liabilities and charges rose by 292 million euros to 0.7 billion euros, due chiefly to a provision that had been set aside for potential compensation payments to private customers who had been sold KBC Ifima 5-5-5 bonds in 2008.

Subordinated loans

Total subordinated loans outstanding fell to 8.9 billion euros and included:
- non-convertible bonds: 5.5 billion euros;
- other subordinated term borrowings: 3.4 billion euros.

Equity

At 10.3 billion euros, equity remained more or less unchanged compared with year-end 2010. The limited increase comes from the appropriation of profit, whereby a sizeable portion of the result for the financial year is paid out in the form of a dividend.

Other liability headings

Other amounts payable mainly include amounts relating to options premiums, taxation, remuneration and social security charges.

'Accrued charges and deferred income' primarily comprises interest payable and the revaluation of derivatives. The rise in this item was due mainly to derivatives being marked to market.

Off-balance-sheet headings

Contingent liabilities

The 7.1-billion-euro decrease in contingent liabilities to 31.3 billion euros was accounted for almost entirely by the reduction, in particular, of guarantees granted to the subsidiaries (e.g., the KBC Financial Products group).

Securities entrusted to the institution

'Securities entrusted to the institution' fell by 15.3 billion euros on account of a decrease in the investment funds managed by KBC Asset Management.

Profit and loss account

KBC Bank NV (x1 000 EUR)	**31/12/2011**	**31/12/2010**	**Difference**
Gross income from ordinary activities	4 486 342	3 897 480	588 862
Operating charges	-1 864 871	-1 781 477	-83 394
Write-downs and provisions	-578 029	1 537 387	-2 115 416
Profit on ordinary activities	2 043 442	3 653 390	-1 609 948
Extraordinary result	-355 972	-3 040 165	2 684 193
Taxes	20 218	64 403	-44 185
Result for the period to be appropriated	**1 707 688**	**677 628**	**1 030 060**

Profit for the financial year came to 1.7 billion euros, due primarily to the higher level of dividends received by the subsidiaries.

(x1 000 EUR)	**31/12/2011**	**31/12/2010**	**Difference**
Net interest income	1 444 472	1 451 016	-6 544
Income from variable-yield securities	2 458 613	1 315 644	1 142 969
Net fee and commission income	668 448	796 201	-127 753
Results from financial transactions	-327 095	15 479	-342 574
Other operating income	241 904	319 140	-77 236
Gross income from ordinary activities	**4 486 342**	**3 897 480**	**588 862**

Gross income from ordinary activities came to 4 486 million euros, up 589 million euros on the figure for 2010, owing primarily to the higher dividend income from affiliated companies.

Net interest income remained virtually unchanged. Within KBC Belgium, volumes had a positive effect. However, the interest margin remained under pressure in 2011 and adversely affected interest income. In addition, the decreased activity in the branches abroad also resulted in a smaller contribution to this item.

Compared with 2010, commission income from the sale of investment funds fell on account of the reduced commercial emphasis placed on these products. Other commission-driven activities, such as securitisation operations, generated a lower level of income consequent on the repayment of credit in earlier securitisation operations.
In 2011, the results from financial transactions were adversely affected mainly by the losses realised on the sale of government paper issued by the so-called PIIGS countries and the recognition of deferred exchange-rate losses on hedging operations for participating interests in associated companies.

(x1 000 EUR)	31/12/2011	31/12/2010	Difference
General administrative charges	-1 775 330	-1 694 140	-81 190
Depreciation of intangible and tangible fixed assets	-41 993	-44 748	2 755
Other operating charges	-47 548	-42 589	-4 960
Operating charges	**-1 864 871**	**-1 781 477**	**-83 394**

Operating charges (including depreciation of intangible and tangible fixed assets, and other operating charges) rose by 85 million euros (or 4.6%) to -1 865 million euros in 2011. The amount contributed to the deposit protection scheme came to 66 million euros (compared with 57 million euros in 2010).

(x1 000 EUR)	31/12/2011	31/12/2010	Difference
Write-downs on credit	-192 807	-1 803 255	1 610 448
Write-downs on securities portfolio	-79 589	-81 236	1 647
Provisions	-305 633	3 421 878	-3 727 511
Write-downs and provisions	**-578 029**	**1 537 387**	**-2 115 416**

‘Write-downs and provisions’ increased year-on-year due to the impact of the KBC Financial Products group in 2010 (reversal of the provision) and to the provision that had been set aside for potential compensation payments to private customers who had been sold KBC Ifima 5-5-5 bonds in 2008 (-332 million euros).

The write-downs on credit, adjusted for the KBC Financial Products group, edged down to -192 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.

At -79 million euros, impairment on investment securities remained virtually unchanged and were set aside primarily for Greek sovereign bonds.

The negative extraordinary results in 2011 (-356 million euros) related mainly to additional write-downs on the financial fixed assets of KBC Bank Ireland (-301 million euros) and CI Bank (-208 million euros), offset in part by the capital gain realised on the sale of Centea (+312 million euros).

Income taxes remained limited, on account chiefly of the recovery of losses carried forward.

Branch network

At the end of 2011, KBC Bank had a network of 681 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 by Article 96 of 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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TRANSLATION

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

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 and information.

Unqualified opinion on the financial statements

We have audited the financial statements for the year ended 31 December 2011, prepared in accordance with the financial reporting framework applicable in Belgium, which show a balance sheet total of € 169.075.231.901,36 and a profit for the year of € 1.707.672.723,42.

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

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

Responsibility of the statutory auditor

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

Société civile ayant emprunté la forme d'une société coopérative à responsabilité limitée
Burgerlijke vennootschap die de rechtsvorm van een coöperatieve vennootschap met beperkte aansprakelijkheid heeft aangenomen
RPM Bruxelles - RPR Brussel - T.V.A. - B.T.W. BE 0446.334.711
Banque - Fortis - Bank 210-0905900-69

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 and information

The preparation and the assessment of the information that should be included in the directors' report and the company's compliance with the requirements of the Company Code (*Wetboek van vennootschappen/Code des sociétés*) and its articles of association are the responsibility of the board of directors.

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

- The directors' report deals with the information required by law and is consistent with the financial statements.

We are, however, unable to comment on the description of the principal risks and uncertainties which the company is facing, and on its financial situation, its foreseeable evolution or the significant influence of certain facts on its future development. We can nevertheless confirm that the matters disclosed do not present any obvious inconsistencies with the information that we became aware of during the performance of our mandate.

- Without prejudice to formal aspects of minor importance, the accounting records were maintained in accordance with the legal and regulatory requirements applicable in Belgium.
- We do not have to report any transactions undertaken or decisions taken in violation of the company's articles of association or the Company Code. The appropriation of the results proposed to the shareholders' meeting complies with the legal and statutory provisions.
- An interim dividend was distributed during the year in relation to which we have issued the attached report in accordance with legal requirements.

Brussels, 19 March 2012

Ernst & Young Reviseurs d'Entreprises sccrl
Statutory auditor
Represented by

Pierre Vanderbeek
Partner

Christel Weymeersch
Partner

12PVDB0077

Cc:Statutory auditor's report to the board of directors of KBC Bank nv about the statement of assets and liabilities prepared in connection with the distribution of an interim dividend

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TRANSLATION

Auditor report to the Board of Directors of KBC Bank nv on the statement of assets and liabilities prepared at the occasion of the distribution of an interim dividend

In accordance with article 618 of the Company Code and the company's bylaws, and in our capacity as statutory auditor, we report to you on the statement of assets and liabilities as of 30 September 2011, prepared for the purpose of the distribution of an interim dividend.

Intended transaction

The Board of Directors considers disbursing an interim dividend of € 1.500.000.000.

Article 38 of the coordinated bylaws provides the Board of Directors the authority to distribute interim dividends. More than six months have elapsed since the end of the previous financial year and the annual accounts in respect of that financial year were approved by the General Shareholders' Meeting of 27 April 2011.

Examination procedures

Our examination of the statement of assets and liabilities as of 30 September 2011 was carried out in accordance with the recommendation of the *Institut des Reviseurs d'Entreprises / Instituut van de Bedrijfsrevisoren* applicable to review engagements. This review consisted primarily of the analysis, comparison and discussion with the management of the company of the financial information.

The statement of assets and liabilities has been derived directly from the accounting records, without any additions or omissions, and has been prepared in accordance with the requirements of accounting law in Belgium and specifically the application of the going concern principle in the valuation rules.

We have no knowledge of any matters occurred after the issue of the above statement of assets and liabilities that would lead to a material misstatement of the statement of assets and liabilities as of 30 September 2011.

Société civile ayant emprunté la forme d'une société coopérative à responsabilité limitée
Burgerlijke vennootschap die de rechtsvorm van een coöperatieve vennootschap met beperkte aansprakelijkheid heeft aangenomen
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Profit available for distribution

In accordance with Article 618 of the Company Code and based on our work performed, the profit available for distribution consists of:

	€
- Profit brought forward	105.109,23
- Profit as of 30 September 2011	2.115.811.869,47
- Minus dotation to legal reserves	105.790.593,47
- Distributable profit	2.010.126.385,23

Regarding the distribution as intended by the Board of Directors, the distributable profit is sufficient to allow the distribution of an interim dividend from the profit of the period for a total amount of € 1.500.000.000.

CONCLUSION

We conclude that we have conducted a review of the statement of assets and liabilities of the company KBC Bank nv as of 30 September 2011, with a balance sheet total of € 189.387.178.402,72 and a shareholders' equity of € 12.332.810.121,94.

Our review was conducted in the context of the decision of distribution of an interim dividend. Consequently, this review consisted primarily of the analysis, comparison and discussion of the financial information and was carried out in conformity with the recommendation of the *Institut des Réviseurs d'Entreprises/Instituut van de Bedrijfsrevisoren* applicable to review engagements. Our review was therefore less extensive than an audit, the objective of which is to express an opinion on the financial statements. Our review did not reveal any matters that would give rise to any material modifications to the interim statement of assets and liabilities as of 30 September 2011.

The profit of the period, as resulted out of the review of the statement of assets and liabilities as of 30 September 2011, increased with the profit brought forward and taking into account the reserves, not available for distribution and to be set up according to legal requirements or bylaws, is sufficient to proceed with a distribution of an interim dividend of € 1.500.000.000 from the profit of the current period as intended by the Board of Directors.

Ernst & Young

Finally we mention that, in accordance with article 618 of the Company Code, this report will be attached to our statutory auditor's report on the financial statements of the current year.

Brussels, 17 November 2011

Ernst & Young Bedrijfsrevisoren bcvba
Statutory auditor
Represented by

Pierre Vanderbeek Partner	Christel Weymeersch Partner

12PVDB0040

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, including a 15% penalty (see ‘exchange option’ above). The Flemish Regional Government has agreed to waive its *pari passu* rights for this repayment and any further repayments made before the end of 2012.

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 2011 and initial amounts are provided in each case below.

- First tranche of 1.9 (initially 3.2) billion euros: KBC Group bears any credit losses in full.
- Second tranche of 1.6 (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 10.3 (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 KBC Group.

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.’