



**KBC BANK NV**

*(Incorporated with limited liability in Belgium)*

**USD 1,000,000,000 8.00 per cent.**

## **Contingent Capital Securities due 25 January 2023**

This prospectus (the “**Prospectus**”) constitutes a listing prospectus in relation to the issue of tier 2 USD 1,000,000,000 8.00 per cent. Contingent Capital Securities due 25 January 2023 (the “**Securities**”) by KBC Bank NV (the “**Issuer**” or “**KBC Bank**”). The issue price of the Securities is 100 per cent. of their principal amount. Interest will accrue on the principal amount of the Securities from and including 25 January 2013 (the “**Issue Date**”) at an initial rate of 8.00 per cent. per annum, and after the Reset Date (as defined herein), at a fixed rate determined on the basis of the initial credit spread and the then prevailing USD 5-year Mid-Swap Rate (as defined herein). Interest will be payable semi-annually in arrear on 25 January and 25 July of each year, commencing on 25 July 2013.

Unless previously redeemed or purchased and cancelled, and subject to a Contingent Write-down (as defined herein), the Securities will mature on 25 January 2023. Subject to the satisfaction of certain conditions described herein and applicable law, the Securities may be redeemed prior to their maturity at the option of the Issuer, in whole but not in part, at their aggregate principal amount, together with any accrued but unpaid interest thereon, (a) on the Reset Date; (b) for taxation reasons; and (c) upon the occurrence of a Regulatory Event (each as defined herein).

Upon the occurrence of a Trigger Event (as defined herein), a Contingent Write-down will occur on the relevant Trigger Event Write-down Date (as defined herein) and (i) the holders will be automatically deemed to irrevocably waive their right to receive, and no longer have any rights against the Issuer with respect to, repayment of the aggregate principal amount of the Securities written down pursuant to paragraph (iv) below; (ii) the Issuer will pay (A) any accrued and unpaid interest on the Securities and (B) any additional amounts as provided or referred to in Condition 7, in the case of each of sub-clauses (A) and (B) of this paragraph (ii), if and only to the extent that such interest or additional amounts, as applicable, became due and payable to the holders prior to the relevant Trigger Event Write-down Notice Date; (iii) except as described in paragraph (ii) above, all rights of any holder for payment of any amounts under or in respect of the Securities (including, without limitation, any amounts arising as a result of, or due and payable upon the occurrence of, an event described in Condition 9) will become null and void, irrespective of whether such amounts have become due and payable prior to the relevant Trigger Event Write-down Notice Date or the relevant Trigger Event Write-down Date; and (iv) the full principal amount of each Security will automatically be written down to zero, the Securities will be cancelled and all references to the principal amount of the Securities in these Conditions will be construed accordingly, as described in Condition 6.

The Securities will constitute direct, unconditional, unsecured and subordinated obligations of the Issuer, ranking *pari passu* among themselves without any preference, as more particularly described in Condition 2.

**An investment in Securities involves certain risks. For a discussion of these risks see “Risk Factors”. Investors should review and consider these risk factors carefully before purchasing any Securities. In particular, investors should review and consider the risk factors relating to a Contingent Write-down and the impact this may have on their investment.**

Application has been made to the Financial Services and Markets Authority (*Autoriteit voor Financiële Diensten en Markten/Autorité des services et marchés financiers*) (the “**FSMA**”) in its capacity as competent authority under Article 23 of the Belgian Law dated 16 June 2006 concerning the public offer of investment securities and the admission of investment securities to trading on a regulated market (the “**Prospectus Law**”) to approve this document as a Prospectus for the purposes of Article 23 of the Belgian Prospectus Law and Article 5.3 of the Prospectus Directive (as defined herein). This approval cannot be considered as a judgment by the FSMA as to the opportunity or the quality of the transaction, nor on the situation of the Issuer. Application has also been made for the Securities to be listed on the official list of the Luxembourg Stock Exchange and admitted to trading on the Luxembourg Stock Exchange’s regulated market. The Luxembourg Stock Exchange’s regulated market is a regulated market for the purposes of the Prospectus Directive.

The Securities will be issued in minimum denominations of USD 200,000. The Securities may be held and transferred, and will be offered and sold, in the principal amount of USD 200,000. The Securities will be issued in dematerialised form under the Belgian Companies Code (*Wetboek van Vennootschappen/Code des Sociétés*) and cannot be physically delivered. The dematerialised Securities will be represented exclusively by book entries in the records of the X/N securities and cash clearing system operated by the National Bank of Belgium (the “**NBB**”) or any successor thereto (the “**Securities Settlement System**”).

The Securities are expected to be rated BB+ by Standard & Poor’s Credit Market Services Italy Srl, a subsidiary of Standard & Poor’s Financial Services LLC (“**Standard & Poor’s**”). Standard & Poor’s is established in the European Economic Area (the “**EEA**”) and registered under the Regulation (EC) No 1060/2009 on credit rating agencies (“**CRA Regulation**”), as amended, and is included in the list of registered credit rating agencies published by European Securities and Markets Authority (“**ESMA**”) on its website in accordance with CRA Regulation (the information contained on this website does not form part of this Prospectus unless otherwise specifically incorporated by reference hereto).

**A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.**

*Structuring adviser to the Issuer*

**J.P. Morgan**

*Joint Bookrunners and Joint Lead Managers*

**BofA Merrill Lynch**

**Credit Suisse**

**Goldman Sachs**

**J.P. Morgan**

**Morgan Stanley**

**International**

*Joint Lead Manager*

**KBC Bank**

The date of this Prospectus is 21 January 2013.

## IMPORTANT INFORMATION

This listing Prospectus comprises a prospectus in respect of Securities issued for the purposes of Article 5.3 of Directive 2003/71/EC as amended (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented or applied in a Relevant Member State of the European Economic Area) (the “**Prospectus Directive**”).

The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

Market data and other statistical information used in this Prospectus has been extracted from a number of sources, including independent industry publications, government publications, reports by market research firms or other independent publications (each an “**Independent Source**”). The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by the relevant Independent Source, no facts have been omitted which would render the reproduced information inaccurate or misleading.

This Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see “*Documents Incorporated by Reference*”). This Prospectus shall be read and construed on the basis that such documents are incorporated in and form part of this Prospectus.

The Joint Lead Managers have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Joint Lead Managers as to the accuracy or completeness of the information contained or incorporated in this Prospectus or any other information provided by the Issuer in connection thereto. None of the Joint Lead Managers accepts any liability in relation to the information contained or incorporated by reference in this Prospectus or any other information provided by the Issuer in connection thereto. The statements made in this paragraph are made without prejudice to the responsibility of the Issuer under the Prospectus.

To the fullest extent permitted by law, no Joint Lead Manager accepts any responsibility for the contents of this Prospectus or for any other statement, made or purported to be made by a Joint Lead Manager or on its behalf in connection with the Issuer or the issue and offering of the Securities. Each Joint Lead Manager accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to in this section) which it might otherwise have in respect of this Prospectus or any such statement. The statements made in this paragraph are made without prejudice to the responsibility of the Issuer under the Prospectus.

No person is or has been authorised by the Issuer or the Joint Lead Managers to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with this Prospectus or the Securities and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or by any of the Joint Lead Managers.

Neither this Prospectus nor any other information supplied in connection with this Prospectus or any Securities (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer or by any of the Joint Lead Managers that any recipient of this Prospectus or any other information supplied in connection with the Prospectus or any Securities should purchase any Securities. Each investor contemplating purchasing any Securities should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer.

Neither this Prospectus nor any other information supplied in connection with the issue of any Securities constitutes an offer or invitation by or on behalf of the Issuer or any of the Joint Lead Managers to any person to subscribe for or to purchase any Securities.

References in this section "Important Information" to a "Joint Lead Manager" shall include such entity in its capacity as a Joint Bookrunner or Structuring Adviser to the Issuer as well, as applicable.

This Prospectus contains or incorporates by reference certain statements that constitute forward-looking statements. Such forward-looking statements may include, without limitation, statements relating to the Issuer's business strategies, trends in its business, competition and competitive advantage, regulatory changes, and restructuring plans.

Words such as **believes, expects, projects, anticipates, seeks, estimates, intends, plans** or similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. The Issuer does not intend to update these forward-looking statements except as may be required by applicable securities laws.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that predictions, forecasts, projections and other outcomes described or implied in forward-looking statements will not be achieved. A number of important factors could cause actual results, performance or achievements to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include: (i) the ability to maintain sufficient liquidity and access to capital markets; (ii) market and interest rate fluctuations; (iii) the strength of global economy in general and the strength of the economies of the countries in which the Issuer conducts operations; (iv) the potential impact of sovereign risk, particularly in certain European Union countries which have recently come under market pressure; (v) adverse rating actions by credit rating agencies; (vi) the ability of counterparties to meet their obligations to the Issuer; (vii) the effects of, and changes in, fiscal, monetary, trade and tax policies, and currency fluctuations; (viii) the possibility of the imposition of foreign exchange controls by government and monetary authorities; (ix) operational factors, such as systems failure, human error, or the failure to implement procedures properly; (x) actions taken by regulators with respect to the Issuer's business and practices in one or more of the countries in which the Issuer conducts operations; (xi) the adverse resolution of litigation and other contingencies; (xii) the Issuer's success at managing the risks involved in the foregoing.

The foregoing list of important factors is not exclusive; when evaluating forward-looking statements, investors should carefully consider the foregoing factors and other uncertainties and events, as well as the other risks identified in this Prospectus.

This Prospectus contains various amounts and percentages which have been rounded and, as a result, when those amounts and percentages are added up, they may not total.

## **IMPORTANT INFORMATION RELATING TO THE USE OF THIS PROSPECTUS AND OFFER OF SECURITIES GENERALLY**

This Prospectus has been approved for the purposes of the listing of the Securities on the Luxembourg Stock Exchange and the admission to trading of the Securities on the regulated market of the Luxembourg Stock Exchange and does not constitute an offer to sell or the solicitation of an offer to buy any Securities in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this listing Prospectus and the offer or sale of Securities may be restricted by law in certain jurisdictions. Neither the Issuer nor the Joint Lead Managers represent that this Prospectus may be lawfully distributed, or that any Securities may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the

Issuer or the Joint Lead Managers which is intended to permit a public offering of any Securities or distribution of this listing Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Securities may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Securities may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Securities. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Securities in the United States, the United Kingdom, Switzerland, Hong Kong, People's Republic of China, Korea and the Republic of Singapore (see "*Subscription and Sale*" below).

The Securities may not be a suitable investment for all investors. Each potential investor in the Securities must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Securities, the merits and risks of investing in the Securities and the information contained or incorporated by reference in this Prospectus;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Securities and the impact the Securities will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Securities, including where the currency for principal and/or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the Securities and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) Securities are legal investments for it, (ii) Securities can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Securities. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Securities under any applicable risk-based capital or similar rules.

The Securities have not been and will not be registered under the United States Securities Act of 1933, as amended, (the "**Securities Act**"). Subject to certain exceptions, the Securities may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("**Regulation S**")) (see "*Subscription and Sale*").

References in this Prospectus to "euro" or "EUR" are references to the currency introduced at the start of the third stage of European monetary union, references to "USD" or "U.S.\$" are to the lawful currency of the United States of America and references to "HUF" are to the lawful currency of Hungary.

## TABLE OF CONTENTS

	Page
IMPORTANT INFORMATION.....	1
OVERVIEW OF THE CONTINGENT CAPITAL SECURITIES.....	5
RISK FACTORS .....	13
DOCUMENTS INCORPORATED BY REFERENCE.....	36
TERMS AND CONDITIONS OF THE SECURITIES.....	39
DESCRIPTION OF THE ISSUER.....	54
TAXATION.....	95
USE OF PROCEEDS.....	100
SUBSCRIPTION AND SALE.....	101
GENERAL INFORMATION.....	105

## STABILISATION

**In connection with the issue of the Securities, J.P. Morgan Securities plc (the “Stabilising Manager”) (or persons acting on behalf of the Stabilising Manager) may over-allot Securities or effect transactions with a view to supporting the market price of the Securities at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) will undertake any stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Securities is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Securities and 60 days after the date of the allotment of the Securities. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules and any announcement relating to such stabilisation action will be made in accordance with the rules and requirements for the time being of the Luxembourg Stock Exchange.**

## OVERVIEW OF THE CONTINGENT CAPITAL SECURITIES

*This overview should be read as an introduction to this Prospectus and any decision to invest in the Securities should be based on a consideration of the Prospectus as a whole, including the documents incorporated by reference.*

*Words and expressions defined in the “Terms and Conditions of the Securities” below or elsewhere in this Prospectus have the same meanings in this description. Reference to “Conditions” or “Terms and Conditions” in this Prospectus are to the Terms and Conditions of the Securities.*

<b>The Issuer:</b>	KBC Bank NV (a wholly-owned subsidiary of KBC Group NV) incorporated under the laws of Belgium, having its registered office at Havenlaan 2, 1080 Brussels and registered with the Crossroads Bank for Enterprises under number 0462.920.226.
<b>Business of the Issuer:</b>	The Issuer is a multi-channel bank whose core business is retail and private bancassurance. The Issuer’s two home markets are Belgium and certain countries in Central and Eastern Europe (being Czech Republic, Hungary, Slovakia and Bulgaria). In the rest of the world, the Issuer has a selective presence in certain countries or areas.
<b>Joint Lead Managers</b>	Credit Suisse Securities (Europe) Limited, Goldman Sachs International, J.P. Morgan Securities plc, Merrill Lynch International, Morgan Stanley & Co. International plc and KBC Bank NV.
<b>Joint Bookrunners</b>	Credit Suisse Securities (Europe) Limited, Goldman Sachs International, J.P. Morgan Securities plc, Merrill Lynch International and Morgan Stanley & Co. International plc.
<b>Structuring Adviser to the Issuer</b>	J.P. Morgan Securities plc.
<b>Risk Factors</b>	There are certain factors that may affect the Issuer’s ability to fulfil its obligations under the Securities. Certain of these factors are set out under “ <i>Risk Factors</i> ” below and include, among others, risks relating to regulatory and legislative changes, market, liquidity and legal risks and the general economic situation. In addition, there are certain factors that are material for purposes of assessing the risks associated with the Securities. These include that the Securities may not be a suitable investment for all investors, certain risks relating to the structure of the Securities (including that they are subject to a Contingent Write-down upon the occurrence of a Trigger Event) and certain market risks.
<b>The Securities</b>	USD 1,000,000,000 8.00 per cent. Contingent Capital Securities due 25 January 2023.
<b>Form of the Securities</b>	The Securities will be in dematerialised form in accordance with Article 468 <i>et seq.</i> of the Belgian Companies Code via a book-entry system maintained in the records of the NBB as operator of the Securities Settlement System.

<b>Issue Date</b>	25 January 2013.
<b>Reset Date</b>	25 January 2018.
<b>Maturity Date</b>	Unless previously redeemed or purchased and cancelled, or written-off, the Securities shall be redeemed on 25 January 2023 at their principal amount, together with interest accrued to but excluding the date of redemption.
<b>Issue Price</b>	100%.
<b>Denomination</b>	USD 200,000.
<b>Currency</b>	U.S. dollars (“ <b>USD</b> ”).
<b>Interest Rate</b>	Subject to a Contingent Write-down, the Securities will bear interest on their principal amount at an Initial Rate of Interest of 8.00 per cent. per annum until the Reset Date. If not called on or before the Reset Date the Securities will bear interest at a fixed rate per annum which will be based on the initial credit spread and the then prevailing USD 5-year Mid-Swap Rate.
<b>Interest Payment Dates</b>	Interest will be payable semi-annually in arrear on 25 January and 25 July of each year, commencing on 25 July 2013.
<b>Status of the Securities</b>	The Securities will constitute direct, unconditional, unsecured and subordinated obligations of the Issuer, ranking <i>pari passu</i> among themselves without any preference, as more particularly described in Condition 2. The Securities shall, subject to any obligations which are mandatorily preferred by law, rank (a) junior to the rights and claims of holders of all depositors and other unsecured and unsubordinated creditors, (b) at least <i>pari passu</i> with the rights and claims of holders of all other Subordinated Indebtedness and (c) senior to the rights and claims of holders of Junior Obligations.
<b>Issuer Call Option</b>	Subject to regulatory approval (if required) and no Trigger Event having occurred, the Issuer may redeem the Securities on the Reset Date in whole and not in part at their principal amount, together with interest accrued to but excluding the date of redemption.
<b>Tax gross up call</b>	Subject to regulatory approval (if required) and no Trigger Event having occurred, the Issuer may at its option, redeem the Securities (in whole but not in part), at any time at their principal amount, together with interest accrued to but excluding the date of redemption, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts, were a payment in respect of the Securities then due, if: <ul style="list-style-type: none"> <li>(i) as a result of any change in, or amendment to, the laws or regulations of Belgium, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective after 25 January 2013, on the next Interest Payment Date the Issuer has or</li> </ul>

will become obliged to pay additional amounts as provided or referred to in Condition 7;

- (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; and
- (iii) the Issuer is able to demonstrate to the satisfaction of the Lead Regulator that the change set out in (i) above is material and was not reasonably foreseeable at Issue Date.

### **Regulatory Call Option**

Subject to regulatory approval (if required) and no Trigger Event having occurred, the Issuer may redeem the Securities in whole and not in part at their principal amount, together with interest accrued to but excluding the date of redemption, at any time upon the occurrence of a Regulatory Event.

A “**Regulatory Event**” shall be deemed to have occurred if (i) as a result of a change (or prospective change which the Lead Regulator considers to be sufficiently certain) in Belgian law or in Applicable Banking Regulations or in the official application or interpretation thereof becoming effective on or after the Issue Date (including as a result of the implementation or applicability in Belgium on or after the Issue Date of CRD IV), the aggregate outstanding principal amount of the Securities is (or will be) fully excluded from the Tier 2 capital of the Issuer or KBC Group on a solo and/or consolidated basis, as applicable (other than as a result of any applicable limitation in relation to the aggregate amount of Tier 2 capital at any time of the Issuer or KBC Group); and (ii) the Issuer is able to demonstrate to the satisfaction of the Lead Regulator that the change or prospective change set out in (i) was not reasonably foreseeable at the Issue Date.

### **Contingent Write-down**

Upon the occurrence of a Trigger Event, the Issuer shall notify the holders (a “**Trigger Event Write-down Notice**”) (i) that a Trigger Event has occurred, and (ii) the date on which the Contingent Write-down shall occur (the “**Trigger Event Write-down Date**”) as following: (i) in the case of a Trigger Event that has occurred as of any Quarterly Financial Period End Date, on or within five business days in Brussels after the relevant Ordinary Reporting Date; or (ii) in the case of a Trigger Event that has occurred as of any Extraordinary Calculation Date, on or as soon as practicable after such Extraordinary Calculation Date.

“**Extraordinary Calculation Date**” means any day (other than a Quarterly Financial Period End Date) on which the CET1 Ratio is calculated upon the instruction of the Lead Regulator.

“**KBC Group**” means KBC Group NV and its subsidiaries for so long as KBC Group NV is the parent undertaking of the Issuer and if KBC Group NV is no longer the parent undertaking of the Issuer, all references herein to KBC Group shall be deemed to be to the Issuer and its subsidiaries and all references to KBC Group NV shall be to the Issuer.

“**Ordinary Reporting Date**” means each day on which Quarterly Financial Information is published by KBC Group NV (or a successor holding company of KBC Group NV).

“**Quarterly Financial Information**” means the financial information of KBC Group in respect of a fiscal quarter that is contained in the principal financial report for such fiscal quarter published by KBC Group NV (or a successor holding company of KBC Group NV).

“**Quarterly Financial Period End Date**” means the last day of each fiscal quarter.

On the Trigger Event Write-down Date, (i) the holders will be automatically deemed to irrevocably waive their right to receive, and no longer have any rights against the Issuer with respect to, repayment of the aggregate principal amount of the Securities written down pursuant to paragraph (iv) below; (ii) the Issuer will pay (A) any accrued and unpaid interest on the Securities and (B) any additional amounts as provided or referred to in Condition 7, in the case of each of sub-clauses (A) and (B) of this paragraph (ii), if and only to the extent that such interest or additional amounts, as applicable, became due and payable to the holders prior to the relevant Trigger Event Write-down Notice Date; (iii) except as described in paragraph (ii) above, all rights of any holder for payment of any amounts under or in respect of the Securities (including, without limitation, any amounts arising as a result of, or due and payable upon the occurrence of, an event described in Condition 9) will become null and void, irrespective of whether such amounts have become due and payable prior to the relevant Trigger Event Write-down Notice Date or the relevant Trigger Event Write-down Date; and (iv) the full principal amount of each Security will automatically be written down to zero, the Securities will be cancelled and all references to the principal amount of the Securities in these Conditions will be construed accordingly.

#### **Trigger Event to Contingent Write-down**

Upon the occurrence of a Trigger Event, a Contingent Write-down will occur on the relevant Trigger-Event Write-down Date. A “**Trigger Event**” will be deemed to have occurred if the CET1 Ratio as of any Quarterly Financial Period End Date or Extraordinary Calculation Date, as the case may be, is less than the Write-down Threshold *provided that* a Trigger Event shall be deemed not to have occurred if a Regulatory Event has occurred and is continuing.

“**Write-down Threshold**” means 7.00 per cent.

“**CET1 Ratio**” means, as of any Quarterly Financial Period End Date or Extraordinary Calculation Date, as the case may be, the ratio of CET1 Capital as of such date to the Risk Weighted Assets as of the same date, expressed as a percentage.

“**CET1 Capital**” means

- (i) as of any Quarterly Financial Period End Date or Extraordinary Calculation Date that falls before the CRD IV Adoption Date, the sum, expressed in euro, of all amounts that constitute core tier 1 capital of KBC Group as of such date, less any deductions (other than in respect of insurance undertakings forming part of KBC Group) from core tier 1 capital required to be made as of such date, and
- (ii) as of any Quarterly Financial Period End Date or Extraordinary Calculation Date that falls on or after the CRD IV Adoption Date, the sum, expressed in euro, of all amounts that constitute common equity tier 1 capital of KBC Group as of such date, less any deductions (other than in respect of insurance undertakings forming part of KBC Group) from common equity tier 1 capital required to be made as of such date,

in each case as calculated by KBC Group NV on a consolidated basis in accordance with the capital adequacy standards and guidelines of the Lead Regulator applicable to KBC Group on such Quarterly Financial Period End Date or Extraordinary Calculation Date, as the case may be (which calculation shall be binding on the holders).

For the avoidance of doubt,

- (i) the term "core tier 1 capital" as used in this definition is the sum of all amounts that constitute the total tier 1 capital of KBC Group less any tier one qualifying hybrid capital instruments (other than the Yield Enhanced Securities) as interpreted and applied in accordance with the capital adequacy standards and guidelines of the Lead Regulator from time to time; and
- (ii) the term "common equity tier 1 capital" as used in this definition shall have the meaning assigned to such term in CRD IV as interpreted and applied in accordance with the capital adequacy standards and guidelines of the Lead Regulator from time to time, but subject always to the transitional and grandfathering arrangements thereunder as interpreted by the Lead Regulator.

**“Risk Weighted Assets”** means, as of any Quarterly Financial Period End Date or Extraordinary Calculation Date, as the case may be, the sum of the aggregate amount, expressed in euro, of:

- (i) the risk weighted assets of KBC Group (excluding risk weighted assets of insurance undertakings forming part of KBC Group) as of such date, as calculated by KBC Group NV on a consolidated basis in accordance with the capital adequacy standards and guidelines of the Lead Regulator applicable to KBC Group on such date; and
- (ii) the risk weighted equivalent amount in respect of each insurance undertaking in KBC Group equal to:

- (A) if calculated at any time before the CRD IV Adoption Date, the amount determined by applying the risk weighting to the minimum capital required for such insurance undertakings in accordance with the capital adequacy standards and guidelines of the Lead Regulator applicable to KBC Group on such date; and
- (B) if calculated on or after the CRD IV Adoption Date, the higher of:
  - (a) the amount determined by applying the risk weighting to the minimum capital required for such insurance undertakings in accordance with the capital adequacy standards and guidelines of the Lead Regulator applicable to KBC Group on such date, and
  - (b) the amount determined by applying the risk weight applied to the equity participations in such insurance undertakings in accordance with the capital adequacy standards and guidelines of the Lead Regulator applicable to KBC Group on such date,

all as calculated by KBC Group NV on a consolidated basis in accordance with the capital adequacy standards and guidelines of the Lead Regulator applicable to KBC Group on such date (which calculations shall be binding on the holders).

For the avoidance of doubt, the term "risk weighted assets" as used in this definition shall have the meaning assigned to such term in the capital adequacy standards and guidelines of the Lead Regulator applicable to KBC Group on the relevant Quarterly Financial Period End Date or Extraordinary Calculation Date, as the case may be, and subject always to any transitional arrangements as interpreted by the Lead Regulator in connection with the adoption of CRD IV.

**“Yield Enhanced Securities”** means the non-voting core capital securities issued by KBC Group NV in 2009 and subscribed by the Flemish Regional Government, which the Lead Regulator has confirmed will be grandfathered as common equity tier 1 capital from the CRD IV Adoption Date.

#### **Meeting of holders and Modification**

The Agency Agreement contains provisions for convening meetings of holders to consider matters relating to the Securities, including the modification of any provision of the Conditions or

the Agency Agreement, in accordance with the rules of the Belgian Companies Code.

In addition, the Agent and the Issuer may agree, without the consent of the holders, to:

- (i) any modification (except such modifications in respect of which an increased quorum is required) of the Agency Agreement which is not prejudicial to the interests of the holders; or
- (ii) any modification of the Conditions or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of law.

Any such modification shall be binding on the holders and any such modification shall be notified to the holders in accordance with Condition 10 as soon as practicable thereafter.

**Purchases**

Subject to regulatory approval (if required) and no Trigger Event having occurred, the Issuer or any of its subsidiaries may at any time purchase Securities in any manner and at any price. Such Securities may be held, reissued or, at the option of the Issuer, surrendered to the Agent for cancellation.

**ISIN**

BE6248510610.

**Common Code**

087855422.

**Listing and admission to trading**

Application has been made to the Financial Services and Markets Authority (*Autoriteit voor Financiële Diensten en Markten/Autorité des services et marchés financiers*) (the “**FSMA**”) in its capacity as competent authority under Article 23 of the Belgian Law dated 16 June 2006 concerning the public offer of investment securities and the admission of investment securities to trading on a regulated market (the “**Prospectus Law**”) to approve this document as a Prospectus for the purposes of Article 23 of the Belgian Prospectus Law and Article 5.3 of the Prospectus Directive (as defined herein). This approval cannot be considered as a judgment by the FSMA as to the opportunity or the quality of the transaction, nor on the situation of the Issuer. The FSMA will notify the Prospectus to the *Commission de Surveillance du Secteur Financier* together with a certificate of approval from the FSMA pursuant to Article 18 of the Prospectus Directive attesting that this Prospectus has been drawn up in accordance with the Prospectus Directive. Application has also been made to the Luxembourg Stock Exchange for the Securities to be listed on the official list of the Luxembourg Stock Exchange. References in this Prospectus to the Securities being listed (and all related references) shall mean that the Securities have been listed on the Luxembourg Stock Exchange and admitted to trading on the Luxembourg Stock Exchange’s regulated market. The Luxembourg Stock Exchange’s regulated market is a regulated market for the

	<p>purposes of the Prospectus Directive.</p> <p>The dematerialised Securities will be represented exclusively by book entries in the records of the X/N securities and cash clearing system operated by the National Bank of Belgium (the “<b>NBB</b>”) or any successor thereto (the “<b>Securities Settlement System</b>”). Access to the Securities Settlement System is available through those of its Securities Settlement System participants whose membership extends to securities such as the Securities. Securities Settlement System participants include certain banks, stockbrokers (<i>beursvennootschappen/sociétés de bourse</i>), Euroclear Bank SA/NV (“<b>Euroclear</b>”) and Clearstream Banking, société anonyme, Luxembourg (“<b>Clearstream Luxembourg</b>”). Accordingly, the dematerialised Securities will be eligible to clear through, and therefore accepted by, Euroclear and Clearstream Luxembourg, and investors can hold their dematerialised Securities within securities accounts in Euroclear and Clearstream Luxembourg.</p>
<b>Clearing Systems</b>	
<b>Paying Agent</b>	KBC Bank NV.
<b>Use of Proceeds</b>	<p>The net proceeds from the issue of the Securities are expected to amount to approximately USD 988,000,000 (after deduction of fees and expenses). They will strengthen the Issuer’s capital base (and also as contingent capital for the purposes of testing under stressed conditions) and are part of the Issuer’s long-term funding, which the Issuer uses to fund and manage its activities.</p>
<b>Statutory Auditors</b>	Ernst & Young Bedrijfsrevisoren BCVBA, represented by Pierre Vanderbeek, and/or Christel Weymeersch, with offices at De Kleetlaan 2, B-1831 Diegem, Brussels.
<b>Rating</b>	<p>The Securities are expected to be rated BB+ by Standard &amp; Poor’s Credit Market Services Italy Srl, a subsidiary of Standard &amp; Poor’s Financial Services LLC.</p> <p>In general, European regulated investors are restricted under the Regulation (EC) No 1060/2009, as amended, on credit rating agencies from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the European Economic Area and registered under such Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending.</p>
<b>Governing Law</b>	Save for the provisions relating to form, status, meetings and modification, which will be governed and construed in accordance with Belgian law, the Securities will be governed by English law.
<b>Selling Restrictions</b>	See “ <i>Subscription and Sale</i> ”.

## **RISK FACTORS**

*The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Securities. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.*

*In addition, factors which are material for the purpose of assessing the market risks associated with the Securities are also described below.*

*The Issuer believes that the factors described below represent the principal risks inherent in investing in the Securities, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with the Securities may occur for other reasons which may not be considered significant risks by the Issuer based on the information currently available to it or which it may not currently be able to anticipate. The sequence in which the risk factors are listed is not an indication of their likelihood to occur or of the extent of their commercial consequences. Prospective investors should also read the detailed information set out elsewhere in this Prospectus (including any documents incorporated by reference herein) and reach their own views prior to making any investment decision and consult with their own professional advisors (if they consider it necessary).*

*KBC Bank Group refers to KBC Bank NV and its subsidiaries from time to time.*

*KBC Group refers to KBC Group NV and its subsidiaries from time to time (including KBC Bank NV and KBC Insurance NV).*

*Capitalised terms used herein and not otherwise defined shall bear the meanings ascribed to them in “Terms and Conditions of the Securities” below.*

### **Risks related to the Securities**

#### **Risk related to the market risks associated with the Securities**

##### ***The Securities may not be a suitable investment for all investors***

The Securities may not be a suitable investment for all investors. Each potential investor in the Securities must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Securities, the merits and risks of investing in the Securities and the information contained or incorporated by reference in this Prospectus;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Securities and the impact the Securities will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Securities, including where the currency for principal and/or interest payments is different from the potential investor’s currency;
- (iv) understand thoroughly the terms of the Securities and be familiar with the behaviour of any relevant indices and financial markets; and

- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

***The Securities may be subject to a Contingent Write-down and upon the occurrence of such an event investors will lose all of their investment***

Investors will lose the entire amount of their investment in the Securities on the occurrence of a Trigger Event, which will lead to a Contingent Write-down. Upon the occurrence of a Contingent Write-down, the full principal amount of the Securities will automatically be written down to zero and the Securities cancelled as a result of which holders will lose their entire investment in the Securities and have no further rights against the Issuer with respect to the repayment of the principal amount of the Securities or the payment of interest on the Securities for any period from (and including) the interest payment date falling immediately prior to the giving of the Trigger Event Write-down Notice.

Furthermore, upon the occurrence of a Contingent Write-down, (i) interest will cease to accrue and (ii) all claims to interest amounts or additional amounts that were not due and payable prior to the date on which the Trigger Event Write-down Notice is given shall become null and void. Consequently, holders of the Securities will not be entitled to receive any interest that has accrued on the Securities from (and including) the last interest payment date falling on or prior to the date on which the Trigger Event Write-down Notice is given.

Investors should note that any such Contingent Write-down will be irrevocable and the holders of the Securities will, upon the occurrence of a Trigger Event, not (i) receive any shares of the Issuer or be entitled to any other participation in the upside potential of any equity or debt securities issued by the Issuer or any other member of KBC Group, or (ii) be entitled to any subsequent write-up or any other compensation in the event of a potential recovery of the Issuer or KBC Group.

***The circumstances surrounding or triggering a Contingent Write-down are unpredictable and may be caused by factors not fully within the Issuer's control***

The occurrence of a Trigger Event and, therefore, a Contingent Write-down, is inherently unpredictable and depends on a number of factors, any of which may be outside the control of the Issuer. The occurrence of a Trigger Event depends on the calculation of the CET1 Ratio and whether such ratio is below 7.00 per cent.

Fluctuations in the CET1 Ratio may be caused by changes in the amount of core tier 1 capital (on or following the CRD IV Adoption Date, common equity tier 1 capital) and/or risk weighted assets, as well as changes to definitions under the capital adequacy standards and guidelines of the Lead Regulator (see "*CRD IV will introduce a new calculation of CET1 Capital and Risk Weighted Assets; CRD IV remains in draft form and subject to final adoption by European legislators*"). The CET1 Ratio is determined by reference to the CET1 Capital and Risk Weighted Assets of KBC Group (including in respect of its insurance undertakings) and not just the core tier 1 capital and the risk weighted assets of the Issuer.

Accordingly a decrease in the CET1 Capital of KBC Group or an increase in risk weighted assets of KBC Group may be caused wholly or partially by the performance of other members of KBC Group which could cause a decline in the CET1 Ratio thus increasing the possibility of a Contingent Write-down.

Moreover, because the Lead Regulator may require the CET1 Ratio to be calculated as of any date, a Trigger Event could occur at any time.

Calculation of the CET1 Ratio could be affected by, amongst other things, the growth of KBC Group's business and its future earnings, expected dividend payments, the repayment of the core capital securities subscribed by the Flemish Regional Government, KBC Group's ability to reduce risk weighted assets in businesses that it may seek to exit and a reduction in capital due to losses in the banking or insurance business

of KBC Group. For a more elaborate discussion of the risks which could affect the CET1 Ratio, potential investors should also refer to the risk factors set out in the sections “*Risks related to the market in which KBC Bank Group operates*”, “*Risks related to KBC Bank Group and its business*”, “*Risks related to KBC Group’s insurance business*” and “*Other risks related to KBC Group*”. Calculation of the CET1 Ratio could also be affected by changes to the applicable regulatory regime (see “*CRD IV will introduce a new calculation of CET1 Capital and Risk Weighted Assets; CRD IV remains in draft form and subject to final adoption by European legislators*”).

Furthermore, the calculation may also be affected by changes in applicable accounting rules. Those accounting changes may have a material adverse impact on KBC Group’s reported financial position. KBC Group maintains the ability to apply its accounting policies based on applicable rules and regulations, including the exercise of any discretion that may be permitted from time to time by such rules and regulations, notwithstanding any potential adverse impact this may have on the position of holders of the Securities.

The definitions used for determining the CET1 Ratio further provide that, if KBC Group NV ceases to be the parent of the Issuer, the CET1 Ratio will no longer be determined on the basis of the consolidated accounts of KBC Group NV. Instead, it will then be calculated on the basis of the consolidated accounts of KBC Bank NV.

Due to the uncertainty regarding whether a Trigger Event will occur, it will be difficult to predict when, if at all, a Contingent Write-down may occur. Accordingly, the market value of the Securities may not necessarily follow other types of subordinated securities. Any indication that the CET1 Ratio is moving towards the level which would cause the occurrence of a Trigger Event may have an adverse effect on the market price and liquidity of the Securities. Therefore, investors may not be able to sell their Securities easily or at prices that will provide them with a yield comparable to more conventional investments.

***CRD IV will introduce a new calculation of CET1 Capital and Risk Weighted Assets; CRD IV remains in draft form and subject to final adoption by the European legislators***

On or following the CRD IV Adoption Date, KBC Group will be required to calculate its capital resources for regulatory purposes on the basis of “common equity tier 1 capital” instead of “core tier 1 capital”. KBC Group will also be required to calculate its “risk weighted assets,” which represent assets adjusted for their associated risks, on a different basis under CRD IV than it currently does. Each of these definitions will be calculated in accordance with the capital adequacy standards and guidelines of the Lead Regulator applicable to KBC Group on the relevant date.

Furthermore, the CET1 Ratio which will be used for purposes of determining the occurrence of a Trigger Event will take into account KBC Group’s insurance business through the computation of the risk weighted assets (but not by applying any deduction in respect thereto). On or following the CRD IV Adoption Date, the risk weighted assets in respect of the insurance business will be calculated by using both the so-called building block method (i.e. the current method) and the alternative approach (as set out in the CRD IV compromise text proposed in May 2012 during the Danish EU Council Presidency). The higher of the two risk weighted assets calculations will be retained for purposes of computing the CET1 Ratio. KBC Group’s insurance business may be subject to changing regulations, which may have an impact for the purposes of computing the CET1 Ratio. See further “*The EU Commission is currently in the process of introducing a new regime governing solvency margins and provisions in relation to insurance undertakings, the effect of which is uncertain*”.

Current draft CRD IV legislation sets out a minimum pace of introduction of (amongst other things) the new rules on the deductions required in the calculation of CET1 Capital (the “**Transitional Provisions**”). The Transitional Provisions will implement certain CRD IV requirements in stages over a prescribed period

(currently expected to be five years from the CRD IV Adoption Date), subject to the discretion of European Union Member States to accelerate the minimum pace of transition (the “**Transitional Period**”). Following the Transitional Period, the full set of CRD IV rules, without any transitional relief, would apply to KBC Group.

The Issuer's and KBC Group's risk weighted assets are expected to increase under CRD IV. The main impacts on risk weighted assets expected under CRD IV based on KBC Group's current portfolio of businesses include (1) increased risk weighted assets associated with potential mark-to-market losses on expected counterparty risks (such losses being known as “**credit value adjustments**” or “**CVA**”) to over-the-counter derivatives and (2) increased risk weighted assets associated with certain assets and exposures, including deferred tax assets, each of which would (absent other balance sheet movements) have the effect of lowering the CET1 Ratio.

As of the date of this Prospectus, the CRD IV rules, including with respect to the calculation of common equity tier 1 capital and risk weighted assets, have not been finalised and remain subject to change by European legislators. Changes that may occur in the finalisation of the CRD IV rules and their adoption in Belgium and other variables (including without limitation those specified above) may individually and/or in the aggregate negatively affect the Issuer's and KBC Group's CET1 Ratio and thus increase the risk of a Trigger Event, which will lead to a Contingent Write-down of the Securities, as a result of which holders will lose their entire investment in the Securities and have no further rights against the Issuer with respect to the repayment of the principal amount of the Securities or the payment of interest on the Securities for any period from (and including) the interest payment date falling immediately prior to the giving of the Trigger Event Write-down Notice.

#### ***Basel III Reforms - Loss absorbency at the point of non-viability***

Notwithstanding the provisions of the Securities concerning Contingent Write-down (see “*The Securities may be subject to a Contingent Write-down and upon the occurrence of such an event investors will lose all of their investment*”) the Basel III reforms provide that instruments, such as the Securities, which do not contain any contractual terms complying with the requirements of the Basel III reforms providing for their writing off or conversion into ordinary shares upon the occurrence of a Non-Viability Event (as defined below), will, subject to implementation of the Basel III reforms and to applicable transitional provisions, cease to be eligible to count in full as Tier 2 Capital from 1 January 2013 unless, among other things, the jurisdiction of the relevant bank has in place laws that (i) require such instruments to be written down upon the occurrence of a Non-Viability Event, or (ii) otherwise require such instruments fully to absorb losses before tax payers are exposed to loss. See further “*Minimum regulatory capital and liquidity requirements*”.

It is possible that any powers which result from any future change in law to give effect to the Basel III reforms could be used in such a way as to result in the Securities absorbing losses in the manner described in (i) or (ii) above. Accordingly, the operation of any such future legislation may have an adverse effect on the position of holders of the Securities. See also the risk factors entitled “*Statutory loss absorption*”, “*Bank recovery and resolution regimes and intervention measures available to regulators*” and “*Change of law*”.

For these purposes, “**Non-Viability Event**” means the earlier of (a) a decision that a write-off, without which the relevant bank would become non-viable, is necessary; and (b) the decision to make a public sector injection of capital, without which the relevant bank would become non-viable, in each case as determined by the Lead Regulator. This definition is for illustrative purposes only and may not necessarily reflect the meaning ascribed to the term “Non-Viability Event” (or any term equivalent thereto) pursuant to any law or regulation implementing the Basel III reforms.

### ***Statutory loss absorption***

The European Commission has proposed a new directive, known as the "Crisis Management Directive", providing for the establishment of a comprehensive framework for the recovery and resolution of credit institutions and investment firms. This proposed directive includes proposals to give regulators resolution powers, *inter alia*, to write down the debt of a failing bank (and/or to convert such debt into capital) to strengthen its financial position and allow it to continue as a going concern, subject to appropriate restructuring measures being taken. It is currently unclear whether measures ultimately adopted in this area will apply to any debt currently in issue, or whether grandfathering rules will apply.

It is possible that pursuant to the Crisis Management Directive or other resolution or recovery rules which may in the future be applicable to the Issuer (including CRD IV), new powers may be given to the Lead Regulator which could be used in such a way as to result in the Securities absorbing losses ("**Statutory Loss Absorption**").

Pursuant to the exercise of any Statutory Loss Absorption measures, the Securities could become subject to a determination by the Lead Regulator or the Issuer (following instructions from the Lead Regulator) that all or part of the principal amount of the Securities, including accrued but unpaid interest in respect thereof, must be written off or converted into common equity tier 1 capital or otherwise be applied to absorb losses. Such determination would not constitute an event of default and holders of the Securities will have no further claims in respect of any amount so written off or otherwise as a result of such Statutory Loss Absorption. Any determination that all or part of the principal amount of the Securities will be subject to Statutory Loss Absorption may be inherently unpredictable and may depend on a number of factors which may be outside the Issuer's control. Accordingly, trading behaviour in respect of Securities which are subject to Statutory Loss Absorption is not necessarily expected to follow trading behaviour associated with other types of securities. Any indication that the Securities will become subject to Statutory Loss Absorption could have an adverse effect on the market price of the Securities. Potential investors should consider the risk that a holder may lose all of its investment in such Securities, including the principal amount plus any accrued but unpaid interest, if such Statutory Loss Absorption measures were to be taken. As used in this risk factor, "Crisis Management Directive" means any relevant laws and regulations applicable to the Issuer at the relevant time pursuant to, or which implement, or are enacted within the context of, a directive and/or regulation of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms, the first draft of which was published on 6 June 2012. Potential investors should also refer to the risk factors entitled "*Basel III reforms – Loss absorbency at the point of non-viability*", "*Bank recovery and resolution regimes and intervention measures available to regulators*" and "*Change of law*".

### ***Bank recovery and resolution regimes and intervention measures available to regulators***

The National Bank of Belgium can take a number of measures in respect of any credit institution if deficiencies in the bank's operations are not remedied. Such measures include the appointment of a special commissioner whose consent is required for all or some of the decisions taken by all the institution's corporate bodies; the imposition of additional requirements in terms of solvency, liquidity, risk concentration and the imposition of other limitations; requesting limitations on variable remuneration; the complete or partial suspension or prohibition of the institution's activities; the requirement to transfer all or part of the institution's participations in other companies; replacing the institution's directors or managers; and revocation of the institution's licence.

In addition, the National Bank of Belgium has the power to identify certain financial institutions as systemically important financial institutions ("**SIFI**"). The Belgian SIFI list includes the Issuer. Each SIFI must provide the National Bank of Belgium with a draft of any strategic decision they plan to take. The

National Bank of Belgium has a period of 2 months after receipt of a complete file regarding a strategic decision to object to the strategic decision, if it is of the opinion that (a) the decision is contrary to a healthy and prudent management of the SIFI, or (b) the decision would seriously threaten the stability of the financial system. The National Bank of Belgium can also use all its administrative powers granted to it pursuant to the relevant supervisory laws to take further action.

For these purposes, strategic decisions include decisions having significance relating to each investment, disinvestment, participation or strategic cooperation agreement of the SIFI, including decisions regarding the acquisition of another institution, the establishment of another institution, the incorporation of a joint venture, the establishment in another country, the conclusion of cooperation agreement, the contribution of or the acquisition of a branch of activities, a merger or a demerger.

The government commented on SIFIs as follows: *"The assessment of strategic decisions will be in general very complex. Such assessment will not be limited to the merits of the planned decisions, but must also take into account a number of other parameters, including relevant external elements, and as the case may be, the activities and the assessments made by the European Systemic Risk Board. Therefore the National Bank of Belgium will need to have the benefit of a very large discretionary power in this area"*.

In addition, the National Bank of Belgium can impose specific measures on a SIFI, including specific additional requirements regarding solvency, liquidity, risk concentration and risk positions, when the National Bank of Belgium is of the opinion that (a) the SIFI has an unsuitable risk profile or (b) the policy of the financial institution can have a negative impact on the stability of the financial system.

Furthermore, emergency measures may be imposed in respect of a credit institution, insurance company or clearing and settlement institution, if a situation is such that it threatens the stability of the Belgian or international financial system. In respect of a credit institution, the factors to be taken into account in this respect are the amount of deposits held by the institution, its importance on the credit market or its role in the financial system and in respect of an insurance company, the amount of its obligations or its role in the financial system.

Emergency measures can include the forcible transfer (in any form) of the assets, the liabilities, or one or more branches of activities of the institution and more in general; all or part of the assets of the institution. This forcible transfer can be a transfer to the Belgian state, as well as a transfer to a Belgian or foreign person. Such forcible transfer will be imposed by the government (via a royal decree), by way of a decision adopted in the council of Ministers, at its own initiative or at the request of the National Bank of Belgium. The royal decree imposing the forcible transfer must provide the compensation payable to the holders of the assets (or shares).

These provisions should provide the legal framework for the creation of the so-called good banks and bad banks, as well as bridge banks. Since a forcible transfer can relate to all or part of the assets and liabilities of the credit institutions, "cherry picking" would be possible.

The emergency measures referred to above can also include a forcible transfer of the shares issued by a credit institution. The French language version of Article 57bis of the law of 22 march 1993 on the statute and supervision of credit institutions (*wet op het statuut van en het toezicht op de kredietinstellingen/loi relative au statut et au contrôle des établissements de crédit*) also refers to "securities" issued by the credit institution (and could thus also refer to debt securities instead of equity securities), while the Dutch language version of the text refers to "shares" only. This creates an uncertainty about the legal provision, but a forcible transfer could also relate to a part of the liabilities of the credit institution.

Notwithstanding any contractual provisions to the contrary, the emergency measures will not result in amendments to the provisions of any securities or contracts entered into by the relevant credit institution, nor

will these measures result in a termination of these securities contracts or the right of an investor or counterparty to terminate these contracts.

Subject to certain exceptions, as soon as any of these proposed proceedings have been initiated by the National Bank of Belgium or the Minister of Finance, the relevant counterparties of such credit institution would not be entitled to invoke events of default or set off their claims against the credit institution.

Use by the National Bank of Belgium of any of the powers of intervention it has under current law could have an adverse effect on the interests of the holders of the Securities.

The draft Crisis Management Directive includes similar and even more wide ranging provisions from those currently existing under Belgian law. It is possible that under national legislation, or the Crisis Management Directive or any other future similar proposals, any new resolution powers given to the National Bank of Belgium or another Lead Regulator could be used in such a way as to result in the debt instruments of the Issuer, such as the Securities, absorbing losses or otherwise affecting the rights of holders of the Securities in the course of any resolution of the Issuer. It is at this stage uncertain whether the Crisis Management Directive will be adopted and if so, when and in what form. However if it were to be adopted in its current form, the Crisis Management Directive could negatively affect the position of holders of the Securities and any credit rating assigned to the Securities, in particular if and when any of the above proceedings would be commenced against the Issuer, since the application of any such legislation may affect the rights and effective remedies of the holders of the Securities as well as the market value of the Securities. In addition, potential investors should refer to the risk factors entitled "*Basel III reforms – Loss absorbency at the point of non-viability*", "*Statutory loss absorption*" and "*Change of law*".

#### ***Change of law***

The conditions of the Securities are based on English law other than Conditions 1, 2 and 11 which are governed by Belgian law, in each case in effect as at the date of issue. No assurance can be given as to the impact of any possible judicial decision or change to Belgian, European or any other applicable laws, regulations or administrative practices after the date of this Prospectus. Such changes in law may include, but are not limited to, the introduction of a variety of statutory resolution and loss-absorption tools which may affect the rights of holders of securities issued by the Issuer, including the Securities. Such tools may include the ability to write off sums otherwise payable on such securities at a time when the Issuer is no longer considered viable by its regulator or upon the occurrence of another trigger (see the risk factors entitled "*Basel III reforms — Loss absorbency at the point of non-viability*", "*Statutory loss absorption*" and "*Bank recovery and resolution regimes and intervention measures available to regulators*" above for further details).

#### ***The Securities are unsecured and subordinated obligations with limited enforcement rights***

The Securities are direct, unconditional, unsecured and subordinated obligations of the Issuer and shall, in the event of dissolution, liquidation or winding-up of the Issuer, be subordinated in right of payment to the claims of depositors and other unsubordinated creditors of the Issuer. Therefore, if the Issuer were to be wound up, liquidated or dissolved, the liquidator would first apply assets of the Issuer to satisfy all rights and claims of holders of depositors and senior claims. If the Issuer does not have sufficient assets to settle claims of holders of such claims in full, the claims of the holders of the Securities will not be met and, as a result, the holders will lose the entire amount of their investment in the Securities. The Securities will share equally in payment with other *pari passu* claims if the Issuer does not have sufficient funds to make full payments on all of them, as applicable. In such a situation, holders could lose all or part of their investment. See further "*There is no restriction on the amount or type of further securities or indebtedness that the Issuer may issue, incur or guarantee*".

In common with other subordinated securities of the Issuer and other financial institutions, the Securities have very limited rights of enforcement. Holders will have no right to accelerate repayment of principal other than on failure to pay an amount when due.

In addition, holders should be aware that, upon the occurrence of a Contingent Write-down, the Securities will be automatically written-down to zero and cancelled for no consideration, and, as a result, the holders will lose the entire amount of their investment in the Securities irrespective of whether the Issuer has sufficient assets available to settle the claims of the holders of the Securities or other securities subordinated to the same or greater extent as the Securities, in bankruptcy proceedings or otherwise. A Contingent Write-down will not give rise to any event of default or right of acceleration of payment of principal on the Securities.

No existing security of the Issuer has the Contingent Write-down feature. As a result, even if other Securities that rank *pari passu* with or junior to the Securities are paid in full, following a Contingent Write-down, the holders will lose the principal amount of the Securities and receive only the interest that was due and payable prior to the date on which the Trigger Event Write-down Notice is given and will have no rights to the repayment of the principal amount of the Securities or the payment of interest on the Securities for any period from (and including) the interest payment date falling immediately prior to the date on which the Trigger Event Write-down Notice is given.

### ***Risk of early redemption***

The Securities may be redeemed prior to 25 January 2023 at the Issuer's option, subject to certain conditions. This is on a one off basis on the Reset Date and at other times in certain circumstances such as an adverse change in tax law or a disqualification of the Securities as tier 2 capital. Accordingly the Issuer may choose to redeem the Securities at times when its cost of alternative borrowing is lower than the interest rate on the Securities.

In such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the Securities. Potential investors should consider whether and how to reinvest the proceeds of such redemption in light of other investments available at that time. There can be no assurance that holders will be able to reinvest the redemption proceeds at a rate that will provide the same rate of return as their investment in the Securities.

In addition, the optional redemption feature of the Securities is likely to limit their market value. During any period when the Issuer has the right to elect to redeem the Securities, the market value of the Securities generally will not rise substantially above the price at which they can be redeemed. There is no requirement to redeem the Securities or any other capital instruments of KBC Group on a *pro rata* basis upon the occurrence of any event giving the Issuer the right to redeem the Securities prior to maturity. Also, upon the occurrence of any event giving the Issuer the right to redeem the Securities prior to maturity, the Issuer may, instead of redeeming the Securities, choose to redeem any other outstanding capital instruments if the terms of the relevant capital instruments so provide, leaving the holders of the Securities subject to the risk of a Contingent Write-down while other capital instruments are redeemed at par or other advantageous prices.

Any redemption of the Securities on the Reset Date or following an adverse change of tax law will be subject to consent of the Lead Regulator which may require the Issuer (i) to issue at least equivalent capital in the same amount, or (ii) have capital in an amount that is materially above the minimum capital requirements. Any such requirement may result in the Issuer not being able to redeem the Securities even when it would appear likely to do so, which would leave the holders of the Securities at risk of a Contingent Write-down notwithstanding the occurrence of an event that would otherwise give rise to redemption at par.

***The Securities are not covered by any government compensation or insurance scheme and do not have the benefit of any government guarantee.***

An investment in the Securities will not be covered by any compensation or insurance scheme of any government agency of Belgium or any other jurisdiction, and the Securities do not have the benefit of any government guarantee. The Securities are the Issuer's obligation only and holders must solely look to the Issuer for the performance of the Issuer's obligations under the Securities. In the event of the Issuer's insolvency, a holder may lose all or some of its investment in the Securities.

***In certain instances the holders may be bound by certain amendments to the Securities to which they did not consent.***

The Securities are subject to certain statutory provisions of Belgian law allowing for the calling of meetings of holders to consider matters affecting their interests. See Condition 11. These provisions permit defined majorities to bind all holders, including holders who did not attend and vote at the relevant meeting and holders who voted in a manner contrary to the majority. Further, the Issuer may without the consent or approval of the holders make such amendments to the Conditions or the Agency Agreement which are of a formal, minor or technical nature or made to correct a manifest error or comply with mandatory provisions of law or such amendments to the Agency Agreement which are not prejudicial to the interests of the holders (except those changes in respect of which an increased quorum is required).

***Credit ratings may not reflect all risks***

It is expected that the Securities will be rated BB+ by Standard & Poor's Credit Market Services Italy Srl, a subsidiary of Standard & Poor's Financial Services LLC subject to confirmation at or after closing. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency without notice. Similar ratings on different types of securities do not necessarily mean the same thing. The rating does not address the likelihood that the interest or principal on the Securities will be paid on any particular date. The ratings do not address the marketability of the Securities or any market price. Any change in the credit ratings of the Securities or the Issuer could adversely affect the price that a subsequent purchaser will be willing to pay for the Securities. The significance of any rating should be evaluated independently of any other rating. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Securities. Investors should not rely solely on the rating of the Securities and should make an independent decision, based on their own analysis and experience, whether to invest in the Securities. In the event that a rating initially assigned to the Securities is subsequently lowered for any reason, no person or entity is obliged to provide any additional support or credit enhancement with respect to the Securities, and the market value of the Securities is likely to be adversely affected. See "*Further ratings may be assigned to the Securities*".

In general, European regulated investors are restricted under the Regulation (EC) No 1060/2009, as amended, on credit rating agencies from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the European Economic Area and registered under such Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending.

***Further ratings may be assigned to the Securities***

It is expected that the Securities will be rated BB+ by Standard & Poor's Credit Market Services Italy Srl, a subsidiary of Standard & Poor's Financial Services LLC subject to confirmation at or after closing. The Securities may or may not be rated by any other rating agencies. There can be no assurance that a rating will be assigned to the Securities by any other rating agencies (including Fitch Ratings Ltd and/or Moody's

Investors Service Ltd), and, if assigned, what that rating would be. Also, such a rating, if assigned, could be higher or lower than the ratings expected to be assigned to the Securities by Standard & Poor's Credit Market Services Italy Srl, a subsidiary of Standard & Poor's Financial Services LLC. Investors should not rely solely on the rating of the Securities and should make an independent decision, based on their own analysis and experience, whether to invest in the Securities. In the event that a rating initially assigned to the Securities is subsequently lowered for any reason, no person or entity is obliged to provide any additional support or credit enhancement with respect to the Securities, and the market value of the Securities is likely to be adversely affected. See "*Credit ratings may not reflect all risks*".

***Reliance on the procedures of the Securities Settlement System, Euroclear and Clearstream Luxembourg for transfer, payment and communication with the Issuer***

The Securities will be issued in dematerialised form under the Belgian Companies Code and cannot be physically delivered. The Securities will be represented exclusively by book entries in the records of the Securities Settlement System. Access to the Securities Settlement System is available through its Securities Settlement System participants whose membership extends to securities such as the Securities. Securities Settlement System participants include certain banks, stockbrokers (*beursvennootschappen/sociétés de bourse*), and Euroclear and Clearstream Luxembourg.

Transfers of interests in the Securities will be effected between the Securities Settlement System participants in accordance with the rules and operating procedures of the Securities Settlement System. Transfers between investors will be effected in accordance with the respective rules and operating procedures of the Securities Settlement System participants through which they hold their Securities.

Neither the Issuer nor the Agent will have any responsibility for the proper performance by the Securities Settlement System or the Securities Settlement System participants of their obligations under their respective rules and operating procedures.

A holder must rely on the procedures of the Securities Settlement System, Euroclear and Clearstream Luxembourg to receive payments under the Securities. The Issuer will have no responsibility or liability for the records relating to the Securities within the Securities Settlement System.

***The Agent is not required to segregate amounts received by it in respect of Securities cleared through the X/N Securities Settlement System***

The Conditions of the Securities and the Agency Agreement provide that the Agent will debit the relevant account of the Issuer and use such funds to make payment to the holders. The Agency Agreement provides that the Agent will, simultaneously with the receipt by it of the relevant amounts, pay to the holders directly any amounts due in respect of the relevant Securities. However, the Agent is not required to segregate any such amounts received by it in respect of the Securities, and in the event that the Agent were subject to insolvency proceedings at any time when it held any such amounts, holders would not have any further claim against the Issuer in respect of such amounts, and would be required to claim such amounts from the Agent in accordance with applicable Belgian insolvency laws.

***There is no restriction on the amount or type of further securities or indebtedness that the Issuer may issue, incur or guarantee.***

There is no restriction on the amount or type of further securities or indebtedness that the Issuer may issue, incur or guarantee, as the case may be, that rank senior to, or *pari passu* with, the Securities. The issue or guaranteeing of any such further securities or indebtedness may reduce the amount recoverable by holders of the Securities on a liquidation or winding-up of the Issuer and may limit its ability to meet its obligations under the Securities. In addition, the Securities do not contain any restriction on the Issuer issuing securities

that may have preferential rights to the Securities or securities with similar, different or no Trigger Event provisions.

Furthermore, on 21 November 2012, the Issuer established a covered bonds programme enabling it to issue covered bonds (*Belgische pandbrieven/lettres de gages belges*) up to a maximum aggregate amount of EUR 10,000,000,000.

The holders of covered bonds will have an exclusive right of recourse against any asset (mainly mortgage loans) which are registered with the special estate (*bijzonder vermogen/patrimoine spéciale*) relating to the covered bonds programme. While such assets will remain on the balance sheet of the Issuer, holders of the Securities will no longer have any recourse against such assets.

### ***U.S. Foreign Account Tax Compliance Withholding***

The Issuer and other non-U.S. financial institutions through which payments on the Securities are made may be required to withhold U.S. tax at a rate of 30 per cent. on all, or a portion of, payments made after 31 December 2016 pursuant to the foreign account provisions (“**FATCA**”) of the Hiring Incentives to Restore Employment Act of 2010. This withholding tax may be triggered if (i) the Issuer is a “foreign financial institution” (“**FFI**”) (as defined in FATCA) which enters into and complies with an agreement with the U.S. Internal Revenue Service (“**IRS**”) to provide certain information on its account holders (making the Issuer a “**Participating FFI**”), (ii) the Issuer has a positive “passthru percentage”, and (iii) (a) an investor does not provide information sufficient for the relevant Participating FFI to determine whether the investor is subject to withholding under FATCA, or (b) any FFI to or through which payment on the Securities is made is not a Participating FFI or otherwise exempt from FATCA withholding.

As at the date of this Prospectus, the regulations implementing FATCA have not yet been finalised. As a result, the application of FATCA to interest, principal or any other amounts paid with respect to the Securities is not clear. In particular, Belgium may enter into an intergovernmental agreement with the United States to help implement FATCA for certain Belgian entities. The impact of such an agreement on the Issuer and the Issuer’s reporting and withholding responsibilities under FATCA is unclear. If an amount in respect of U.S. withholding tax were to be deducted or withheld from interest, principal or any other payments on the Securities as a result of FATCA, none of the Issuer, the Agent or any other person would, pursuant to the Conditions of the Securities, be required to pay additional amounts as a result of the deduction or withholding. As a result, investors may, if FATCA is implemented as currently proposed by the IRS, receive less interest or principal than expected. Holders should consult their own tax advisers on how these rules may apply to payments they receive under the Securities.

### **Risks related to the market generally**

Set out below is a brief description of the principal liquidity risks, market risks, such as exchange rate risk and interest rate risk, and credit risks:

#### ***The secondary market generally***

The Securities have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid and an investor may not be able to find a timely and/or suitable counterpart. Therefore, investors may not be able to sell their Securities easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market or at prices higher than the relevant investor’s initial investment. Investors seeking to liquidate/sell positions in the Securities prior to the stated maturity date may receive substantially less than their original purchase price. Illiquidity may have a severely adverse effect on the market value of the Securities.

The Issuer or any of its affiliates may, but is not obliged to, at any time purchase Securities at any price in the open market or by tender or private agreement. Any Securities so purchased may be held or resold or

surrendered for cancellation. If any Securities are redeemed in part, then the number of Securities outstanding will decrease, which will reduce liquidity for the outstanding Securities. Any such activities may have an adverse effect on the price of the Securities in the secondary market and/or the existence of a secondary market.

#### ***Exchange rate risks and exchange controls***

The Issuer will, in the circumstances provided herein, pay principal and interest on the Securities in U.S. Dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than U.S. Dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of the U.S. Dollar or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to U.S. Dollars would decrease (i) the Investor's Currency-equivalent yield on the Securities, (ii) the Investor's Currency-equivalent value of the principal payable on the Securities and (iii) the Investor's Currency-equivalent market value of the Securities. If the Securities are denominated in a currency other than the currency of the country in which the holder is resident, the holder is exposed to the risk of fluctuations in the exchange rate between the two aforementioned currencies. The holder may also be exposed to a foreign exchange risk if the reference obligation is denominated, or based on prices in a currency other than the currency in which the relevant Security is denominated. Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

#### ***Legal investment considerations may restrict certain investments***

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) Securities are legal investments for it, (ii) Securities can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Securities. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Securities under any applicable risk-based capital or similar rules.

#### ***EU Savings Directive***

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "**Savings Directive**"), Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to (or for the benefit of) an individual resident in that other Member State or to (or for the benefit of) certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Savings Directive which may, if implemented amend or broaden the scope of the requirements described above.

If a payment to an individual were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment pursuant to the Savings Directive or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or

introduced in order to conform to such Directive, neither the Issuer nor any Agent nor any other person would be obliged to pay additional amounts with respect to any Securities as a result of the imposition of such withholding tax. Investors who are in any doubt as to their position should consult their own professional advisers.

## **Risks related to the market in which KBC Bank Group operates**

### ***Current economic and market conditions pose significant challenges for KBC Bank Group and may adversely affect the results***

The global economy, the condition of the financial markets and adverse macro-economic developments can all significantly influence KBC Bank Group's performance. In recent years, the financial markets have experienced unprecedented levels of market volatility. The financial turbulence since 2008 and its after-effects on the wider economy have led to more difficult earnings conditions for the financial sector. During this period, numerous governments and central banks were forced into the role of lender of last resort as funding available to financial institutions from lenders and institutional investors was scarce and threatened the continued stability of the global financial system. The tightening of credit, increased market volatility and widespread reduction of business activity generally has adversely affected KBC Bank Group's financial condition, results of operations, liquidity and access to capital and credit. Since early 2009, substantial market uncertainty and significant constraints on the credit system remain.

Furthermore, certain countries in Europe have relatively large sovereign debts or fiscal deficits, or both, which has led to tensions in the EU bond markets, the interbank lending market and to credit spread volatility during recent months. The peripheral crisis of 2010 has affected countries, such as Ireland, in which KBC Bank Group operates. There continue to be constraints on the availability of wholesale debt funding at reasonable cost, especially in Europe, as a result of the peripheral crisis, the broader political and economic environment and other factors.

Since KBC Bank Group currently conducts the majority of its business in Belgium, Ireland and Central and Eastern Europe, its performance is influenced by the level and cyclical nature of business activity in these countries which is in turn affected by both domestic and international economic and political events. A weakening in these economies may in particular have a negative effect on KBC Bank Group's financial condition and results of operations. Moreover, any deterioration in current financial and credit market conditions could further adversely affect KBC Bank Group's business and, if they were to persist or worsen, could adversely affect the results of operations and financial condition of KBC Bank Group.

The losses and asset impairments resulting from the current economic situation forced many banks, including KBC Bank Group, to raise additional capital in order to maintain appropriate capital adequacy and solvency ratios. Nonetheless, KBC Bank and/or certain of its regulated subsidiaries may need to raise additional capital, either as a result of further asset impairments or other factors. Further infusions of additional equity capital, if necessary, may be difficult to achieve. Any failure by KBC Bank Group to maintain its minimum regulatory capital ratios could result in administrative actions or sanctions, which in turn may have a material adverse effect on operating results, financial condition and prospects.

General business and economic conditions that could affect KBC Bank Group include the level and volatility of short-term and long-term interest rates, inflation, employment levels, bankruptcies, household income, consumer spending, fluctuations in both debt and equity capital markets, liquidity of the global financial markets, fluctuations in foreign exchange, the availability and cost of funding, investor confidence, credit spreads (e.g., corporate, sovereign), and the strength of the economies in which KBC Bank Group operates.

In addition, KBC Bank Group's business activities are dependent on the level of banking, finance and financial services required by its customers. In particular, levels of borrowing are heavily dependent on

customer confidence, employment trends, the state of the economies in which KBC Bank Group does business and market interest rates at the time.

Market volatility can negatively affect KBC Bank Group's banking and asset management activities through a reduction in demand for products and services, a reduction in the value of assets held by KBC, a decline in the profitability of certain assets and a loss of liquidity in certain asset classes.

***Increased regulation of the financial services industry or changes thereto could have an adverse effect on KBC Bank Group's operations***

The recent global economic downturn has resulted in calls for significant changes to regulatory regimes in the U.S., the European Union, Belgium and other countries. There have been significant regulatory developments in response to the global crisis, including various initiatives and measures taken at the level of the European Union or national governments, the stress test exercise coordinated by the European Banking Authority in cooperation with the European Central Bank, liquidity risk assessments on European and national levels and the adoption of new regulatory capital requirements under Basel III and the Capital Adequacy Directive and Regulation, CRD IV. In addition, changes are also being made to the International Financial Accounting Standards ("IFRS"). Although KBC Bank Group works closely with its regulators and continually monitors regulatory developments, there can be no assurance that additional regulatory or capital requirements will not have an adverse impact on KBC Bank Group, its business, financial condition or results of operations.

There can be no assurance that implementation of these new standards, or any other new regulation, will not require KBC Bank Group to issue securities that qualify as regulatory capital or to liquidate assets or curtail business, all of which may have adverse effects on its business, financial condition and results of operations.

KBC Bank Group conducts its businesses subject to on-going regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies and interpretations in Belgium and the other regions in which KBC Bank Group does business. Changes in supervision and regulation, in particular in Belgium and Central & Eastern Europe (e.g. Hungary), could materially affect KBC Bank Group's business, the products and services offered by it or the value of its assets. In addition to the above, since the start of the global economic downturn, there seems to be an increase in the level of scrutiny applied by governments and regulators to enforce applicable regulations and calls to impose further charges on the financial services industry. There can be no assurance that such increased scrutiny or charges, will not require KBC Bank Group to take additional measures which, in turn, may have adverse effects on its business, financial condition and results of operations.

***Risk associated with the highly competitive environment in which KBC Bank Group operates and which could intensify further as a result of the global market conditions***

As part of the financial services industry, KBC Bank Group faces substantial competitive pressures that could adversely affect the results of its operations in banking, asset management and other products and services.

In its Belgian home market, KBC Bank faces substantial competition, mainly from BNP Paribas Fortis, ING Group and Belfius Bank. In addition, KBC Bank faces increased competition in the Belgian savings market from smaller-scale banking competitors (and internet bank competitors) seeking to enlarge their respective market shares by offering higher interest rates. In Central & Eastern Europe, KBC Bank Group faces competition from the regional banks in each of the jurisdictions in which it operates and from international competitors such as UniCredit, Erste Bank and Raiffeisen International. Competition is also affected by consumer demand, technological changes, regulatory actions and/or limitations and other factors. These competitive pressures could result in increased pricing pressures on a number of KBC Bank Group's products and services and in the loss of market share in one or more such markets.

***Risks associated with liquidity and funding, which are inherent to KBC Bank Group's business, are aggravated by the current global market conditions***

The procurement of liquidity for KBC Bank Group's operations and access to long term financings are crucial to achieve KBC Bank Group's strategic goals, as they enable KBC Bank Group to meet payment obligations in cash and on delivery, scheduled or unscheduled, so as not to prejudice KBC Bank Group's activities or financial situation.

Although KBC Bank Group currently has a satisfactory liquidity position (with a diversified core deposit base and a large amount of liquid and/or pledgeable assets), its procurement of liquidity could be adversely impacted by the inability to access the debt market, sell products or reimburse financings as a result of the deterioration of market conditions, the lack of confidence in financial markets, uncertainties and speculations regarding the solvency of market participants, rating downgrades or operational problems of third parties. In addition thereto, KBC Bank Group's liquidity position could be adversely impacted by substantial outflows in deposits and asset management products.

Limitations of KBC Bank Group's ability to raise the required funds on terms which are favourable for KBC Bank Group, difficulties in obtaining long-term financings on terms which are favourable for KBC Bank Group or dealing with substantial outflows could adversely affect KBC Bank Group's business, financial condition and results of operations. In this respect, the adoption of new liquidity requirements under Basel III and CRD IV is also to be taken into account since these could give rise to an increased competition to attract the necessary deposits.

Furthermore, protracted market declines can reduce the liquidity of markets that are typically liquid. If, in the course of its activities, KBC Bank Group requires significant amounts of cash on short notice in excess of anticipated cash requirements, KBC Bank Group may have difficulty selling investments at attractive prices, in a timely manner, or both.

In response to the financial markets crisis and the reduced liquidity available, many market operators in the industry have to fall back on support from central banks and governments by pledging securities as collateral. Unavailability of liquidity through such measures, or the decrease or discontinuation of such measures could add to increased difficulties in procuring liquidity on the market and/or result in higher costs for the procurement of such liquidity when needed, thereby adversely affecting KBC Bank Group's business, financial condition and results of operations.

**Risks related to KBC Bank Group and its business**

***KBC Bank Group has significant credit default risk exposure***

As a large financial organisation, KBC Bank Group is subject to a wide range of general credit risks, including risks arising from changes in the credit quality and recoverability of loans and amounts due from counterparties. Third parties that owe KBC Bank Group money, securities or other assets may not pay or perform under their obligations. These parties include, among others, borrowers under loans made by KBC Bank Group, the issuers whose securities KBC Bank Group holds, customers, trading counterparties, counterparties under swaps and credit and other derivative contracts, clearing agents, exchanges, clearing houses, guarantors and other financial intermediaries. These parties may default on their obligations to KBC Bank Group due to bankruptcy, lack of liquidity, downturns in the economy or real estate values, operational failure or other reasons.

Credit institutions have witnessed a significant increase in default rates over the past few years as a result of worsening economic conditions. This increase in the scope and scale of defaults is evidenced by the significant increase in the amount of impaired loans in the portfolio of KBC Bank Group. This trend remains

visible, particularly in Ireland and Hungary. In part of the Central Eastern European countries where KBC Bank Group is active in, credit is also granted in a currency other than the local currency. Changes in exchange rates between the local and such other currency can also have an impact on the credit quality of the borrower. Any further adverse changes in the credit quality of KBC Bank Group's borrowers, counterparties or other obligors could affect the recoverability and value of its assets and require an increase in KBC Bank Group's provision for bad and doubtful debts and other provisions. In addition to the credit quality of the borrower, adverse market conditions such as declining real estate prices negatively affect the results of KBC Bank Group's credit portfolio since these impact the recovery value of the collateral. All this could be further exacerbated in the case of a prolonged economic downturn or worsening market conditions.

KBC Bank Group makes provisions for loan losses which correspond to the provision for impairment losses in its income statement in order to maintain appropriate allowances for loan losses based on an assessment of prior loan loss experience, the volume and type of lending being conducted, industry standards, past due loans, economic conditions and other factors related to the collectability of the loan portfolio. This determination is primarily based on KBC Bank Group's historical experience and judgment. Any increase in the provision for loan losses, any loan losses in excess of the previously determined provisions with respect thereto or changes in the estimate of the risk of loss inherent in the portfolio of non-impaired loans could have a material adverse effect on KBC Bank Group's business, results of operation or financial condition.

KBC Bank Group's principal credit risk exposure is to retail and corporate customers, including in its mortgage and real estate portfolio, as well as towards other financial institutions and sovereigns. As this credit risk reflects some concentration, particularly in Belgium, Ireland and certain Eastern European countries where it is active, KBC Bank Group's financial position is sensitive to a significant deterioration in credit and general economic conditions in these regions. Moreover, uncertainty regarding the euro-area, the risk of losses as a result of a country's or a credit institution's financial difficulties or a downgrade in its credit rating could have a significant impact on KBC Bank Group's credit exposure, loan provisioning, results of operation and financial position. In addition, concerns about, or a default by, one credit institution could lead to significant liquidity problems, losses or defaults by other institutions, because the commercial and financial soundness of many financial institutions are closely related as a result of their credit, trading, clearing and other relationships.

The events described above have and may continue to adversely affect KBC Bank Group's ability to engage in routine transactions as well as the performance of various loans and other assets it holds.

***KBC Bank Group is exposed to counterparty credit risk in derivative transactions***

KBC Bank Group executes a wide range of derivatives transactions, such as interest rate, exchange rate, share/index prices, commodity and credit derivatives with counterparties in the financial services industry.

Operating in derivative financial instruments exposes KBC Bank Group to market risk and operational risk, as well as the risk that the counterparty defaults on its obligations or becomes insolvent prior to maturity when KBC Bank Group has an outstanding claim against that counterparty. Non-standardized or individually negotiated derivative transactions can make exiting, transferring or settling the position difficult.

Counterparty credit risk has increased due to recent volatility in the financial markets and may be further exacerbated if the collateral held by us cannot be realised or liquidated at a value that is sufficient to cover the full amount of the counterparty exposure.

***Changes in interest rates, which are caused by many factors beyond KBC Bank Group's control, can have significant adverse effects on its financial results***

Fluctuations in interest rates affect the returns KBC Bank Group earns on fixed interest investments. Interest rate changes also affect the market values of the amounts of capital gains or losses KBC Bank Group takes on

and the fixed interest securities it holds. These fluctuations and changes affect KBC Bank Group's net interest income and recognised gains and losses on securities held in its investment portfolios.

The results of KBC Bank Group's operations are affected by its management of interest rate sensitivity. Interest rate sensitivity refers to the relationship between changes in market interest rates and changes in net interest income. The composition of KBC Bank Group's assets and liabilities, and any gap position resulting from the composition, causes KBC Bank Group's operations' net interest income to vary with changes in interest rates. In addition, variations in interest rate sensitivity may exist within the repricing periods and/or between the different currencies in which KBC Bank Group holds interest rate positions. A mismatch of interest-earning assets and interest-bearing liabilities in any given period may, in the event of changes in interest rates, have a material effect on the financial condition or results of operations of KBC Bank Group's businesses.

***KBC Bank Group is subject to foreign exchange risk***

KBC Bank Group pursues a prudent policy as regards its structural currency exposure, with a view to limit as much as possible currency risk. Foreign exchange exposures in the ALM books of banking entities with a trading book are transferred to the trading book where they are managed within the allocated trading limits. The foreign exchange exposure of banking entities without a trading book and of other entities has to be hedged, if material. Equity holdings in non-euro currencies that are part of the investment portfolio are however not generally 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. Although KBC Bank Group pursues a prudent policy with regard to foreign exchange risk, there can still be a limited impact of this risk on the financial results of KBC Bank Group.

***KBC Bank Group's strategies for hedging against market risks may prove to be ineffective***

The most significant market risks KBC Bank Group faces are interest rate, foreign exchange and bond and equity price risks. Changes in interest rate levels, yield curves and spreads may affect the interest rate margin realized between lending and borrowing costs. Changes in currency rates affect the value of assets and liabilities denominated in foreign currencies and may affect income from foreign exchange dealing. The performance of financial markets may cause changes in the value of KBC Bank Group's investment and trading portfolios.

KBC Bank Group uses a range of instruments and strategies to hedge against market risks. If these instruments and strategies prove ineffective or only partially effective, KBC Bank Group may suffer losses. Unforeseen market developments such as the development of government bonds of various countries that occurred in 2011 and 2012 may significantly reduce the effectiveness of the measures taken by KBC Bank Group to hedge risks. Gains and losses from ineffective risk-hedging measures may heighten the volatility of the results achieved by KBC Bank Group and could therefore have a material adverse effect on KBC Bank Group's business, results of operations and financial condition.

***A downgrade in the credit rating of KBC Bank Group may limit access to certain markets and counterparties and may necessitate the posting of additional collateral to counterparties or exchanges***

The credit ratings of KBC Bank Group are important to maintaining access to key markets and trading counterparties. The major rating agencies regularly evaluate KBC Bank Group and its securities, and their ratings of debt and other securities are based on a number of factors, including financial strength, as well as factors not entirely within the control of KBC Bank Group, including conditions affecting the financial services industry generally or the rating of the countries in which it operates. In light of the difficulties in the financial services industry and the financial markets, there can be no assurance that KBC Bank Group will maintain the current ratings.

KBC Bank Group's failure to maintain its credit ratings could adversely affect the competitive position, make entering into hedging transactions more difficult and increase borrowing costs or limit access to the capital markets or the ability of KBC Bank Group to engage in funding transactions at all. A further reduction in KBC Bank Group credit ratings also could have a significant impact on certain trading revenues, particularly in those businesses where longer term counterparty performance is critical. In connection with certain trading agreements, KBC Bank Group may be required to provide additional collateral in the event of a credit ratings downgrade.

***KBC Bank Group's risk management policies, procedures and methods may leave it exposed to unidentified, unanticipated or incorrectly quantified risks, which could lead to material losses or material increases in liabilities***

KBC Bank Group devotes significant resources to developing risk management policies and models, procedures and assessment methods for its banking and asset management businesses, KBC Bank Group applies both quantitative and qualitative methods to arrive at quantifications of risk exposures. These include a.o. value-at-risk ("VAR") models, back testing, Probability of Default ("PD") models, Loss Given Default ("LGD") models, asset valuation models and stress tests as well as risk assessment methods.

Nonetheless, such risk management techniques and strategies may not be fully effective in assessing risk exposure in all economic and market environments or against all types of risk, including risks that KBC Bank Group fails to identify or anticipate. Some of the models and metrics used are based upon observed historical behaviour as well as future predictions. Accordingly, the models used by KBC Bank Group may fail to predict or predict incorrectly future risk exposures and KBC Bank Group's losses could therefore be significantly greater than such measures would indicate. In addition, the risk management methods used by KBC Bank Group do not take all risks into account and could prove insufficient. If prices move in a way that KBC Bank Group's risk modelling has not anticipated, KBC Bank Group may experience significant losses. These failures can be exacerbated where other market participants are using models that are similar to those of KBC Bank Group. In certain cases, it may also be difficult to reduce risk positions due to the activity of other market participants or widespread market dislocations. Furthermore, other risk management methods depend on the evaluation of information regarding markets, customers or other publicly-available information. Such information may not always be accurate or up-to-date.

Accordingly, KBC Bank Group's losses could be significantly greater than such measures would indicate and unanticipated or incorrectly quantified risk exposures could result in material losses in KBC Bank Group's banking and asset management businesses.

***KBC Bank Group is exposed to the risk of breaches of compliance-related requirements in connection with the exercise of its business activity, such as provisions for limitation of money laundering***

The possibility of inadequate or erroneous internal and external processes and systems, regulatory problems, breaches of compliance-related provisions in connection with the exercise of business activities, such as rules to prevent money laundering, human errors and deliberate legal violations such as fraud cannot be ruled out. KBC Bank Group endeavours to hedge such risks by implementing appropriate control processes tailored to its business, the market and regulatory environment in which it operates. Nevertheless, it is possible that these measures prove to be ineffective in relation to particular or all operational risks to which KBC Bank Group is exposed. Even though KBC Bank Group endeavours to insure itself against the most significant operational risks, it is not possible to obtain insurance cover for all the operational risks on commercially acceptable terms on the market. Should one, some or all of the risks described in this paragraph materialise, KBC Bank Group business, results of operations and financial condition could be materially adversely affected.

***Litigation or other proceedings or actions may adversely affect KBC Bank Group's business, financial condition and results of operations***

KBC Bank Group's business is subject to the risk of litigation by customers, employees, shareholders or others through private actions, administrative proceedings, regulatory actions or other litigation. Given the complexity of the relevant circumstances and corporate transactions underlying these proceedings, together with the issues relating to the interpretation of applicable law, it is inherently difficult to estimate the potential liability related to such liability risks, to evaluate the outcome of such litigation or the time when such liability may materialise. Management makes estimates regarding the outcome of legal, regulatory and arbitration matters and creates provisions when losses with respect to such matters are deemed probable and can be reasonably estimated. Estimates, by their nature, are based on judgment and currently available information and involve a variety of factors, including but not limited to the type and nature of the litigation, claim or proceeding, the progress of the matter, the advice of legal counsel and other advisers, possible defences and previous experience in similar cases or proceedings. Legal proceedings with remote or non quantifiable outcomes are not provided for, and KBC Bank Group may be required to cover litigation losses which are not covered by such provision, including for example series of similar proceedings. As a result, there can be no assurance that provisions will be sufficient to fully cover the possible losses arising from litigation proceedings, and KBC Bank Group cannot give any assurance that a negative outcome in one or more of such proceedings would not have a material adverse effect on KBC Bank Group's business, results of operations or financial condition.

Furthermore, plaintiffs in legal proceedings may seek recovery of large or indeterminate amounts or other remedies that may affect KBC Bank Group's ability to conduct business, and the magnitude of the potential loss relating to such actions may remain unknown for substantial periods of time. Also, the cost to defend future actions may be significant. There may also be adverse publicity associated with litigation that could decrease customer acceptance of its services, regardless of whether the allegations are valid or whether they are ultimately found liable (see "*General Information – Litigation*" below).

As a result, litigation may adversely affect KBC Bank Group's business, financial condition and results of operations.

***KBC Bank Group is exposed to risks on account of direct and indirect pension obligations***

KBC Bank Group has various direct and indirect pension obligations towards its current and former staff. These obligations therefore entail various risks which are similar to, amongst others, risks in a life insurance company and risks involving a capital investment. Risks, however, may also arise due to changes in tax or other legislation, and/or in judicial rulings, as well as inflation rates or interest rates. Any of these risks could have a material adverse effect on KBC Bank Group's business, results of operations and financial condition.

**Risks related to KBC Group's insurance business**

***KBC Group is exposed to certain risks relating to its insurance operations, including underwriting risk***

The results and financial situation of KBC's insurance operations depend on its ability to select and underwrite risks, and in particular the ability to accurately price its different insurance products, to establish appropriate loss reserves to cover the underwritten risks and the performance of its obligations, and, with respect to its life operations and pension products, to perform correct statistical and actuarial projections regarding life expectancies and factors related to pension claims.

Following the above, KBC Group's ability to set adequate premium rates can be adversely affected by several factors, including the lack of sufficient reliable data, the incomplete or incorrect analysis of available data, the

uncertainties inherent in estimates and assumptions (in particular with respect to the number and amount of claims to be covered by premiums), the application of inappropriate or inadequate formulae or methodologies, unanticipated changes in the regulatory and judicial framework as well as changes in claims settlement practices. KBC Group uses its experience in this sector and information available in the market to develop estimates of revenues from future insurance policies. However, future claims may significantly exceed the estimates used to price its products, both in terms of volume and amount, which could result in material adverse effects on KBC Group's insurance business, results of operations and financial condition.

***Risks related to KBC Group's insurance business, including the impact of interest rate fluctuations***

KBC Group is dependent on the level of insurance services required by its customers. KBC Group's insurance business faces substantial competitive pressure that could adversely affect the results of its operations. Moreover, its liquidity position could be adversely impacted by substantial outflows in life insurance products.

While KBC Group reduces the impact of interest rate fluctuations on its life insurance business by transferring interest rate exposure to some policyholders through product design, KBC Group's insurance business can be adversely affected by sustained low interest rates as well as certain interest rate movements. In particular, the profitability of spread-based insurance products depends in large part upon the ability to manage interest rate spreads and the credit and other risks inherent in the investment portfolio. In addition, certain of its traditional life insurance products provide for guaranteed returns. Although the impact of such guarantees on results of operations will be spread out over a period of years in a sustained low interest rate environment, such guarantees may also affect profitability. There can be no assurance that KBC Group will be able to successfully manage interest rate spreads or the potential negative impact of risks associated with sustained low rates or interest rate changes.

***The EU Commission is currently in the process of introducing a new regime governing solvency margins and provisions in relation to insurance undertakings, the effect of which is uncertain***

The EU Commission is carrying out a wide-ranging review in relation to solvency margins and provisions (the project being known as "Solvency II"). It is intended that the new regime for insurers and reinsurers (apart from very small firms) will apply more risk-sensitive standards to capital requirements, bring insurance regulation more closely in line with banking and security regulation with a view to avoiding regulatory arbitrage, align regulatory capital with economic capital and introduce an enhanced degree of public disclosure.

The European Parliament and Council of the European Union approved the directive containing the framework principles of Solvency II on 22 April and 5 May 2009, respectively. Adaptations to the directive are expected to be adopted in 2013. The new legislation is currently foreseen to become fully applicable on 1 January 2014.

However, it is still uncertain when the Solvency II rules will be finalised before the EU's target deadline of 2014, as well as how the final form of those rules might look. KBC Group cannot therefore predict the exact impact that the rules will have on KBC Group, its insurance business, capital requirements, financial condition, key risk management resources or results of operations.

Given the uncertainty of future implementation of Solvency II, there can be no assurance that KBC Group or its insurance business will not need to strengthen its solvency if and when Solvency II enters into force.

## **Other risks related to KBC Group**

### ***Minimum regulatory capital and liquidity requirements***

KBC Group is subject to the risk, inherent in all regulated financial businesses, of having insufficient capital resources to meet the minimum regulatory capital requirements. Under Basel II, capital requirements are inherently more sensitive to market movements than under previous regimes. Capital requirements will increase if economic conditions or negative trends in the financial markets worsen. Any failure of KBC Group to maintain its minimum regulatory capital ratios could result in administrative actions or sanctions, which in turn may have a material adverse impact on KBC Group's results of operations. A shortage of available capital may restrict KBC Group's opportunities for expansion.

In the future, under the Basel III proposals ("**Basel III**"), capital and liquidity requirements will increase. On 17 December 2009, the Basel Committee on Banking Supervision (the "**Basel Committee**") proposed a number of fundamental reforms to the regulatory capital framework in its consultative document entitled "Strengthening the resilience of the banking sector". The Basel Committee published its economic impact assessment on 18 August 2010 and, on 12 September 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee, announced further details of the proposed substantial strengthening of existing capital requirements. On 16 December 2010 the Basel Committee issued its final view on Basel III.

There can be no assurance that, prior to its implementation (which may be subject to delay in implementation associated with delays in the implementation of CRD IV), the Basel Committee will not amend the package of reforms described above. Further, the European Commission and/or the National Bank of Belgium may implement the package of reforms in a manner that is different from that which is currently envisaged, or may impose additional capital and liquidity requirements on Belgian financial institutions.

If the regulatory capital requirements, liquidity restrictions or ratios applied to KBC Group are increased in the future, any failure of KBC Group to maintain such increased capital and liquidity ratios could result in administrative actions or sanctions, which may have an adverse effect on KBC Group's results of operations.

### ***KBC Group is highly concentrated in and hence vulnerable to European sovereign exposure, in particular in its home country Belgium***

KBC Group conducts the vast majority of its business in the European Union (as at 31 December 2011, approximately 94% of its business). Part of that business has led to exposure by KBC Group towards various countries in the European Union, including certain countries which have come under market pressure. Given the recent political, economical and financial developments in most of the European countries, KBC Group incurs a risk that those countries will no longer be able to comply with the terms and conditions of their exposure vis-à-vis KBC Group. If such sovereign risk would materialise, KBC Group's business, financial condition and results of operation could be materially adversely affected. Exposure towards the PIIGS countries has been reduced and been replaced by a further increase in the exposure towards Belgian sovereign debt. See further "*Description of the Issuer – Risk management – Sovereign debt exposure*".

### ***KBC Group is exposed to potential losses stemming from structured products portfolios, including its ABS and CDO portfolios***

Structured credit activities of KBC Group entities relate to ABSs and CDOs, which are defined as follows:

- ABSs are bonds or notes backed by loans or accounts receivable originated by providers of credit, such as banks and credit card companies. Typically, the originator of the loans or accounts receivable transfers the credit risk to a trust, which pools these assets and repackages them as securities. These securities are then underwritten by brokerage firms, which offer them to the public.

- CDOs are a type of asset-backed security and a structured finance product in which a distinct legal entity, a Special Purpose Vehicle (“SPV”), issues bonds or notes against an investment in an underlying asset pool. Pools may differ with regard to the nature of their underlying assets and can be collateralized either by a portfolio of bonds, loans and other debt obligations, or be backed by synthetic credit exposures through use of credit derivatives and credit -linked notes.

The claims issued against the collateral pool of assets are prioritized in order of seniority by creating different tranches of debt securities, including one or more investment grade classes and an equity/first loss tranche. Senior claims are insulated from default risk to the extent that the more junior tranches absorb credit losses first. As a result, each tranche has a different priority of payment of interest and/or principal and may thus have a different rating.

KBC Group was active in the field of structured credits, both as an originator and an investor. Since mid 2007, KBC Group tightened its strategy. As an originator, KBC Group also takes on other roles such as sponsor, when it provides liquidity support to the related SPVs. KBC Group also invested in structured credit products. These investments appear on KBC Group’s balance sheet. The risks linked to these structured products portfolios may have an adverse effect on KBC Group’s business, financial condition and results of operation. See further “*Description of the Issuer – Risk management – Structured credit exposure*”.

***Risks associated with the government support and the associated EU Plan***

The acceptance of government support also includes the acceptance of related risks and obligations – KBC Group’s ability to successfully execute its strategic plan is not assured.

The acceptance of government support and the approval of these measures under European Union State Aid rules was subject to submission by the Belgian authorities of a restructuring plan for KBC Group containing measures to safeguard its long-term viability and to ensure KBC Group’s capacity to repay within a reasonable timeframe the capital received. This restructuring plan was approved on 18 November 2009, as amended on 27 July 2011 and further amended on 20 December 2012 in relation to the State guarantee. Under the terms of such approval, the European Commission has imposed a range of conditions on KBC Group, including divestment, conduct of business and other restrictions, some of which could materially impact KBC Group or result in dilution for the existing shareholders of KBC Group.

Approval by European Commission of the restructuring plan was also subject to the imposition of certain behavioural commitments imposed on KBC Group, such as maintaining a minimum solvency ratio, respecting certain limitations on executive compensation, restrictions on acquisitions, and adhering to a price leadership ban subject to certain conditions. Furthermore, the acceptance of the government support has led to the supervision of the European Union and the presence of government representatives on the board of directors of KBC Group, thereby limiting KBC Group’s autonomy.

The strategic plan requires KBC Group and its subsidiaries to engage in a restructuring according to the terms outlined in such plan, including the disposal and downsizing of a significant number of its businesses (see “*Description of the Issuer – General description of activities of KBC Bank Group*” below). KBC Group has implemented a range of initiatives to give effect to the plan, including some important steps to derisk aspects of the merchant banking business unit. Such divestments are obligatory, and, while the European Commission has permitted KBC Group flexibility to avoid the need for conducting disposals at below book value prices, there can be no assurance that these divestments will be completed on favourable terms or at all and without any operational risk on behalf of KBC Group. The completion of any proposed divestments may be subject to a range of conditions, including but not limited to regulatory approval and other actions beyond KBC Group’s control. A number of divestment initiatives are at a preliminary stage, and there can be no assurance that any or all of the divestments will be completed within the envisioned timeframe, at the price or cost anticipated and without any impact on the profit or loss of KBC Group or at all. Additionally, there can be no assurance

that the disposal of one or more of the businesses will not negatively impact KBC Group's business, financial condition or results of operations in the future.

***While KBC Group strictly manages its operational risks, these risks remain inherent to its business***

KBC Group is exposed to many types of operational risks, including fraudulent and other criminal activities (both internal and external), breakdowns in processes or procedures and systems failure or non-availability. In addition, KBC Group may also be subject to disruptions of its operating systems, or of the infrastructure that supports it, arising from events that are wholly or partially beyond KBC Group's control (for example natural disasters, acts of terrorism, computer viruses, pandemics, transport or utility failures or external vendors not fulfilling their contractual obligations) which could give rise to losses in service to our customers and to loss or liability to KBC Group.

The operational risks that KBC Group faces include the possibility of inadequate or failed internal or external processes or systems, human error, regulatory breaches, employee misconduct or external events such as fraud. These events can potentially result in financial loss as well as harm to its reputation. Additionally, the loss of key personnel could adversely affect KBC Group's operations and results. Furthermore, KBC Group's risk management policies, procedures and methods may leave it exposed to unidentified, unanticipated or incorrectly quantified risks, which could lead to material losses or material increases in liabilities. Like any other business, KBC Group is also vulnerable to reputational risk and tries to mitigate and manage this as much as possible by always considering carefully all advantages and disadvantages of certain actions.

KBC Group attempts to keep operational risks at appropriate levels by maintaining a sound and well controlled environment in light of the characteristics of its business, the markets and the regulatory environments in which it operates. While these control measures mitigate operational risks, they do not eliminate them.

## DOCUMENTS INCORPORATED BY REFERENCE

The following documents, which have previously been published or are published simultaneously with this Prospectus and have been filed with the FSMA, shall be incorporated in, and form part of, this Prospectus:

- (a) the audited consolidated annual financial statements of the Issuer for the financial years ended 31 December 2010 and 31 December 2011, together, in each case, with the related auditors' report;
- (b) the semi-annual financial statements of the Issuer for the half year ended 30 June 2012;
- (c) the audited consolidated annual financial statements of KBC Group NV for the financial year ended 31 December 2011, together with the related auditors' report;
- (d) the Extended Quarterly Report 3Q2012 of KBC Group NV; and
- (e) the press releases dated
  - 8 October 2012 "KBC 2013 and beyond";
  - 15 October 2012 "KBC announces the proposed sale of its treasury shares as part of the strategic plan agreed with the European Commission";
  - 16 October 2012 "KBC has successfully sold its treasury shares as part of the strategic plan agreed with the European Commission";
  - 19 November 2012 "KBC announces its Belgian residential mortgage covered bonds programme";
  - 3 December 2012 "KBC successfully priced its inaugural mortgage covered bond Benchmark issue";
  - 4 December 2012 "Polish Financial Supervision Authority KNF approves merger of Kredyt Bank and Bank Zachodni WBK";
  - 4 December 2012 "KeBeK I acquires major part of the remaining private equity portfolio of KBC Private Equity";
  - 10 December 2012 "KBC announces state aid repayment and capital measures";
  - 10 December 2012 "KBC announces a successful placement of new ordinary shares";
  - 14 December 2012 "Results of the capital increase of KBC Group NV and effects on the transparency obligations";
  - 17 December 2012 "Total amount paid by KBC to Belgian Federal and Flemish Regional governments reaches 6.4 billion euro";
  - 20 December 2012 "KBC and Belgian government reach agreement on review of CDO guarantee agreement";
  - 24 December 2012 "Absolut Bank acquired by the Russian companies that manage the pension reserves of Non-State Pension fund 'BLAGOSOSTOYANIE'"; and
  - 28 December 2012 "KBC reaches agreement with the Republic of Slovenia regarding the sale of its remaining 22 % stake in NLB".

Following the publication of this Prospectus, a supplement may be prepared by the Issuer and approved by the FSMA in accordance with Article 16 of the Prospectus Directive. Statements contained in any such supplement (or contained in a document incorporated by reference therein) shall, to the extent applicable, be

deemed to modify or supersede statements contained in this Prospectus or in a document which is incorporated by reference in this Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus.

Copies of documents incorporated by reference in this Prospectus can be obtained from (i) the registered office of the Issuer and the website of KBC Group NV at [www.kbc.com](http://www.kbc.com) and (ii) the Luxembourg Stock Exchange's website at [www.bourse.lu](http://www.bourse.lu) and from the registered office of the Issuer.

### Specific items contained in “Documents Incorporated by Reference”

#### 1. KBC Bank NV

<b>Documents</b>	<b>Page Number</b>
<i>Audited consolidated annual financial statements of the Issuer and its consolidated subsidiaries for the financial year ended 31 December 2011*</i>	
report of the board of directors	5-60
balance sheet	67
income statement	65
cash flow statement	70
notes to the financial statements	73-151
auditors' report	62
statement of changes in equity	68-69
<i>Audited consolidated annual financial statements of the Issuer and its consolidated subsidiaries for the financial year ended 31 December 2010*</i>	
balance sheet	64
income statement	62
cash flow statement	67
notes to the financial statements	70-146
auditors' report	59-61
statement of changes in equity	65-66

\* Page references are to the English language PDF version of the relevant incorporated documents.

#### 2. KBC Group NV

<i>Audited consolidated annual financial statements of KBC Group NV and its consolidated subsidiaries for the financial year ended 31 December 2011*</i>	
report of the board of directors	5-82
balance sheet	112
income statement	110
cash flow statement	114
notes to the financial statements	116-175
auditors' report	108
statement of changes in equity	113

*Extended Quarterly Report 3Q2012 of KBC Group NV\**

report on 3Q2012	3-15
analysis of underlying earnings components	16-19
underlying results per business unit	20-32
consolidated financial statements according to IFRS	33-57
risk and capital management	58-67

\* Page references are to the English language PDF version of the relevant incorporated documents.

Information contained in the documents incorporated by reference other than information listed in the table above is for informational purposes only.

## TERMS AND CONDITIONS OF THE SECURITIES

*The following is the text of the Conditions of the Securities, save for the paragraphs in italics that shall not form part of the Conditions of the Securities:*

The U.S.\$ 1,000,000,000 8.00 per cent. Contingent Capital Securities due 25 January 2023 (the “**Securities**”, which expression shall in these Conditions, unless the context otherwise requires, include any further securities issued pursuant to Condition 12 and forming a single series with the Securities) of KBC Bank NV (the “**Issuer**”) are issued subject to and with the benefit of an Agency Agreement dated the Issue Date (such agreement as amended and/or supplemented and/or restated from time to time, the “**Agency Agreement**”) made between the Issuer and KBC Bank NV as paying agent and domiciliary agent (the “**Agent**” which expression shall include any successor or replacement Agent and any other paying agents appointed pursuant to the Agency Agreement, the “**Paying Agents**”).

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Agency Agreement. Copies of the Agency Agreement are available for inspection during normal business hours by the holders at the specified office of each of the Paying Agents. The holders are deemed to have notice of all the provisions of the Agency Agreement applicable to them. References in these Conditions to the Agent and the Paying Agents shall include any successor appointed under the Agency Agreement.

### 1. Form, Denomination and Title

The Securities are in dematerialised form in accordance with Articles 468 et seq. of the Belgian Companies Code (the “**Code**”). The Securities will be represented by a book entry in the records of the clearing system operated by the National Bank of Belgium (the “**NBB**”) or any successor thereto (the “**Securities Settlement System**”). The Securities can be held by their holders through the participants in the Securities Settlement System, including Euroclear Bank SA/NV (“**Euroclear**”) and Clearstream Banking société anonyme (“**Clearstream Luxembourg**”) and through other financial intermediaries which in turn hold the Securities through Euroclear and Clearstream Luxembourg or other participants in the Securities Settlement System. The Securities are transferred by account transfer.

Holders are entitled to exercise the rights they have, including but not limited to exercising their voting rights and other associative rights (as defined for the purposes of Article 474 of the Code) against the Issuer upon submission of an affidavit drawn up by the NBB, Euroclear, Clearstream Luxembourg or any other participant duly licensed in Belgium to keep dematerialised securities accounts showing their position in the Securities (or the position held by the financial institution through which their Securities are held with the NBB, Euroclear, Clearstream Luxembourg or such other participant, in which case an affidavit drawn up by that financial institution will also be required).

For such purposes, each person who is from time to time shown in the records of a participant, sub-participant or the NBB as operator of the Securities Settlement System as the holder of a particular amount of Securities shall be treated as the holder of those Securities and any certificate or other document issued by any participant or the NBB shall be conclusive and binding.

The Securities cannot be physically delivered and may not be converted into bearer securities (*effecten aan toonder/ titres au porteur*).

The Securities have a denomination of U.S.\$200,000 and can only be settled through the Securities Settlement System in nominal amounts equal to that denomination.

## **2. Status of the Securities**

### **2.1 Status**

The Securities constitute direct, unconditional, unsecured and subordinated obligations of the Issuer and rank *pari passu* without any preference among themselves. The rights and claims of the holders are subordinated as described in Condition 2.2.

### **2.2 Subordination**

In the event of an order being made or an effective resolution being passed for the liquidation, dissolution or winding-up of the Issuer by reason of bankruptcy (*faillissement/faillite*) or otherwise (except, in any such case, a solvent liquidation, dissolution or winding-up solely for the purposes of a reorganisation, reconstruction or amalgamation of the Issuer or the substitution in place of the Issuer of a successor in business of the Issuer), the rights and claims of the holders against the Issuer in respect of or arising under (including any damages awarded for breach of any obligation under) the Securities shall, subject to any obligations which are mandatorily preferred by law, rank (a) junior to the rights and claims of holders of all depositors and other unsecured and unsubordinated creditors, (b) at least *pari passu* with the rights and claims of holders of all other Subordinated Indebtedness and (c) senior to the rights and claims of holders of Junior Obligations.

### **2.3 No set-off**

Subject to applicable law, no holder of a Security may exercise or claim any right of set-off in respect of any amount owed to it by the Issuer arising under or in connection with the Securities and each holder of a Security shall, by virtue of his subscription, purchase or holding of a Security, be deemed to have waived all such rights of set-off.

### **2.4 Claims subject to Contingent Write-down**

Any claim of any holder in respect of or arising under the Securities will be subject to, and superseded by, any Contingent Write-down pursuant to Condition 6, irrespective of whether the relevant Trigger Event Write-down Notice has been given prior to or after the occurrence of any event described in Condition 9 or any other event.

*In respect of this Condition 2, reference is made to statutory loss absorption as more fully described in the risk factors entitled “Basel III Reforms- Loss absorbency at the point of non-viability”, “Statutory loss absorption”, “Bank recovery and resolution regimes and intervention measures available to regulators” and “Change of law”.*

## **3. Interest**

### **3.1 Interest rate and Interest Payment Dates**

Subject to any Contingent Write-down pursuant to Condition 6, the Securities bear interest on their outstanding principal amount at the applicable Rate of Interest from (and including) the Issue Date. Interest shall be payable semi-annually in arrear on each Interest Payment Date commencing on 25 July 2013, subject in any case as provided in Condition 4.

The amount of interest per U.S.\$200,000 in principal amount of Securities payable on each Interest Payment Date in relation to an Interest Period falling in the Initial Period will be U.S.\$ 8,000.

The rate of interest for each Interest Period commencing on or after the Reset Date will be equal to the sum of (i) the Reset Rate of Interest and (ii) the Margin, all as determined by the Agent. The Agent will, as soon as practicable after 11:00 a.m. (New York time) on the Reset Rate of Interest Determination Date, determine the Reset Rate of Interest and calculate the amount of interest payable per U.S.\$200,000 in principal amount of

Securities on the Interest Payment Dates in relation to each Interest Period commencing on or after the Reset Date (each a “**Reset Interest Amount**”).

### 3.2 Interest Accrual

Subject to a Contingent Write-down pursuant to Condition 6, each Security will cease to bear interest from and including its due date for redemption unless payment of the principal in respect of the Security is improperly withheld or refused or unless default is otherwise made in respect of payment.

In such event, interest will continue to accrue until whichever is the earlier of:

- (i) the date on which all amounts due in respect of such Security have been paid; and
- (ii) five days after the date on which the full amount of the moneys payable in respect of such Securities has been received by the Agent and notice to that effect has been given to the holders in accordance with Condition 10.

### 3.3 Publication of Reset Rate of Interest and Reset Interest Amount

The Agent will cause the Reset Rate of Interest and the Reset Interest Amount determined by it to be notified to each listing authority, stock exchange and/or quotation system (if any) by which the Securities have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but in any event not later than the Reset Date. Notice thereof shall also promptly be given to the holders in accordance with Condition 10.

### 3.4 Notifications etc.

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 4 by the Agent will (in the absence of manifest error) be binding on the Issuer, the Paying Agents and the holders and (subject as aforesaid) no liability to any such person will attach to the Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

### 3.5 Calculation of interest amounts and any broken amounts

Save as specified in Condition 3.1, the amount of interest payable in respect of U.S.\$200,000 in principal amount of the Securities (including, for the avoidance of doubt, the Reset Interest Amount) for any period shall be calculated by the Agent:

- (a) applying the applicable Rate of Interest to U.\$200,000;
- (b) multiplying the product thereof by the Day Count Fraction; and
- (c) rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

## 4. Payments

### 4.1 Payments in respect of Securities

For so long as the Securities are held in the Securities Settlement System, payments in respect of the Securities shall be made to holders who have delivered to the Agent evidence satisfactory to the Agent that they are a holder. A holder shall have to submit such evidence only once, by no later than the date falling two Business Days in Brussels prior to the due date for payment. Records of such payments shall be maintained by the Agent.

Payments will be made by credit or transfer to an account in U.S. dollars maintained by the payee with or, at the option of the payee, by a cheque in U.S. dollars drawn on, a bank in New York.

Any payment so made will be a good discharge for the Issuer.

#### 4.2 Payments on Business Days

If the due date for payment of any amount in respect of any Security is not a Business Day in Brussels and New York City, the holder shall not be entitled to payment of the amount due until the next succeeding such Business Day and shall not be entitled to any further interest or other payment in respect of any such delay.

#### 4.3 U.S. Paying Agents

Notwithstanding the foregoing, payments will be made at the specified office in the United States of any Paying Agent and (if no such appointment is then in effect) the Issuer shall appoint and maintain a Paying Agent with a specified office in New York City at which payments will be made:

- (a) if (i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that the Paying Agents would be able to make payment at the specified offices outside the United States of the full amount payable with respect to the Securities in the manner provided above when due, (ii) payment of the full amount due in U.S. dollars at all specified offices of the Paying Agents outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions and (iii) the payment is then permitted under United States law; and
- (b) at the option of the relevant holder, if the payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences for the Issuer.

#### 4.4 Payments subject to Applicable Laws

Payments in respect of principal and interest on Securities are subject in all cases to (i) any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 7 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 or otherwise imposed pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code, any regulations or agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the holders in respect of such payments.

### 5. Redemption and Purchase

#### 5.1 Redemption at Maturity

Unless previously redeemed or purchased and cancelled as provided below and subject to any Contingent Write-down pursuant to Condition 6, the Issuer will redeem the Securities on 25 January 2023 at their principal amount together with interest accrued to, but excluding, the date of redemption and any additional amounts.

#### 5.2 Redemption for Taxation Reasons

Subject to Condition 5.5 if:

- (a) as a result of any change in, or amendment to, the laws or regulations of Belgium, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective after 25 January 2013, on the next Interest Payment Date the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 7;
- (b) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; and
- (c) the Issuer is able to demonstrate to the satisfaction of the Lead Regulator that the change set out in (a) above is material and was not reasonably foreseeable at Issue Date,

the Issuer may at its option, having given not less than 30 nor more than 60 days' notice to the holders in accordance with Condition 10 (which notice shall be irrevocable), redeem the Securities in whole (but not in part), at any time at their principal amount together with interest accrued to, but excluding, the date of redemption and any additional amounts, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts, were a payment in respect of the Securities then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Agent a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of the change or amendment.

#### 5.3 Redemption upon a Regulatory Event

Subject to Condition 5.5, upon the occurrence of a Regulatory Event, the Issuer may at its option, having given not less than 30 nor more than 60 days' notice to the holders in accordance with Condition 10 (which notice shall be irrevocable), redeem the Securities, in whole (but not in part), at any time at their principal amount together with interest accrued to, but excluding, the date of redemption and any additional amounts. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Agent a certificate signed by two Directors of the Issuer stating that a Regulatory Event has occurred.

#### 5.4 Redemption at the Option of the Issuer

Subject to Condition 5.5, the Issuer may, having given:

- (a) not less than 15 nor more than 30 days' notice to the holders in accordance with Condition 10; and
- (b) notice to the Agent not less than 15 days before the giving of the notice referred to in (a)

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all (but not some only) of the Securities on the Reset Date at their principal amount together with interest accrued to, but excluding, the date of redemption and any additional amounts.

#### 5.5 Regulatory consent and Contingent Write-down

Any optional redemption of Securities pursuant to Conditions 5.2, 5.3 and 5.4 and any purchases of Securities pursuant to Condition 5.6 are subject to compliance with applicable regulatory requirements, including the prior approval of the Lead Regulator (if required) and to no Trigger Event having occurred.

#### 5.6 Purchases

Subject to Condition 5.5, the Issuer or any of its subsidiaries may at any time purchase Securities in any manner and at any price. Such Securities may be held, reissued or, at the option of the Issuer, surrendered to the Agent for cancellation.

#### 5.7 Cancellations

All Securities which are redeemed will forthwith be cancelled. All Securities so cancelled and the Securities purchased and cancelled pursuant to Condition 5.6 above shall be forwarded to the Agent and cannot be reissued or resold.

#### 5.8 Notices Final

Subject to Condition 5.5, upon the expiry of any notice as is referred to in Conditions 5.2, 5.3 or 5.4 above the Issuer shall be bound to redeem the Securities to which the notice refers in accordance with the terms of such Condition.

## 6. Contingent Write-down

### 6.1 Trigger Event

Upon the occurrence of a Trigger Event, a Contingent Write-down will occur on the relevant Trigger Event Write-down Date.

### 6.2 Trigger Event Write-down Notice

Upon the occurrence of a Trigger Event, the Issuer shall deliver to the Agent a certificate signed by two Directors of the Issuer stating a Trigger Event has occurred and will deliver a Trigger Event Write-down Notice to the holders in accordance with Condition 10 as follows:

- (i) in the case of a Trigger Event that has occurred as of any Quarterly Financial Period End Date, on or within five Business Days in Brussels after the relevant Ordinary Reporting Date; or
- (ii) in the case of a Trigger Event that has occurred as of any Extraordinary Calculation Date, on or as soon as practicable after such Extraordinary Calculation Date.

### 6.3 Contingent Write-down

On the Trigger Event Write-down Date,

- (i) the holders will be automatically deemed to irrevocably waive their right to receive, and no longer have any rights against the Issuer with respect to, repayment of the aggregate principal amount of the Securities written down pursuant to paragraph (iv) below;
- (ii) the Issuer will pay (A) any accrued and unpaid interest on the Securities and (B) any additional amounts as provided or referred to in Condition 7, in the case of each of sub-clauses (A) and (B) of this paragraph (ii), if and only to the extent that such interest or additional amounts, as applicable, became due and payable to the holders prior to the relevant Trigger Event Write-down Notice Date;
- (iii) except as described in paragraph (ii) above, all rights of any holder for payment of any amounts under or in respect of the Securities (including, without limitation, any amounts arising as a result of, or due and payable upon the occurrence of, an event described in Condition 9) will become null and void, irrespective of whether such amounts have become due and payable prior to the relevant Trigger Event Write-down Notice Date or the relevant Trigger Event Write-down Date; and
- (iv) the full principal amount of each Security will automatically be written down to zero, the Securities will be cancelled and all references to the principal amount of the Securities in these Conditions will be construed accordingly.

The events described in paragraphs (i) to (iv) above are referred to as a “**Contingent Write-down**”.

## 7. Taxation

### 7.1 Payment without Withholding

All payments of principal and/or interest in respect of the Securities by the Issuer will be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or other charges of whatever nature imposed, levied or collected by or on behalf of Belgium, or any political subdivision or any authority thereof or therein having power to tax unless such withholding or deduction is required by law. In such event, the Issuer shall pay such additional amounts as shall be necessary in order that the net amounts received by the holders after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Securities, as the case may be, in

the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Security:

- (i) the holder of which is liable for such taxes, duties, assessments or other charges in respect of such Security by reason of his having some connection with Belgium other than the mere holding of such Security; or
- (ii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council Meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive or any agreement between the EU and any other country or territory providing for similar measures; or
- (iii) where such withholding or deduction is imposed because the holder of the Security is not an Eligible Investor (unless that person was an Eligible Investor at the time of its acquisition of the Security but has since ceased (as such term is defined from time to time under Belgian law) being an Eligible Investor by reason of a change in the Belgian tax laws or regulations or in the interpretation or application thereof or by reason of another change which was outside that person's control), or is an Eligible Investor but is not holding the Security in an exempt securities account with a qualifying clearing system in accordance with the Belgian law of 6 August 1993 relating to transactions in certain securities and its implementation decrees.

## 7.2 Additional Amounts

Any reference in these Conditions to any amounts in respect of the Securities shall be deemed also to refer to any additional amounts which may be payable under this Condition.

## 8. Prescription

Claims for principal or interest shall become void ten or five years, respectively, after their due date, unless application to a court of law for such payment has been initiated on or before such respective time.

## 9. Enforcement

If default is made in the payment of any principal or interest due in respect of the Securities or any of them and such default continues for a period of 30 days or more after the due date any holder may, without further notice, institute proceedings for the dissolution or liquidation of the Issuer in Belgium.

In the event of the dissolution or liquidation (other than on a solvent basis) of the Issuer (including, without limiting the generality of the foregoing, bankruptcy (*faillissement/faillite*), and judicial or voluntary liquidation (*liquidation volontaire ou forcée/vrijwillige of gedwongen vereffening*), under the laws of Belgium), any holder may give notice to the Issuer that the Security is, and (subject to any Contingent Write-down pursuant to Condition 6) it shall accordingly forthwith become, immediately due and repayable at its principal amount, together with interest accrued to the date of repayment.

No remedy against the Issuer other than as referred to in this Condition 9, shall be available to the holders, whether for recovery of amounts owing in respect of the Securities or in respect of any breach by the Issuer of any of its obligations under or in respect of the Securities.

## 10. Notices

Notices to the holders shall be valid if delivered by or on behalf of the Issuer to the NBB for communication by it to the participants of the Securities Settlement System. Any such notice shall be deemed given on the date and at the time it is delivered to the Securities Settlement System. For so long as the Securities are admitted to listing and trading on a regulated market, any notices to holders must also be published in accordance with the rules and regulations of such market and, in addition to the foregoing, will be deemed validly given on the date of such publication.

In addition to the above communications and publications, with respect to notices for meetings of holders, convening notices for such meetings shall be made in accordance with Article 570 of the Code, which currently requires an announcement to be published not less than fifteen days prior to the meeting, in the Belgian Official Gazette (*Moniteur belge/Belgisch Staatsblad*) and in a newspaper with national distribution in Belgium.

## 11. Meeting of holders and Modification

### 11.1 Meeting of holders

The Agency Agreement contains provisions for convening meetings of holders to consider matters relating to the Securities, including the modification of any provision of these Conditions or the Agency Agreement, in accordance with the rules of the Code.

All meetings of holders will be held in accordance with the provisions of Article 568 et seq. of the Code with respect to bondholders meetings, provided however that the Issuer shall promptly convene a meeting of holders upon the request in writing of holders holding not less than one-tenth of the aggregate principal amount of the outstanding Securities. Subject to the quorum and majority requirements set out in Article 574 of the Code, and if required thereunder subject to validation by the court of appeal of Brussels, the meeting of holders shall be entitled to exercise the powers set out in Article 568 of the Code and to modify or waive any provision of these Conditions, provided however that any proposal (i) to change any date fixed for payment of principal or interest in respect of the Securities, to reduce the amount of principal or interest on any date in respect of the Securities, to alter the method of calculating the amount of any payment in respect of the Securities or the date for any such payment; (ii) to alter any provision relating to Contingent Write-down; (iii) to change the currency of payments under the Securities; or (iv) to change the quorum requirements relating to meetings or the majority required to pass an extraordinary resolution (each, a “**Reserved Matter**”) may only be sanctioned by an extraordinary resolution passed at a meeting of holders at which two or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Securities form a quorum. Any extraordinary resolution duly passed at any such meeting shall be binding on all the holders, whether present or not.

Convening notices for meetings of holders shall be made in accordance with Article 570 of the Code, which currently requires an announcement to be published not less than fifteen days prior to the meeting in the Belgian Official Gazette (*Moniteur belge/Belgisch Staatsblad*) and in a newspaper of national distribution in Belgium. Convening notices shall also be made in accordance with Condition 10.

The Agency Agreement provides that, if authorised by the Issuer, a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in nominal amount of the Securities outstanding shall for all purposes be as valid and effective as an extraordinary resolution passed at a meeting of holders duly convened and held, provided that the terms of the proposed resolution have been notified in advance to the holders through the relevant clearing system(s). Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more holders.

Resolutions of holders will only be effective if such resolutions have been approved by the Issuer.

#### 11.2 Modification

The Agent and the Issuer may agree, without the consent of the holders, to:

- (i) any modification (except such modifications in respect of which an increased quorum is required, as mentioned above) of the Agency Agreement which is not prejudicial to the interests of the holders; or
- (ii) any modification of these Conditions or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of law.

Any such modification shall be binding on the holders and any such modification shall be notified to the holders in accordance with Condition 10 as soon as practicable thereafter.

### 12. Further Issues

The Issuer may from time to time without the consent of the holders create and issue further Securities, having terms and conditions the same as those of the Securities, or the same except for the amount of the first payment of interest, which may be consolidated and form a single series with the outstanding Securities.

### 13. Governing Law and Submission to Jurisdiction

#### 13.1 Governing Law

The Agency Agreement and the Securities (except Conditions 1, 2 and 11) (and, in each case, any non-contractual obligations arising therefrom or in connection therewith) shall be governed by, and construed in accordance with, English law. Conditions 1, 2 and 11 of the Securities and any non-contractual obligations arising therefrom or in connection therewith shall be governed by, and construed in accordance with, Belgian law.

#### 13.2 Jurisdiction of English Courts

The Issuer agrees, for the exclusive benefit of the holders that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Agency Agreement, the Securities (including, in each case, any dispute relating to any non-contractual obligations arising therefrom or in connection therewith) and that accordingly any suit, action or proceedings (together referred to as “**Proceedings**”) arising out of or in connection with the Agency Agreement, the Securities (including, in each case, any Proceedings relating to any non-contractual obligation arising therefrom or in connection therewith) may be brought in such courts. The Issuer hereby irrevocably waives any objection which it may have now or hereafter to the laying of the venue of any such Proceedings in any such court and any claim that any such Proceedings have been brought in an inconvenient forum and hereby further irrevocably agrees that a judgment in any such Proceedings brought in the English courts shall be conclusive and binding upon it and may be enforced in the courts of any other jurisdiction. Nothing contained in this Condition shall limit any right to take Proceedings against the Issuer in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not. The Issuer appoints KBC Bank NV at its London branch at 111 Old Broad Street, London EC2N 1BR, England as its agent for service of process for Proceedings in England, and undertakes that, in the event of KBC Bank NV, London branch ceasing so to act or ceasing to be registered in England, it will appoint another person as its agent for service of process in England in respect of any Proceedings in England. Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

## 14. Rights of Third Parties

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Security, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

## 15. Definitions

In these Conditions:

**“5-year Mid-Swap Rate”** means:

- (i) the mid-swap rate for U.S. dollar swaps with a term of 5 years which appears on the Screen Page as of 11:00 a.m. (New York City time) on the Reset Rate of Interest Determination Date; or
- (ii) if the 5-year Mid-Swap Rate does not appear on the Screen Page at such time on the Reset Rate of Interest Determination Date, the Reset Reference Bank Rate on such Reset Rate of Interest Determination Date.

**“5-year Mid-Swap Rate Quotations”** means the arithmetic mean of the bid and offered rates for the semi-annual fixed leg (calculated on a 30/360 day count basis) of a fixed-for-floating U.S. dollar interest rate swap transaction which:

- (i) has a term of 5 years commencing on the Reset Date;
- (ii) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market; and
- (iii) has a floating leg based on 3-month U.S. dollar LIBOR (calculated on an Actual/360 day count basis).

**“Applicable Banking Regulations”** means at any time the laws, regulations, requirements, guidelines and policies relating to capital adequacy then in effect in Belgium including, without limitation to the generality of the foregoing, those regulations, requirements, guidelines and policies relating to capital adequacy then in effect of the Lead Regulator (whether or not such requirements, guidelines or policies have the force of law and whether or not they are applied generally or specifically to the Issuer or KBC Group).

**“Business Day”** means, in relation to any place, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in that place.

**“CET1 Capital”** means

- (i) as of any Quarterly Financial Period End Date or Extraordinary Calculation Date that falls before the CRD IV Adoption Date, the sum, expressed in euro, of all amounts that constitute core tier 1 capital of KBC Group as of such date, less any deductions (other than in respect of insurance undertakings forming part of KBC Group) from core tier 1 capital required to be made as of such date, and
- (ii) as of any Quarterly Financial Period End Date or Extraordinary Calculation Date that falls on or after the CRD IV Adoption Date, the sum, expressed in euro, of all amounts that constitute common equity tier 1 capital of KBC Group as of such date, less any deductions (other than in respect of insurance undertakings forming part of KBC Group) from common equity tier 1 capital required to be made as of such date,

in each case as calculated by KBC Group NV on a consolidated basis in accordance with the capital adequacy standards and guidelines of the Lead Regulator applicable to KBC Group on such Quarterly Financial Period

End Date or Extraordinary Calculation Date, as the case may be (which calculation shall be binding on the holders).

For the avoidance of doubt,

- (i) the term "core tier 1 capital" as used in this definition is the sum of all amounts that constitute the total tier 1 capital of KBC Group less any tier one qualifying hybrid capital instruments (other than the Yield Enhanced Securities) as interpreted and applied in accordance with the capital adequacy standards and guidelines of the Lead Regulator from time to time; and
- (ii) the term "common equity tier 1 capital" as used in this definition shall have the meaning assigned to such term in CRD IV as interpreted and applied in accordance with the capital adequacy standards and guidelines of the Lead Regulator from time to time, but subject always to the transitional and grandfathering arrangements thereunder as interpreted by the Lead Regulator.

**"CET1 Ratio"** means, as of any Quarterly Financial Period End Date or Extraordinary Calculation Date, as the case may be, the ratio of CET1 Capital as of such date to the Risk Weighted Assets as of the same date, expressed as a percentage.

**"Code"** means the Belgian Companies Code.

**"Contingent Write-down"** has the meaning given in Condition 6.3.

**"CRD IV"** means, taken together, the (i) CRD IV Directive (ii) CRD IV Regulation and (iii) Future Capital Instruments Regulations.

**"CRD IV Adoption Date"** means the date on which the CRD IV Regulation is deemed to take effect in Belgium according to the terms of the CRD IV Regulation.

**"CRD IV Directive"** means a directive of the European Parliament and of the Council on the prudential supervision of credit institutions and investment firms, a draft of which was published on 20 July 2011, as implemented in Belgium and including as amended or replaced.

**"CRD IV Regulation"** means a regulation of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms, a draft of which was published on 20 July 2011, as implemented and/or applicable in Belgium and including as amended or replaced.

**"Day Count Fraction"** means, in respect of the calculation of an amount for any period of time (the **"Calculation Period"**), "30/360" which means the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

**"Y<sub>1</sub>"** is the year, expressed as a number, in which the first day of the Calculation Period falls;

**"Y<sub>2</sub>"** is the year, expressed as a number, in which the day immediately following the last day of the Calculation Period falls;

**"M<sub>1</sub>"** is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

**"M<sub>2</sub>"** is the calendar month, expressed as a number, in which the day immediately following the last day of the Calculation Period falls;

“**D<sub>1</sub>**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number is 31, in which case D<sub>1</sub> will be 30; and

“**D<sub>2</sub>**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30.

“**Eligible Investor**” means a person who is entitled to hold securities through a so-called "X-account" (being an account exempted from withholding tax) in a settlement system in accordance with Article 4 of the Belgian Royal Decree of 26 May 1994 on the collection and refund of withholding tax (as amended or replaced from time to time).

“**Extraordinary Calculation Date**” means any day (other than a Quarterly Financial Period End Date) on which the CET1 Ratio is calculated upon the instruction of the Lead Regulator.

“**Future Capital Instruments Regulations**” means any Applicable Banking Regulations that come into effect after the Issue Date and which prescribe (alone or in conjunction with any other rules or regulations) the requirements to be fulfilled by financial instruments for their inclusion in the regulatory capital of the Issuer or KBC Group (on a solo or consolidated basis) to the extent required by (i) the CRD IV Regulation or (ii) the CRD IV Directive.

“**holder**” means the holder from time to time of a Security as determined by reference to the records of the relevant clearing systems or financial intermediaries and the affidavits referred to in Condition 1.

“**Initial Period**” means the period from (and including) the Issue Date to (but excluding) the Reset Date.

“**Initial Rate of Interest**” means 8.00 per cent. per annum.

“**Interest Payment Date**” means 25 January and 25 July in each year, from and including 25 July 2013 to and including 25 January 2023.

“**Interest Period**” means each period beginning on (and including) the Issue Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date.

“**Issue Date**” means 25 January 2013.

“**Junior Obligations**” means all unsecured, subordinated, direct or indirect obligations of the Issuer that rank, or are expressed to rank, junior to the Issuer’s obligations under the Securities and all classes of share capital of the Issuer.

“**KBC Group**” means KBC Group NV and its subsidiaries for so long as KBC Group NV is the parent undertaking of the Issuer and if KBC Group NV is no longer the parent undertaking of the Issuer, all references herein to **KBC Group** shall be deemed to be to the Issuer and its subsidiaries and all references to **KBC Group NV** shall be to the Issuer.

“**Lead Regulator**” means the National Bank of Belgium or any successor entity primarily responsible for the prudential supervision of the Issuer.

“**Margin**” means 7.097 per cent.

“**Ordinary Reporting Date**” means each day on which Quarterly Financial Information is published by KBC Group NV (or a successor holding company of KBC Group NV).

“**Quarterly Financial Information**” means the financial information of KBC Group in respect of a fiscal quarter that is contained in the principal financial report for such fiscal quarter published by KBC Group NV (or a successor holding company of KBC Group NV).

“**Quarterly Financial Period End Date**” means the last day of each fiscal quarter.

**“Rate of Interest”** means:

- (i) in the case of each Interest Period falling in the Initial Period, the Initial Rate of Interest; or
- (ii) in the case of each Interest Period thereafter, the sum of (A) the Reset Rate of Interest and (B) the Margin,

all as determined by the Agent in accordance with Condition 3.

A **“Regulatory Event”** shall be deemed to have occurred if (i) as a result of a change (or prospective change which the Lead Regulator considers to be sufficiently certain) in Belgian law or in Applicable Banking Regulations or in the official application or interpretation thereof becoming effective on or after the Issue Date (including as a result of the implementation or applicability in Belgium on or after the Issue Date of CRD IV), the aggregate outstanding principal amount of the Securities is (or will be) fully excluded from the Tier 2 capital of the Issuer or KBC Group on a solo and/or consolidated basis, as applicable (other than as a result of any applicable limitation in relation to the aggregate amount of Tier 2 capital at any time of the Issuer or KBC Group); and (ii) the Issuer is able to demonstrate to the satisfaction of the Lead Regulator that the change or prospective change set out in (i) was not reasonably foreseeable at the Issue Date.

**“Reserved Matter”** has the meaning given to such term in Condition 11.

**“Reset Date”** means 25 January 2018.

**“Reset Interest Amount”** has the meaning given to such term in Condition 3.1.

**“Reset Rate of Interest”** means the 5-year Mid-Swap Rate as determined by the Agent.

**“Reset Rate of Interest Determination Date”** means the day falling two U.S. Government Securities Business Days prior to the Reset Date.

**“Reset Reference Bank Rate”** means the percentage rate determined on the basis of the 5-year Mid-Swap Rate Quotations provided by the Reset Reference Banks to the Agent at approximately 11:00 a.m. (New York City time) on the Reset Rate of Interest Determination Date. If at least three quotations are provided, the Reset Reference Bank Rate will be the arithmetic mean of the quotations provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two quotations are provided, the Reset Reference Bank Rate will be the arithmetic mean of the quotations provided. If only one quotation is provided, the Reset Reference Bank Rate will be the quotation provided. If no quotations are provided, the Reset Reference Bank Rate will be 0.903 per cent. per annum.

**“Reset Reference Banks”** means five leading swap dealers in the New York City interbank market selected by the Agent in its discretion after consultation with the Issuer.

**“Risk Weighted Assets”** means, as of any Quarterly Financial Period End Date or Extraordinary Calculation Date, as the case may be, the sum of the aggregate amount, expressed in euro, of:

- (i) the risk weighted assets of KBC Group (excluding risk weighted assets of insurance undertakings forming part of KBC Group) as of such date, as calculated by KBC Group NV on a consolidated basis in accordance with the capital adequacy standards and guidelines of the Lead Regulator applicable to KBC Group on such date; and
- (ii) the risk weighted equivalent amount in respect of each insurance undertaking in KBC Group equal to:
  - (A) if calculated at any time before the CRD IV Adoption Date, the amount determined by applying the risk weighting to the minimum capital required for such insurance undertakings in

accordance with the capital adequacy standards and guidelines of the Lead Regulator applicable to KBC Group on such date; and

- (B) if calculated on or after the CRD IV Adoption Date, the higher of:
  - (a) the amount determined by applying the risk weighting to the minimum capital required for such insurance undertakings in accordance with the capital adequacy standards and guidelines of the Lead Regulator applicable to KBC Group on such date, and
  - (b) the amount determined by applying the risk weight applied to the equity participations in such insurance undertakings in accordance with the capital adequacy standards and guidelines of the Lead Regulator applicable to KBC Group on such date,

all as calculated by KBC Group NV on a consolidated basis in accordance with the capital adequacy standards and guidelines of the Lead Regulator applicable to KBC Group on such date (which calculations shall be binding on the holders).

For the avoidance of doubt, the term "risk weighted assets" as used in this definition shall have the meaning assigned to such term in the capital adequacy standards and guidelines of the Lead Regulator applicable to KBC Group on the relevant Quarterly Financial Period End Date or Extraordinary Calculation Date, as the case may be, and subject always to any transitional arrangements as interpreted by the Lead Regulator in connection with the adoption of CRD IV.

**“Screen Page”** means Reuters screen “ISDAFIX1” or such other page as may replace it on Reuters or, as the case may be, on such other information service that may replace Reuters, in each case, as may be nominated by the person providing or sponsoring the information appearing there for the purpose of displaying rates comparable to the 5-year Mid-Swap Rate.

**“Subordinated Indebtedness”** means all indebtedness of the Issuer which is subordinated, in the event of the bankruptcy (*faillissement/faillite*), dissolution or liquidation other than a solvent basis under the laws of Belgium of the Issuer, in right of payment to the claims of depositors and other unsubordinated creditors of the Issuer and so that indebtedness shall include all liabilities, whether actual or contingent.

**“Tier 2 capital”** has the meaning given to it by the Applicable Banking Regulations from time to time.

A **“Trigger Event”** will be deemed to have occurred if the CET1 Ratio as of any Quarterly Financial Period End Date or Extraordinary Calculation Date, as the case may be, is less than the Write-down Threshold *provided that* a Trigger Event shall be deemed not to have occurred if a Regulatory Event has occurred and is continuing.

**“Trigger Event Write-down Date”** means the date on which the Contingent Write-down takes place, which shall be no less than two and no later than ten Business Days in Brussels after the Trigger Event Write-down Notice Date.

**“Trigger Event Write-down Notice”** means a notice (i) stating that (x) a Trigger Event has occurred, (y) a Contingent Write-down will take place and (ii) specifying the Trigger Event Write-down Date.

**“Trigger Event Write-down Notice Date”** means, with respect to any Contingent Write-down, the date of the relevant Trigger Event Write-down Notice.

**“U.S. Government Securities Business Day”** means any day except for a Saturday, Sunday or a day on which the U.S. Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

**“Yield Enhanced Securities”** means the non-voting core capital securities issued by KBC Group NV in 2009 and subscribed by the Flemish Regional Government, which the Lead Regulator has confirmed will be grandfathered as common equity tier 1 capital from the CRD IV Adoption Date.

**“Write-down Threshold”** means 7.00 per cent.



## 2. Management structure

The management structure of KBC Group (and KBC Bank) consists of a number of business units and support services (together, eight pillars) operating under three building blocks.

The new management structure as of 2013 comprises three building blocks and eight vertical pillars:

- (i) The ‘generate’ building block consisting of four pillars (i.e. the business units). These business units focus on local business and should contribute to sustainable profit and growth by catering for clients’ needs.

Belgium Business Unit and Czech Republic Business Unit, both mature market leaders, that must ensure stable, growing, high-level profitability.

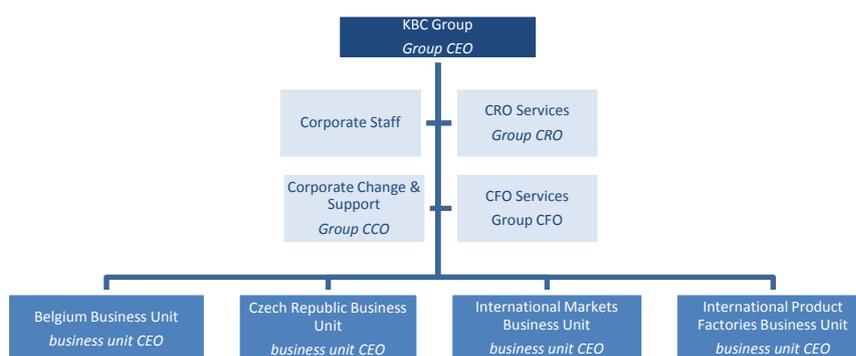
International Markets Business Unit which contains the other core Central and Eastern European countries (Slovakia, Hungary and Bulgaria) that are viewed as growth generators. KBC Bank Ireland also belongs to this business unit, as well as the remaining non-core entities that are earmarked for divestment.

International Product Factories Business Unit which includes, amongst others, Asset Management, Trade Finance, Consumer Finance, Markets & Securities.

- (ii) The ‘improve’ building block consisting of the ‘Corporate Change & Support’, ‘CRO Services’ and ‘CFO Services’ pillars, acts as an internal regulator and provides support to the business units.
- (iii) The ‘develop’ building block consisting of the ‘Corporate Staff’ pillar is a competence centre for strategic know-how and best practices on corporate organisation and communication. It supports and serves the Group Executive Committee and the business units, and is also dedicated to stimulate corporate collaboration.

Each business unit is headed by a Chief Executive Officer (CEO), and these CEOs, together with KBC Group’s CEO, KBC Group’s Chief Risk Officer (CRO), KBC Group’s Corporate Change and Support Officer (CCO) and KBC Group’s Chief Financial Officer (CFO), constitute the executive committee.

The management structure is shown in simplified form on the chart below.



Compared to the previous management structure and business unit breakdown which was in effect until end of 2012, the main changes are:

- (i) the Merchant Banking Business Unit no longer exists. It has been split into:
  - (a) Corporate Banking Belgium, which, in line with the principle of local responsiveness, has been shifted to the Belgium Business Unit;

- (b) Activities such as Markets and Securities – global by nature – which have been shifted to the International Product Factories Business Unit;
  - (c) Ireland, which is now incorporated into the International Markets Business Unit; and
  - (d) Based on the focus on local economies and the integrated bankassurance model, the other corporate banking activities are now positioned as part of each local business unit.
- (ii) the former Shared Services & Operations Business Unit has been split into:
- (a) Country and international product factories. Truly international product factories (e.g., KBC Asset Management and KBC Securities) have been moved to the new International Product Factories Business Unit. Other, not truly international, product factories (e.g. Lease) have been divided over different business units as (embedded) Country Product Factories; and
  - (b) International service providers (e.g. internal ICT department) have been moved to the new Corporate Change & Support Division.
- (iii) the former Central and Eastern Europe Business Unit has been split into:
- (a) the Czech Republic Business Unit, which equals current banking and insurance activities in the Czech Republic; and
  - (b) the activities in the other Central and Eastern European countries (i.e. Hungary, Slovakia and Bulgaria) have been moved to the International Markets Business Unit.

### 3. Short presentation of KBC Bank Group

Shareholders of KBC Bank (as at 31 December 2012)	Number of shares
KBC Group.....	915,228,481
KBC Insurance .....	1
<b>Total</b> .....	<b>915,228,482</b>

#### Shareholders of KBC Group\* (as at 31 of December 2012)

Based on the most recent notifications made under the Belgian transparency rules or (if more recent) disclosures made under the Belgian law on public takeover bids, or other public disclosures (such as press releases), the shareholder structure of KBC Group NV on 31 December 2012 is as follows (further updates regarding the shareholder structure of KBC Group NV can be found on [www.kbc.com](http://www.kbc.com) under “Investor relations – shareholder structure”).

- KBC ANCORA: following KBC Group’s capital increase announced on 10 December 2012, KBC Ancora announced that the number of KBC Group shares it held remained unchanged at 82,216,380 (19.72% of the total number of KBC Group NV shares after the capital increase).
- CERA: following KBC Group’s capital increase announced on 10 December 2012, CERA announced that the number of KBC Group shares held by it increased to 29,227,166 (7.01% of the total number of KBC Group NV shares after the capital increase).
- MRBB and the other core shareholders: the last available update dates of 30 June 2011, on which MRBB had 12.9% and the other core shareholders (together) approximately 11% of the number of KBC Group NV shares at that time (357,938,193 shares).
- KBC-companies: following the sale of all KBC Group NV shares held by KBC Group NV itself and by KBC Bank NV on 16 October 2012, only 302 KBC Group NV-shares remain held by KBC-companies (less than 0.01% of the total number of KBC Group NV shares).
- BlackRock Inc: in a notification, BlackRock announced that on 6 December 2012 it held approximately 3.08% of the total number of KBC Group NV shares (357,980,313 shares).

<b>Consolidated balance sheet data (in millions of EUR, IFRS)</b>	<b>31 December 2010</b>	<b>31 December 2011</b>	<b>30 June 2012</b>
Total assets .....	276,723	241,076	243,749
Parent shareholders' equity.....	13,193	11,117	10,585

<b>Consolidated profit and loss account data (in millions of EUR, IFRS)</b>	<b>FY2010</b>	<b>FY2011</b>	<b>1H 2012</b>
Total income.....	6,995	6,119	2,710
Operating expenses.....	-3,861	-3,709	-1,855
Impairment .....	-1,635	-1,659	-1,583
Result after tax, group share .....	1,395	347	-865

#### 4. Network and ratings of KBC Bank Group

##### Network (as at 31 December 2011)

Bank branches in Belgium .....	844
Bank branches in Central and Eastern Europe (Czech Republic, Slovakia, Hungary and Bulgaria).....	806
Bank branches in the rest of the world (incl. rep. offices).....	24*

\*including corporate branches of KBC Bank, KBC Bank Deutschland and KBC Bank Ireland.

##### Long-term ratings of KBC Bank (as at 31 December 2012)

Fitch	A- (stable outlook)
Moody's	A3 (stable outlook)
Standard & Poor's	A- (positive outlook)

*Ratings are subject to change. Various ratings exist. Investors should look at [www.kbc.com](http://www.kbc.com) for the most recent ratings and for the underlying full analysis provided by each rating agency to understand the meaning of each rating.*

Each of Fitch, Moody's and S&P is established in the European Union and is included in the updated list of credit rating agencies registered under Regulation (EC) No. 1060/2009 (as amended) of the European Parliament and of the Council of 16 September 2009 on credit rating agencies published on the European Securities and Markets Authority's ("ESMA") website (<http://esma.europa.eu/page/List-registered-and-certified-CRAs>).

Standard & Poor's Credit Market Services Italy Srl. ("Standard & Poor's"): An obligation rated 'A' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong. (Source: [www.standardandpoors.com](http://www.standardandpoors.com)).

Moody's France S.A.S. ("Moody's"): Obligations rated A are judged to be upper-medium grade and are subject to low credit risk. The modifier 3 indicates a ranking in the lower end of that generic rating category. (Source: [www.moodys.com](http://www.moodys.com)).

Fitch France S.A.S. (“**Fitch**”): ‘A’ ratings denote expectations of low default risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings. (Source: www.fitchratings.com).

The description of the ratings provided above has been extracted from the specified website of the relevant rating agency. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from such sources, no facts have been omitted which would render the reproduced information inaccurate or misleading. The web-site of the relevant rating agencies have been provided as sources only, and no information from any such web-site is deemed to be incorporated in or forms part of this Prospectus. The Issuer does not take any responsibility for the information contained in any such website.

## 5. Main companies belonging to KBC Bank Group (as of 30 September 2012)

<b>Company</b>	<b>Registered office</b>	<b>Ownership percentage at KBC Bank Level</b>	<b>Activity (simplified)</b>
<b>Main fully consolidated subsidiaries</b>			
Absolut Bank <sup>1</sup> .....	Moscow – RU	99.00	Credit Institution
Antwerpse Diamantbank NV <sup>2</sup> .....	Antwerp – BE	100.00	Credit institution
CBC Banque SA .....	Brussels – BE	100.00	Credit institution
CIBANK AED .....	Sofia - BG	100.00	Credit Institution
ČSOB a.s. (Czech Republic) .....	Prague – CZ	100.00	Credit institution
ČSOB a.s. (Slovak Republic) .....	Bratislava – SK	100.00	Credit Institution
KBC Asset Management NV .....	Brussels – BE	51.86	Asset management
KBC Bank NV	Brussels – BE	100.00	Credit institution
KBC Bank Deutschland AG <sup>3</sup> .....	Bremen – DE	100.00	Credit institution
KBC Bank Funding LLC & Trust (group) .....	New York – U.S.	100.00	Issuance of trust preferred securities
KBC Bank Ireland Plc. ....	Dublin - IE	100.00	Credit Institution
KBC Commercial Finance NV .....	Brussels – BE	100.00	Factoring
KBC Consumer Finance NV .....	Brussels – BE	100.00	Consumer finance
KBC Credit Investments NV .....	Brussels – BE	100.00	Investments in credit-linked securities
KBC Finance Ireland .....	Dublin – IE	100.00	Lending
KBC Financial Products (group) .....	Various locations	100.00	Shares and derivatives trading
KBC Internationale Financieringsmaatschappij NV .....	Rotterdam – NL	100.00	Issuance of bonds
KBC Lease (group) .....	Various locations	100.00	Leasing
KBC Private Equity NV .....	Brussels – BE	100.00	Private equity

<sup>1</sup> On 24 December 2012, KBC reached an agreement on the sale of Absolut Bank. This deal has not yet closed.

<sup>2</sup> This subsidiary is to be divested in accordance with the EU Plan.

<sup>3</sup> This subsidiary is to be divested in accordance with the EU Plan.

<b>Company</b>	<b>Registered office</b>	<b>Ownership percentage at KBC Bank Level</b>	<b>Activity (simplified)</b>
KBC Securities NV.....	Brussels – BE	100.00	Stock exchange broker/corporate finance
K&H Bank Rt. ....	Budapest – HU	100.00	Credit institution
Kredyt Bank SA <sup>4</sup> .....	Warsaw – PL	80.00	Credit institution
<b>Main proportionately consolidated subsidiaries</b>			
-	-	-	-
<b>Main companies accounted for using the equity method</b>			
Nova Ljubljanska banka d.d. (NLB) <sup>5</sup> .....	Ljubljana – SI	22.04	Credit institution

A full list of companies belonging to KBC Bank Group is provided in its 2011 Annual Report.

## 6. General description of activities of KBC Bank Group

### General

KBC Bank Group is a multi-channel bank that caters primarily to private persons, small and medium-sized companies (“SMEs”) and midcaps. Its geographic focus is on Europe. In its two “home” markets, Belgium and certain countries in Central and Eastern Europe (being Czech Republic, Hungary, Slovakia and Bulgaria) (the “Home Markets”), it has important and in some cases even leading positions. In the rest of the world, KBC Bank Group has a selective presence in certain countries or areas, primarily to support its corporate clients of the Home Markets.

KBC Bank Group’s core business is retail and private bancassurance (including asset management) in its Home Markets, although it is also active in providing services to corporations and SMEs, and market activities. Across these Home Markets, KBC Bank Group is active in a large number of products and activities, ranging from the plain vanilla deposit, credit, asset management and insurance businesses (via its sister company, KBC Insurance NV), to specialised activities (which are conducted out of specialised departments at head office or specialised KBC Bank companies) such as, amongst others, payments services, dealing room activities (money and debt market activities), brokerage and corporate finance, clearing, foreign trade finance, international cash management and leasing.

### Divestments

As set out in the Strategic Plan, the KBC Bank Group is refocusing its business on its core bancassurance activities in its Home Markets. Therefore, a number of subsidiaries and activities, many of which related to investment banking activities, have been or downscaled or sold. International corporate lending outside the home markets has been downscaled. The progress of the execution of the EU Plan is commented upon in the 2011 Annual Reports and subsequent interim reports of KBC Bank and (in an abbreviated form) further on in this section.

Since 2010, a large number of divestment transactions were carried out, including the divestment of, *inter alia*, a large number of activities of KBC Financial Products (U.S. reverse mortgage portfolio, Japanese cash

<sup>4</sup> On 4 December 2012, the Polish Financial Supervision Authority KNF approved the merger of Kredyt Bank and Bank Zachodni WBK.

<sup>5</sup> On 28 December 2012, KBC reached an agreement on the sale of its minority stake in NLB. This deal has not yet closed.

equity operations, U.S. life settlement portfolio, convertible bond and Asian equity derivatives), KBC Peel Hunt, British and Irish activities of KBC Asset Management, KBC Securities Baltic Investment Company, KBC Business Capital, Secura (subsidiary of KBC Insurance NV), Centea, Fidea (subsidiary of KBC Insurance NV), KBL European Private Bankers (sister company of KBC Bank), KBC Concord Asset Management, KBC Goldstate, the activities of KBC Securities in Serbia and Romania, WARTA (subsidiary of KBC Insurance NV), the larger part of KBC Private Equity portfolio, KBC Autolease Polska and KBC Lease Deutschland. In February 2012, KBC Group announced that it had concluded an agreement with Banco Santander S.A. with regard to the merger of the respective Polish subsidiaries, Bank Zachodni WBK and Kredyt Bank (subsidiary of KBC Bank), ultimately with the aim to divest KBC's shareholding in the merged bank (deal not yet closed). The merger was signed by both entities management boards in May 2012 and approved by both entities general shareholders meeting, as well as by the EU competition authorities. Early December 2012, approval was obtained from the Polish Financial Supervision Authority KNF. In July 2012, Zagiel was sold to Santander Consumer Finance. Agreements on the divestment of Absolut Bank and Nova Ljubljanska banka ("NLB") have been respectively signed on 24 and 28 December 2012. Both deals are however not yet closed. In addition, the credit portfolio outside the Home Markets has been decreased.

The main still remaining divestment projects are KBC Bank Deutschland, Antwerpse Diamantbank and KBC Banka (subsidiary of KBC Insurance NV). KBC Group will continue to explore further divestment possibilities for them in close collaboration with a divestiture trustee, as provided for under the agreement with the European Commission.

## 7. Activities in Belgium

### Network

#### Market position of the bank network in Belgium (as at 31 December 2011)

Market share (KBC Bank's own estimates)	Credits 21% Deposits 17% Investment funds 39%
Bank branches	790 retail branches 28 private banking branches 26 corporate branches*
Clients (estimate)	3.2 million

\* Includes also the succursales of CBC Banque.

At the end of 2011, KBC Bank Group had a network of over 800 bank branches in Belgium (KBC Bank branches in the Dutch-speaking part of Belgium and CBC Banque branches in the French-speaking part of Belgium). The branches focus on providing clients in Belgium with a broad area of credit (including mortgage loans), deposit, investment fund and other asset management products, insurance products (in co-operation with KBC Bank's sister company, KBC Insurance NV) and other specialised financial banking products and services. The 26 corporate branches of KBC Bank and CBC Banque (succurales) in Belgium provide products and services to corporates in Belgium (mainly large SMEs).

KBC Bank and CBC Banque serve, based on their own estimates, over 3 million customers in Belgium.

### Bancassurance

KBC Group considers itself to be an integrated bancassurer. Certain shared and support services are organised at group level, serving the entire KBC Group, and not just the bank or insurance businesses individually. It is

KBC Group's aim to continue to actively encourage the cross-selling of bank and insurance products. The success of KBC Group's bancassurance model is in part due to the cooperation that exists between the bank branches of KBC Bank/CBC Banque and the insurance agents of KBC Insurance NV/CBC Assurances SA, whereby the branches sell standard insurance products to retail customers and refer their customers to the insurance agents for non-standard products. Claims-handling is the responsibility of the insurance agents, the call centre and the head office departments at KBC Insurance NV.

### Market share

As of 31 December 2011, KBC Bank Group had, based on its own estimates, a 17 per cent. share of the Belgian deposit market and a 21 per cent. share of the lending market. Over the past few years, KBC Bank Group has also built up a strong position in investment funds, and leads the Belgian market with an estimated share of 39 per cent.

### Electronic channels

KBC Bank Group's bricks-and-mortar networks in Belgium are supplemented by electronic channels, such as ATMs, telephones and the Internet.

## 8. Activities in Central & Eastern Europe

### Network

#### Market position of the bank network in the home countries of Central and Eastern Europe

(as at 31 December 2011)

		Czech Republic	Slovakia	Hungary	Bulgaria
Market share	Banking products*	20%	10%	9%	3%
(KBC Bank's own estimates)	Mutual funds	31%	10%	20%	-
Bank branches	Total	314**	129	246	117
Clients (estimate)	Total, in millions	3.1	0.4	0.9	0.3

\* Average of the share in credits and the share in deposits

\*\*CSOB Bank+ Postal Saving Bank branches.

In the Central and Eastern European region, KBC focuses on 4 home countries, being the Czech Republic, Hungary, Slovakia and Bulgaria. The main KBC Bank Central and Eastern European entities in those home markets are CIBANK (Bulgaria), ČSOB (Slovakia), ČSOB (Czech Republic), and K&H Bank (Hungary). Absolut Bank (Russia), Nova Ljubljanska banka (NLB, Slovenia; minority share) and Kredyt Bank (Poland) also belong to KBC Bank Group, but these entities are to be divested (see further).

In its four home countries, KBC Bank Group caters to an estimated 4.7 million customers. This customer base, along with KBC Group's insurance customers in the region (via KBC Insurance NV subsidiaries), makes KBC Group one of the larger financial groups in the Central & Eastern European region. The KBC Bank Group companies focus on providing clients with a broad area of credit (including mortgage loans), deposit, investment fund and other asset management products, insurance products (in cooperation with KBC Insurance's subsidiaries in each country) and other specialised financial banking products and services.

### Bancassurance

KBC Group's bancassurance concept has over the past few years been exported to its Central and Eastern European entities. In order to accomplish this, KBC Group has built up a second home market in Central and Eastern Europe in insurance (via KBC Insurance NV). KBC Group now has an insurance business in every

Central and Eastern European home country. In the Czech Republic, KBC Group's insurer is ČSOB Pojist'ovňa, in Slovakia, ČSOB Poist'ovňa, in Hungary, K&H Insurance and in Bulgaria, DZI Insurance. Unlike KBC Bank in Belgium, KBC Group's insurance companies in Central and Eastern Europe operate not only via tied agents and bank branches, but also via other distribution channels, such as insurance brokers and multi-agents.

### **Market share**

As of 31 December 2011, the KBC Bank Group's estimated market share (the average of the share of the lending market and the deposit market) came to 20 per cent. in the Czech Republic, 10 per cent. in Slovakia, 9 per cent. in Hungary, and 3 per cent. in Bulgaria (rounded figures). The market shares in both Serbia and Russia are limited; in Poland, the market share of Kredyt Bank is roughly 3 to 4 per cent. KBC Bank Group also has a strong position in the investment fund market in Central and Eastern Europe (estimated at 31 per cent. in the Czech Republic, 10 per cent. in Slovakia, and 20 per cent. in Hungary).

Note that KBC Bank's 2011 Annual Report, section 'Report of the Board of Directors' also provides details on the loan portfolio of K&H Bank in Hungary, a feature of which is the relatively large share of retail loans in foreign currency. New legislation in Hungary regarding this issue caused K&H Bank to book significant additional loan loss provisions in 2011.

### **Electronic channels**

Just as in Belgium, the bricks-and-mortar networks in Central and Eastern Europe are supplemented by electronic channels, such as ATMs, telephone and the Internet.

### **Expansion**

No significant acquisitions are planned in the foreseeable future.

## **9. Activities in the rest of the world**

### **Network**

The presence outside Belgium and Central and Eastern Europe consist of a number of subsidiaries and a (limited) network of foreign branches of KBC Bank Group. In the past few years, this international presence has been downscaled.

The foreign branches are located mainly in Western Europe, Southeast Asia and the U.S. and focus on serving customers that already do business with KBC Bank Group's Belgian or Central and Eastern European network. In the past years, many of the other (niche) activities of these branches have been downscaled, stopped or sold, and the pure international credit portfolio has been downscaled.

A number of subsidiaries of KBC Bank is also active in countries outside the home markets. These include, among others, KBC Bank Deutschland (which is to be divested) and KBC Bank Ireland. The latter is an Irish bank that provides financial services to SMEs and corporate customers, and also has a sizeable share of its home loan market. KBC Bank's annual report provides details on the portfolio of this Irish subsidiary. In 2011, KBC Bank set aside approximately 0.5 billion euro in additional loan loss provisions for this Irish loan book and as at end 2011, approximately 17.7 per cent. of the Irish loan book was classified as non-performing. As at the end of 9M2012, 0.5 billion euro in additional loan loss provisions were booked and as at 30 September 2012, 22.5 per cent. of the portfolio was non-performing.

KBC Bank Group also provides specialised corporate services via subsidiaries that specialise in the area of, amongst others, real estate services, leasing and finance for the diamond trade, many of which have activities outside KBC's home markets.

## 10. Competition

All of KBC Bank Group's operations face competition in the sectors they serve.

Depending on the activity, competitor companies include other commercial banks, saving banks, loan institutions, consumer finance companies, investment banks, brokerage firms, insurance companies, specialised finance companies, asset managers, private bankers, investment companies etc.

In both Belgium and Central & Eastern Europe, KBC Bank Group has an extensive network of branches and KBC Bank Group believes most of its companies have strong name brand recognition in their respective markets.

In Belgium, KBC Bank Group is perceived as one of the top three financial institutions (see market shares). For certain products or activities, KBC Bank Group estimates it has a leading position (e.g. in the area of investment funds). The main competitors in Belgium are BNP Paribas Fortis, Belfius and ING, although for certain products, services or markets, other financial institutions may also be important competitors.

In its Central & Eastern Europe European home market KBC Bank Group is one of the leading financial groups (see market shares), occupying significant positions in banking. In this respect, KBC Bank Group competes in each of these countries against local financial institutions, as well as subsidiaries of other large foreign financial groups (such as Erste Bank, Unicredit and others).

In the rest of the world, KBC Bank Group's presence primarily consists of a limited number of branches and subsidiaries. In this case, KBC Bank Group faces competition both from local companies and international financial groups.

## 11. Risk management

Risk management in KBC Group is implemented group-wide. As a consequence, the risk management for KBC Bank is embedded in KBC Group risk management and cannot be isolated from it.

A description of risk management is available in the 2011 Risk Report of KBC Group, available on [www.kbc.com](http://www.kbc.com).<sup>6</sup>

### Risk governance

Through its banking and asset management activities, KBC Bank is exposed to a number of typical risks such as – but certainly not exclusively – credit risk, market risk, liquidity risk and operational risk. It is part of the business risk that the macroeconomic environment and the ongoing restructuring under the Strategic Plan may have a negative impact on asset values or generate additional charges beyond anticipated levels.

Below is a description of credit risk, market risk (trading & non-trading activities) liquidity risk and operational risk. A selection of figures on credit risk, Asset and Liability Management (“ALM”) and market risk in trading activities are provided further on.

- 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.

---

<sup>6</sup> [https://multimediafiles.kbcgroup.eu/ng/published/KBCCOM/PDF/COM\\_RVK\\_pdf\\_risk\\_report\\_2011\\_EN.pdf](https://multimediafiles.kbcgroup.eu/ng/published/KBCCOM/PDF/COM_RVK_pdf_risk_report_2011_EN.pdf)

- Market risk in trading activities is defined as the potential negative deviation from the expected economic value of a financial instrument caused by fluctuations in 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, currency and equity risks of the non-trading positions in the banking book are all included in ALM.
- Market risk in non-trading activities (also known as ALM) is the process of managing KBC Bank Group's structural exposure to market risks. These risks include interest rate risk, equity risk, real estate risk, foreign exchange risk and inflation risk.
- Liquidity risk is the risk that an organisation will be unable to meet its payment obligations as they come due, without incurring unacceptable losses. The principal objective of KBC Bank Group's liquidity management is to be able to fund such needs and to enable the core business activities of KBC Bank Group to continue to generate revenue, even under adverse circumstances.
- Operational risk is the risk of loss resulting from inadequate or failed internal procedures, people and systems or from external events. Operational risks include the risk of fraud, and legal, compliance and tax risks.

KBC Group's risk governance framework defines the responsibilities and tasks required to manage value creation and the associated risks. During 2012, KBC Group's risk management framework underwent significant changes with regard to governance and structure. The goal of these changes was to further improve KBC Group's ability to deal decisively with major economic events in the future by creating an adjusted and comprehensive integrated model that aligns all dimensions of risk, capital and value management.

### **Credit risk**

Although a number of transactions involve credit risk, the main source of credit risk is the loan & investment portfolio of KBC Bank Group. A snapshot of this portfolio is shown in the table below.

Loan & investment portfolio:

As far as the banking activities are concerned, the main source of credit risk is the loan and investment portfolio. The loan & investment portfolio is primarily comprised of products from pure, traditional lending activities. It includes all retail lending such as mortgage loans and consumer loans, all corporate lending such as (committed and uncommitted) working capital credit lines, investment credit, guarantee credit and credit derivatives (protection sold) and all non-government debt securities in the investment books of KBC Group's bank entities. The table below excludes other credit risks, such as issuer risk related to trading activities, counterparty risk associated with interprofessional transactions, international trade finance (documentary credit, etc.) and government bonds.

### **Loan portfolio, KBC Bank Group\***

	<b>31 December 2010</b>	<b>31 December 2011</b>	<b>30 September 2012</b>
<b>Total loan portfolio (in billions of EUR)</b>			
Amount granted .....	192	186	168
Amount outstanding.....	161	156	141
<b>Loan &amp; investment portfolio breakdown by business unit (as a per cent., of the portfolio of credit granted)</b>			
Belgium .....	31 per cent.	34 per cent.	39 per cent.

	<b>31 December 2010</b>	<b>31 December 2011</b>	<b>30 September 2012</b>
CEE.....	18 per cent.	19 per cent.	22 per cent.
Merchant banking.....	36 per cent.	37 per cent.	38 per cent.
Group Centre (includes planned divestments).....	15 per cent.	10 per cent.	1 per cent.
Total.....	100 per cent.	100 per cent.	100 per cent.
<b>Loan &amp; investment portfolio breakdown by sector (selected sectors as a per cent. of the portfolio of credit granted)</b>			
Private individuals	37 per cent.	36 per cent.	37 per cent.
Financial and Insurance services	7 per cent.	6 per cent.	6 per cent.
Governments	3 per cent.	4 per cent.	4 per cent.
Corporates	52 per cent.	54 per cent.	54 per cent.
Non-financial services	10 per cent.	10 per cent.	11 per cent.
Retail and wholesale trade	8 per cent.	8 per cent.	8 per cent.
Real estate	7 per cent.	7 per cent.	7 per cent.
Construction	5 per cent.	5 per cent.	5 per cent.
Other <sup>7</sup>	22 per cent.	23 per cent.	22 per cent.
Total.....	100 per cent.	100 per cent.	100 per cent.
<b>Impaired loans (in millions of EUR or per cent.)</b>			
Amount outstanding.....	10,928	11,205	10,746
Specific loan impairments.....	4,656	4,850	4,452
Portfolio-based loan impairments.....	351	341	260
Credit cost ratio, per business unit.....			
Belgium.....	0.15 per cent.	0.10 per cent.	0.06 per cent.
CEE.....	1.16 per cent.	1.59 per cent.	0.40 per cent.
Merchant Banking.....	1.38 per cent.	1.36 per cent.	1.38 per cent.
Group Centre (includes planned divestments).....	1.17 per cent.	0.36 per cent.	0.85 per cent.
Total.....	0.91 per cent.	0.83 per cent.	0.63 per cent.
<b>Non-performing (NP) loans (in millions of EUR or per cent.)</b>			
Amount outstanding.....	6,531	7,553	7,722
Specific loan impairments for NP loans.....	3,273	3,864	3,620
Non-performing ratio, per business unit.....			
Belgium.....	1.5 per cent.	1.5 per cent.	1.6 per cent.
CEE.....	5.3 per cent.	5.6 per cent.	5.5 per cent.
Merchant Banking.....	5.2 per cent.	7.8 per cent.	10.1 per cent.
Group Centre (includes planned divestments).....	5.8 per cent.	5.5 per cent.	2.5 per cent.
Total.....	4.1 per cent.	4.9 per cent.	5.5 per cent.
Cover ratio.....			
Specific loan impairments for NP loans/Outstanding NP	50 per cent.	51 per cent.	47 per cent.

<sup>7</sup> Individual sector shares not exceeding 3 per cent.

	<b>31 December 2010</b>	<b>31 December 2011</b>	<b>30 September 2012</b>
loans .....			
<i>Idem</i> , excluding mortgage loans.....	60 per cent.	63 per cent.	59 per cent.
Specific and portfolio-based loan impairments for performing and NP loans/outstanding NP loans.....	77 per cent.	69 per cent.	61 per cent.
<i>Idem</i> , excluding mortgage loans.....	96 per cent.	89 per cent.	84 per cent.
* including Centea at 31 March 2011			

The normal loan portfolio is split into internal rating classes ranging from 1 (lowest risk) to 9 (highest risk) reflecting the probability of default (“**PD**”). An impaired loan 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 is assigned to 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. In respect of these impaired loans (PD 10 to PD 12), specific loan impairments are recorded under the net present value of the recoverable amount. In addition, a portfolio-based impairment for credit in PD classes 1 to 9 is recognised (based on a formula).

The “**non-performing ratio**” is defined as the amount outstanding of non-performing loans (PD 11 and PD 12) divided by the total outstanding loan portfolio. The “**credit cost ratio**” is defined as net changes in specific and portfolio-based impairment for credit risks divided by the average outstanding loan portfolio.

Other credit risks:

As mentioned above, the loan portfolio clearly constitutes the main source of credit risk for the KBC Bank Group. However, a number of activities that are excluded from the credit portfolio figures also contain an element of credit risk, such as short-term commercial exposure (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). Information on risks related to counterparty risk of inter-professional transactions (refers to settlement and the pre-settlement risk of derivatives), trading book securities - issuer risk (refers to the potential loss on default by the issuer of the trading securities) and the government securities in the investment portfolio of banking entities, can be found in the 2011 annual report of KBC Bank.

Structured credit exposure:

In relation to so-called structured credit products, more information is available in the 2011 annual report of KBC Bank.

### **Sovereign debt exposure**

At the end of 2010, KBC Group's total portfolio of sovereign bonds of selective countries, being Greece (0.6 billion euro), Portugal (0.3 billion euro), Spain (2.2 billion euro), Italy (6.4 billion euro) and Ireland (0.5 billion euro), amounted to 10 billion euro. Next to bonds maturing since that time, KBC Group also conducted a number of revaluations on, registered impairments for, and actively sold large parts of these bonds, which at 30 September 2012 brings down the total amount of this portfolio to 1.6 billion euro (in rounded amounts) (Greece 0.0 billion euro, Portugal 0.1 billion euro, Spain 0.2 billion euro, Italy 0.8 billion euro and Ireland 0.4 billion euro).

Following the decline in the state of the Greek economy and the – at the time – ongoing discussion related to the restructuring of Greek debt, KBC Group started recording impairments on its Greek Sovereign bonds from the second quarter of 2011 onwards until during the first quarter of 2012 when KBC Group took part in the exchange operation regarding Greek government bonds. The new Greek government bonds received as part of the exchange of the 'old' Greek government bonds (31.5% of the nominal value of the 'old' government bonds) were valued (prices between 21% and 29%) at the moment of exchange (end of March 2012) leading to a limited remaining carrying value of 43 million euro and a realised loss on AFS and HTM (above the impairments booked in 2011) of about 42 million euro. At the end of September 2012, the carrying value of these bonds amounted to 44 million euro. The new Greek government bonds are classified in level 1 (while the former Greek bonds were classified in level 2), which means they are based again on observable prices in the market.

Over the second half of 2011 KBC group's portfolio of Italian sovereign bonds decreased significantly from 6.1 billion euro to 2.1 billion euro.

Over the first nine months of 2012, reductions in exposure concentrate on Spanish and also further in Italian sovereign bonds. Spanish government bonds decreased by 1.7 billion euro from 1.9 billion euro to 0.2 billion euro due to sales and maturities in the portfolio. Italian bonds further reduced to 0.8 billion euro from 2.1 billion euro, also for a large part due to sales.

#### Overview of sovereign bond exposure in non-trading positions KBC Group as at 30 September 2012

	Nominal exposure vs IFRS classification (in nominal amounts (billion EUR))						Maturity		
	FIV*	AFS**	HTM***	Other	Total	Total %	Maturity 2012	Maturity 2013	Maturity 2014
Belgium	0,5	11,2	12,3	0,2	24,1	49,3%	0,2	2,1	2,5
Czech Republic	0,1	2,5	5,6	0,0	8,2	16,7%	0,3	0,4	0,5
Poland	0,0	1,9	0,8	0,2	2,9	6,0%	0,7	0,5	0,5
Hungary	0,1	0,8	1,9	0,2	3,0	6,1%	0,6	0,6	0,2
Slovakia	0,0	0,5	0,8	0,0	1,3	2,7%	0,0	0,2	0,1
Bulgaria	0,0	0,1	0,0	0,0	0,1	0,3%	0,0	0,0	0,0
<b>Total Homecountries</b>	<b>0,7</b>	<b>16,9</b>	<b>21,4</b>	<b>0,6</b>	<b>39,6</b>	<b>81,0%</b>	<b>1,9</b>	<b>3,7</b>	<b>3,9</b>
Italy	0,0	0,8	0,1	0,0	0,9	1,9%	0,0	0,0	0,0
Greece	0,0	0,2	0,0	0,0	0,2	0,4%	0,0	0,0	0,0
Ireland	0,0	0,1	0,3	0,0	0,4	0,9%	0,0	0,0	0,0
Portugal	0,0	0,1	0,1	0,0	0,1	0,2%	0,0	0,0	0,0
Spain	0,0	0,2	0,0	0,0	0,2	0,4%	0,0	0,0	0,0
<b>Total PIIGS</b>	<b>0,0</b>	<b>1,4</b>	<b>0,5</b>	<b>0,0</b>	<b>1,9</b>	<b>3,9%</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>
France	0,0	1,2	1,5	0,0	2,7	5,6%	0,0	0,0	0,2
Germany	0,0	0,4	0,8	0,0	1,2	2,5%	0,0	0,1	0,0
Austria	0,0	0,2	0,4	0,0	0,6	1,3%	0,0	0,0	0,0
Netherlands	0,0	0,3	0,2	0,0	0,5	1,1%	0,0	0,0	0,0
Other countries	0,0	1,2	1,0	0,1	2,3	4,7%	0,0	0,0	0,0
<b>Total</b>	<b>0,7</b>	<b>21,6</b>	<b>25,9</b>	<b>0,8</b>	<b>48,9</b>	<b>100,0%</b>	<b>1,9</b>	<b>3,8</b>	<b>4,2</b>

\* FIV: Designated at fair value through profit or loss

\*\* AFS: Available for sale

\*\*\* HTM: Hold to Maturity

#### Structured credit exposure (CDOs and other ABS), 30 September 2012

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 (collateralised debt obligations) deals (based on third-party assets with no sponsoring role for KBC Group) for itself or for third-party investors. For several transactions, protection was bought from credit insurers, mainly MBIA, a U.S. monoline insurer ('hedged CDO-linked exposure' in the table).

KBC Group invested in structured credit products, both in CDOs (notes and super senior tranches), largely those originated by KBC Group itself ('unhedged CDO exposure' in the table) and in other ABS ('other ABS' in the table). The main objective at that time was to differentiate risk and to enhance the yield for the re-investment of the insurance reserves and bank deposits it held in surplus of its loans.

**KBC Group's investments in structured credit products (CDOs and other ABS)\***

(in billions of EUR)

	31-12-2010	31-12-2011	30-09-2012
<b>Total nominal amount</b>	<b>27.2</b>	<b>20.4</b>	<b>17.3</b>
<i>o/w CDO exposure protected by MBIA</i>	14.9	10.9	10.1
<i>o/w other CDO exposure</i>	7.7	6.4	5.5
<i>o/w other ABS exposure</i>	4.7	3.1	1.8
<b>Cumulative value markdowns (mid 2007 to date)*</b>	<b>-6.3</b>	<b>-5.5</b>	<b>-4.3</b>
<i>Value markdowns</i>	-5.2	-4.5	-3.7
<i>    for other CDO exposure</i>	-4.2	-4.1	-3.5
<i>    for other ABS exposure</i>	-1.0	-0.4	-0.2
<i>Credit Value Adjustment (CVA) on MBIA cover</i>	-1.2	-1.0	-0.6

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

In 2011, there was a total notional reduction in KBC Group's investments in structured credit products of 6.8 billion euro, due mainly to the:

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

Over the first quarter of 2012, there was a total notional reduction in KBC Group's investments in structured credit products of 2.2 billion euro. The main component of this reduction was the de-risking of two CDOs

(Dorset and Newcourt), resulting in a decrease of the outstanding CDO notional with 1.7 billion euro, and the approximately 500 million euro of sales and amortizations of ABSs held by KBC Group.

Over the second quarter of 2012, there was a total notional reduction of 0.3 billion euro. The reduction of 0.3 billion euro is attributable to sales and repayments (on other ABS exposures).

Over the third quarter of 2012, there was a total notional reduction of 0.6 billion euro. This reduction was mainly observed at the level of the 'other ABS exposure' (0.5 billion euro) mainly due to the finalisation of the sale of KBL and for a lesser extent due to the sales and repayments.

Since the inception, the outstanding other CDO positions held by KBC experienced net effective losses caused by claimed credit events until 9 October 2012 in the lower tranches of the CDO structure for a total amount of -2.2 billion euro.

Of these, -2.1 billion euro's worth of events have been settled. These have had no further impact on P/L because complete value markdowns for these CDO tranches were already absorbed in P/L in the past.

#### **Asset and Liability Management (market risks in non-trading activities)**

The table below shows the extent to which the value of the economic portfolio would change (basis-point-value or BPV) if interest rates were to fall by ten basis points across the entire curve (negative figures indicate a decrease in the value of the portfolio). More details are available in the 2011 annual report of KBC Bank Group.

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

Average, 1Q 2010.....	-63
Average, 2Q 2010.....	-68
Average, 3Q 2010.....	-69
Average, 4Q 2010.....	-62
<i>End of period</i> .....	-55
<i>Maximum in period</i> .....	-69
<i>Minimum in period</i> .....	-55
Average, 1Q 2011.....	-61
Average, 2Q 2011.....	-62
Average, 3Q 2011.....	-58
Average, 4Q 2011.....	-45
<i>End of period</i> .....	-40
<i>Maximum in period</i> .....	-65
<i>Minimum in period</i> .....	-40
Average, 1Q 2012.....	-57
<i>End of period</i> .....	-55
<i>Maximum in period</i> .....	-61
<i>Minimum in period</i> .....	-54
Average, 2Q 2012	-50
<i>End of period</i> .....	-50
<i>Maximum in period</i> .....	-52
<i>Minimum in period</i> .....	-49
Average, 3Q 2012	-55
<i>End of period</i> .....	-51
<i>Maximum in period</i> .....	-57
<i>Minimum in period</i> .....	-51

**Market risk management**

As already stated before, KBC Bank Group has a number of money and debt capital market dealing rooms in Western Europe, Central and Eastern Europe and Asia, though the dealing room in Brussels accounts for the majority of the limits and risks.

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

The tables below show the Historical Value-at-Risk (HVAR; 99 per cent. confidence interval, 1-day holding period, historical simulation) and Stressed Value-at-Risk (SVAR; 99 per cent. confidence interval, 10-day holding period, historical simulation) for KBC Bank Group's dealing rooms on the money and capital markets, and for KBC Financial Products. More details are available in the 2011 annual report of KBC Bank Group.

**Market risk HVAR (1-day holding period, in millions of EUR)**

	<b>KBC Bank Group<sup>1,2</sup></b>	<b>KBC Financial Products<sup>3</sup></b>
Average, 1Q 2010.....	6	9
Average, 2Q 2010.....	8	9
Average, 3Q 2010.....	6	8
Average, 4Q 2010.....	5	8
<i>End of period</i> .....	4	7
<i>Maximum in period</i> .....	15	13
<i>Minimum in period</i> .....	4	6
Average, 1Q 2011 .....	4	6
Average, 2Q 2011 .....	4	5
Average, 3Q 2011 .....	4	8
Average, 4Q 2011 .....	8	3
<i>End of period</i> .....	9	6
<i>Maximum in period</i> .....	10	11
<i>Minimum in period</i> .....	3	1
Average, 1Q 2012.....	10	5
<i>End of period</i> .....	10	1
<i>Maximum in period</i> .....	11	8
<i>Minimum in period</i> .....	9	1
Average, 2Q 2012.....	11	1
<i>End of period</i> .....	11	1
<i>Maximum in period</i> .....	12	1
<i>Minimum in period</i> .....	10	1
Average, 3Q 2012.....	10	1
<i>End of period</i> .....	11	1
<i>Maximum in period</i> .....	11	1
<i>Minimum in period</i> .....	8	1

1. Excluding 'specific interest rate risk' (measured using other techniques) and swap basis risk.

2. Integrated HVAR, excluding KBL EPB from 2010 on.

3. Excluding the Avebury CDO and Fund Derivatives business line.

**Market risk SVAR (10-day holding period, in millions of EUR)<sup>1</sup>**

	<b>KBC Bank Group</b>	<b>KBC Financial Products</b>
Average, 1Q 2011 .....	-	-
Average, 2Q 2011 .....	-	-
Average, 3Q 2011 .....	-	-
Average, 4Q 2011 .....	46	14
<i>End of period</i> .....	36	17
<i>Maximum in period</i> .....	60	19
<i>Minimum in period</i> .....	24	11
Average, 1Q 2012 <sup>2</sup> .....	44	14
<i>End of period</i> .....	42	5
<i>Maximum in period</i> .....	48	20
<i>Minimum in period</i> .....	40	5
Average, 2Q 2012 .....	47	4
<i>End of period</i> .....	48	4
<i>Maximum in period</i> .....	58	5
<i>Minimum in period</i> .....	37	3
Average, 3Q 2012 .....	37	3
<i>End of period</i> .....	41	2
<i>Maximum in period</i> .....	41	5
<i>Minimum in period</i> .....	33	2

1. SVAR (Stressed VAR) calculated only as of the fourth quarter of 2011. Unaudited.

2. SVAR figures for 1Q are based on a 60 day window.

## 12. Staff

In 2011, KBC Bank Group had, on average on a consolidated basis, about 38,000 employees (full-time or equivalent), the majority of whom were located in Belgium (largely in KBC Bank) and Central and Eastern Europe. In addition to talks at works council meetings and at meetings with union representatives and with other consultative bodies, KBC Bank Group also works closely in other areas with employee associations. There are various collective labour agreements in force.

## 13. Banking supervision and regulation

### Introduction

KBC Bank, a credit institution governed by the laws of Belgium, is subject to detailed and comprehensive regulation in Belgium, and is supervised by the NBB, the Belgian central bank, acting as the supervisory authority for prudential supervision of financial institutions. Since the implementation on 1 April 2011 of the

“Twin Peaks Act”, the powers relating to prudential supervision have been transferred from the Banking, Finance and Insurance Commission (the “CBFA”) to the NBB.

The remaining supervisory powers previously exercised by the CBFA are now exercised by the Financial Services and Markets Authority (the “FSMA”). This autonomous public agency is in charge of supervision with regard to conduct of business rules for financial institutions and financial market supervision.

EU directives have had and will continue to have a significant impact on the regulation of the banking business in the EU, as such directives are implemented through legislation adopted within each Member State, including Belgium. The general objective of these EU directives is to promote the realisation of a unified internal market and to improve standards of prudential supervision and market efficiency through harmonisation of core regulatory standards and mutual recognition among EU Member States of regulatory supervision, and in particular, licensing.

### **Supervision and regulation in Belgium**

The banking regime in Belgium is governed by the Law on the Legal Status and Supervision of Credit Institutions of 22 March 1993 and its subsequent modifications (the “**Banking Act**”). The Banking Act, among other things, implements the European legislation, as coordinated by EC Directive 2006/48/EC of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions (the “**Capital Requirements Directive**”) and by EC Directive 2006/49/EC of 14 June 2006 on the capital adequacy of investment firms and credit institutions (the “**Capital Adequacy Directive**”). It sets forth the conditions under which credit institutions may operate in Belgium and defines the regulatory and supervisory powers of the NBB. The main objective of the Banking Act is to protect public savings and the stability of the Belgian banking system in general.

### **Supervision of credit institutions**

All Belgian credit institutions must obtain a license from the NBB before they may commence operations. In order to obtain a license and maintain it, each credit institution must fulfil numerous conditions, including certain minimum paid-up capital requirements. In addition, any shareholder holding 10 per cent. or more (directly or indirectly, alone, together with affiliated persons or in concert with third parties) of the capital or the voting rights of the institution must be of “fit and proper” character to ensure proper and prudent management of the credit institution. The NBB therefore requires the disclosure of the identity and participation of any shareholder with a 10 per cent. or greater capital or voting interest. If the NBB considers that the participation of a shareholder in a credit institution jeopardizes its sound and prudent management, it may suspend the voting rights attached to this participation and, if necessary, request that the shareholder transfers to a third party its participation in the credit institution. Prior notification to and non-opposition by the NBB is required each time a person intends to acquire shares in a credit institution, resulting either in the direct or indirect ownership of a qualified holding of the capital or voting rights, or in an increase of such qualified holding thereby attaining or surpassing 20 per cent., 30 per cent. or 50 per cent., or when the credit institution would become his subsidiary. Furthermore, a shareholder who wishes to directly or indirectly sell his participation or a part thereof, which would result in his shareholding dropping below any of the above-mentioned thresholds, must notify the NBB thereof. The Belgian credit institution itself is obliged to notify the NBB of any such transfer when it becomes aware thereof. Moreover, every shareholder acquiring, decreasing or increasing its holding (directly or indirectly, alone, together with affiliated persons or in concert with third parties) to 5 per cent. or more of voting rights or capital without reaching the qualifying holding threshold of 10 per cent., must notify the NBB thereof within 10 working days.

The Banking Act requires credit institutions to provide detailed periodic financial information to the NBB and, under certain circumstances, the FSMA. The NBB also supervises the enforcement of laws and regulations with respect to the accounting principles applicable to credit institutions. The NBB sets the

minimum capital adequacy ratios applicable to credit institutions. The NBB may also set other ratios, for example, with respect to the liquidity and gearing of credit institutions. It also sets the standards regarding solvency, liquidity, risk concentration and other limitations applicable to credit institutions. Pursuant to the Banking Act, the NBB may, in order to exercise its prudential supervision, require that all information with respect to the organisation, the functioning, the position and the transactions of a credit institution be provided to it. Further, the NBB supervises, among other things, the management structure, the administrative organisation, the accounting and the internal control mechanisms of a credit institution. The NBB may supplement these communications and controls by on-site inspections. The NBB also exercises its comprehensive supervision of credit institutions through Statutory Auditors who cooperate with the NBB in its prudential supervision. A credit institution selects its Statutory Auditor from the list of auditors or audit firms accredited by the NBB. Within the context of the European System of Central Banks, the NBB issues certain recommendations regarding monetary controls.

If the NBB finds that a credit institution is not operating in accordance with the provisions of the Banking Act, that its management policy or its financial position is likely to prevent it from honouring its commitments, that it does not provide sufficient guarantees for its solvency, liquidity or profitability or that its management structure, administrative and accounting procedures or internal control systems present serious deficiencies, it will set a deadline by which the situation must be rectified. If the situation has not been rectified by the deadline, the NBB has the power to appoint a special commissioner, to impose additional requirements regarding solvency, liquidity, risk concentration and other limitations, to suspend or prohibit all or part of the credit institution's activities (including a partial or complete suspension of the execution of current contracts), to order the disposal of all or part of the credit institution's shareholdings, to impose a replacement of the directors, and finally, to revoke the license of the credit institution. In urgent situations, the NBB may even impose such measures immediately without regard to the deadline mentioned above. Furthermore, if the circumstances as described in the previous paragraph are likely to impact the stability of the Belgian or international financial system, every act of disposal regarding the credit institution can be taken by Royal Decree, including the sale, transfer or contribution with regard to any or all assets, liabilities or parts, or the shares of the credit institution. Such measures will not alter or end any contracts between the credit institution and a third party. Similar measures can be taken if the credit institution violates the conduct of business rules and thereby impairs the Belgian or international financial system.

### **Bank governance**

Belgian law and regulatory practices make a fundamental distinction between the management of banking activities, which is within the competence of the Executive Committee, and the supervision of management and the definition of the credit institution's general policy, which is entrusted to the Board of Directors. In a circular, the NBB recommends the implementation of this distinction (the "**Circular**"). The Circular also contains other recommendations to assure the autonomy of the banking function and the proper governance of the credit institution.

As required by the CBFA (now the NBB), KBC Bank has drafted an internal governance group memorandum (the "**Governance Memorandum**"), which sums up the main characteristics of its policy structure. The policy of a credit institution must meet the principles set out in the Circular. The Governance Memorandum was approved by the Board of Directors of KBC Bank and KBC Group and has been submitted for approval to the CBFA in 2008. An update to the Governance Memorandum was approved by the Board of Directors of KBC Group and also submitted for approval to the CBFA in 2010. A third update is currently underway and will subsequently be submitted for approval to the NBB.

Pursuant to the Banking Act, the members of the Executive Committee need to have the required professional reliability and appropriate experience and the other managers of a credit institution need to have the required expertise and appropriate experience.

### **Solvency supervision**

Capital requirements and capital adequacy ratios are provided for in the Belgian Prudential Supervisor's Regulation on Own Funds of 15 November 2011 (the "**Regulation on Own Funds**"), transposing the Basel II-related provisions of the Capital Requirements Directive and the Capital Adequacy Directive. The payment of dividends by Belgian credit institutions is not limited by Belgian banking regulations, except indirectly through capital adequacy and solvency requirements, and is further limited by the general provisions of Belgian company law. The Regulation on Own Funds requires that the solvency of Belgian credit institutions be measured by a ratio that serves as the basis for the calculation of the minimum required capital. This capital requirement is principally determined by the degree of credit risk that is inherent in each item of the balance sheet and in each off-balance-sheet item. Each bank subject to the Regulation on Own Funds must maintain a capital adequacy ratio (the "**CAD ratio**") of total capital (Tier 1 and Tier 2) to risk-weighted assets, of no less than 8 per cent. The CAD ratio also takes into account market risk with respect to the bank's trading book (including interest rate and foreign currency exposure) and operational risk in the calculation of the weighted risk. The CAD ratio may increase to cover temporary large exposures that exceed the exposure limit described below.

Solvency is also measured by the gearing ratio, which compares shareholders' equity to debt to third parties, as defined in applicable regulations. The Regulation on Own Funds also stipulates that in no event may the total capital of credit institutions be less than total fixed assets.

### **Large exposure supervision**

Belgian regulations also ensure the solvency of credit institutions by imposing limits on the concentration of risk in order to limit the impact of failure on the part of a large debtor. For this purpose, credit institutions must limit the amount of risk exposure to any single counterparty to 25 per cent. of the total capital. Belgian regulations also require that the credit institutions establish procedures to contain concentrations on economic activity sectors and geographic areas.

### **Equity investments**

Belgian credit institutions may make equity investments in commercial and industrial companies. However, such investments (of 10 per cent. or more) may not exceed: (i) 15 per cent. of the shareholders' equity of the credit institution on a per investment basis, or (ii) 45 per cent. of the shareholders' equity of the credit institution in the aggregate.

### **Money laundering**

Belgium has implemented Directive 2005/60/EC of the European Parliament and of the Council of 26 October 2005 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing by adjusting an Act of 11 January 1993 (as amended from time to time). This legislation contains a preventive system imposing a number of obligations in relation to money laundering and the financing of terrorism. These obligations are related, among other things, to the identification of the client, special attention for unusual transactions, internal reporting, processing and compliance mechanisms with the appointment of a compliance officer, and employee training requirements. When, after investigation, a credit or financial institution suspects money laundering to be the purpose of a transaction, it must promptly notify an independent administrative authority, the Financial Intelligence Unit. This Unit is designated to receive reports on suspicious transactions, to investigate them and, if necessary, to report to the criminal prosecutors to initiate proceedings. The Belgian Prudential Supervisor has issued guidelines for credit and financial institutions and supervises their compliance with the legislation. Belgian criminal law specifically addresses criminal offences of money-laundering (Article 505, paragraph 1, 2, 3 and 4 of the Criminal Code) and sanctions them with a jail term of a minimum of 15 days and a maximum of 5 years and/or a penalty of a

minimum of EUR 26 and a maximum of EUR 100,000 (to be increased with the additional penalty, or - in other words - to be multiplied by 6).

### **Consolidated supervision**

KBC Bank is subject to consolidated supervision on the basis of the consolidated financial situation of KBC Group, which covers among other things solvency as described above, pursuant to Article 49, § 4 of the Banking Act.

### **KBC Asset Management**

As from June 2005, the status of KBC Asset Management has been changed from “investment firm” to a “management company of undertakings for collective investment in transferable securities (UCITS)” (a “**UCITS-management company**”). Its activities are, *inter alia*, the management of UCITS and the management of portfolios of investments in accordance with mandates given by investors on a discretionary, client-by-client basis. KBC Asset Management is subject to detailed, comprehensive regulation in Belgium, supervised by the FSMA.

The UCITS-management company regime in Belgium is governed by the “Law on certain forms of collective management of investment portfolios” of 3 August 2012 (the “**UCITS Act**”). The UCITS Act implements European Directive 2009/65/EC of 13 July 2009 relating to UCITS. This UCITS Act regulates management companies and sets forth the conditions under which UCITS-management companies may operate in Belgium; furthermore, it defines the regulatory and supervisory powers of the FSMA.

The regulatory framework concerning supervision on UCITS-management companies is mostly similar to the regulation applicable to investment firms. The UCITS Act contains, *inter alia*, the following principles:

- certain minimum paid-up capital requirements and rules relating to changes affecting capital structure;
- obligation for management companies to carry out their activities in the interests of their clients or of the UCITS they manage (e.g. creation of Chinese walls);
- obligation to provide, on a periodic basis, a detailed financial statement to the FSMA;
- supervision by the FSMA; and
- subjection to the control of Statutory Auditors.

## **14. Capital Transactions and Guarantee Agreements with the Government in 2008 and 2009**

In order to maintain its capital base at a sufficiently high level, KBC Group in 2008 and 2009 issued EUR 3.5 billion worth of capital securities to each of the Belgian State and the Flemish Region. In addition it was agreed with the Belgian State that it provide a guarantee relating to (originally) EUR 20 billion of CDO and MBIA-related risk.

### **The EUR 7 billion core capital securities subscribed by the Belgian State and the Flemish Region of Belgium**

Since the end of 2008, KBC Group has issued EUR 7 billion of perpetual, non-transferable core-capital instruments with no voting rights, which rank equally with ordinary shares upon liquidation, to the Belgian State (the *Federale Participatie- en Investeringsmaatschappij*) and the Flemish Region of Belgium (EUR 3.5 billion each). The transaction with the Belgian State was concluded in December 2008 and the transaction with the Flemish Region of Belgium was closed in July 2009. KBC Group has used the proceeds of these transactions to strengthen the core capital of its banking activities by in total EUR 5.5 billion via ordinary capital increases in KBC Bank and to increase the solvency margin of its insurance activities by EUR 1.5

billion (via ordinary capital increases in KBC Insurance NV). The other features of these transactions are described in the 2011 Annual Report of KBC Bank.

On 2 January 2012, KBC Group repaid a first EUR 0.5 billion (plus a 15 per cent. penalty) to the Belgian State. KBC Group's main objective in this respect is to implement the EU Plan approved by the European Commission within the agreed timeframe and to repay the Belgian authorities in a timely manner. On 17 December 2012, KBC Group repaid the remaining EUR 3 billion of perpetual, non-transferable core capital instruments which has been subscribed to by the Belgian State in December 2008, plus a penalty of 15 per cent. (EUR 450 million). KBC Group will work towards repaying 1.17 billion euro of the core capital securities subscribed to by the Flemish Regional Government, plus the 50 per cent. premium, in the first half of 2013. The repayment will be subject to customary approval from the National Bank of Belgium. KBC is committed to repaying the remaining outstanding balance of 2.33 billion euro issued to the Flemish Regional government in seven equal instalments of 0.33 billion euro (plus premium) over the 2014-2020 period, as agreed with the European Commission. KBC has however the option to further accelerate these repayments.

### **The Guarantee Agreement relating to (originally) EUR 20 billion of CDO and MBIA-related risk**

In May 2009, KBC Group reached an agreement with the Belgian State regarding a guarantee arrangement for a substantial part of its structured credit exposure. In brief and simplified, the guarantee relates to an original notional amount of EUR 20 billion (for the whole KBC Group), comprising a notional amount of EUR 5.5 billion of super senior CDO investments and EUR 14.4 billion of counterparty risk on MBIA (the U.S. monoline insurer). For payment of a fee, a guarantee from the State was bought covering 90 per cent. of the default risk beyond a set first loss. The original figures have meanwhile changed (due to a decrease in CDO-exposure); this is reflected in the structure of the guarantee transaction as set out below ('currently' meaning as at 31 September 2012). Note that the CDO portfolio consists of several CDOs; the guarantee structure applies to each CDO; the mentioned figures refer to the aggregate notional amount at risk of all CDOs to which the guarantee relates:

- First Tranche of originally EUR 3.2 billion (currently EUR 1.7 billion): credit losses to be borne by KBC Group.
- Second Tranche of originally EUR 2 billion (currently EUR 1.5 billion): credit losses to be borne by KBC Group. KBC Group can ask the Belgian State to subscribe to new KBC Group shares at market value, for an amount equalling 90 per cent. of the loss in this tranche (10 per cent. of the risk to be retained by KBC Group).
- Third Tranche of originally EUR 14.8 billion (currently EUR 9.0 billion): credit losses of 90 per cent. to be compensated for by the Belgian State in cash (10 per cent. of the loss to be retained by KBC Group).

As a result, the potential negative impact from the MBIA- and CDO-exposure is significantly reduced.

On 20 December 2012, KBC announced that KBC Group and Belgian Federal Government reached agreement on a review of the CDO guarantee agreement. Additional clauses have been added to the revised agreement which grant KBC Group a conditional discount on the outstanding premiums (under certain strict conditions and limited to a pre-determined maximum amount). In other words, the government has included an incentive for KBC Group if KBC Group succeeds in significantly reducing the government's exposure. KBC does not currently expect the new agreement to have any material impact on its fourth quarter results. Any future impact on its results will depend on market conditions and opportunities that arise going forward.

## 15. Strategic plan of KBC Group

### The EU Plan of KBC Group

Since 2009, KBC Group has been working on a strategic analysis of its group-wide activities and of the economic and financial environment KBC Group currently operates in. This effort has resulted in a strategic plan, which has been tested under different macroeconomic scenarios. The plan analysed KBC Group's business and its proposed future strategy, and also served as a basis for the European Commission to assess KBC Group's capacity to redeem the capital securities subscribed by the Belgian State and the Flemish Region of Belgium within a reasonable timeframe. This is common practice for European financial institutions that have taken part in economic stimulus plans launched by the EU Member States. The plan was cleared by European regulatory authorities on 18 November 2009.

Due to the impact of certain changes in the regulatory environment (especially Basel III and draft IFRS on leases), and the difficulty involved in floating K&H Bank in the current circumstances, some measures presented in the initial strategic plan had become less effective or less feasible in achieving the intended aim of repaying the state aid in a timely manner.

In 2011, KBC Group proposed to replace the initial public offerings of a minority stake in CSOB Bank (Czech Republic) and K&H Bank (Hungary) and the sale and lease back of the headquarter offices in Belgium foreseen in the initial strategic plan, with the divestment of Kredyt Bank and Warta in Poland and the sale or unwind of selected ABS (asset backed securities) and CDO (collateralised debt obligations) assets.

This proposal was accepted by the EU Commission on 27 July 2011 (the "**EU Plan**").

In this strategic plan, basis for the EU Plan, KBC Group refocuses on its core bancassurance activities in Belgium and 4 selected countries in Central and Eastern Europe (Czech and Slovak Republics, Hungary and Bulgaria). A number of subsidiaries and activities, many of which related to investment banking activities, are already or will be downscaled or sold by year end 2013 at the latest. International corporate lending outside the home markets is to be downscaled.

For the Belgium Business Unit, it was decided to divest the complementary sales channels of Centea and Fidea (the latter belonging to KBC Insurance NV). In July 2011, Centea was sold to Landbouwkrediet/Crédit Agricole (Belgium). In March 2012, Fidea was sold to J.C. Flowers & co.

For the Central and Eastern Europe Business Unit, it was decided to focus on the Czech and Slovak Republics, Hungary and Bulgaria and to divest the presence in the other Central and Eastern European countries, namely Kredyt Bank and Warta (a subsidiary of KBC Insurance NV) in Poland, Absolut Bank in Russia, KBC Banka (a subsidiary of KBC Insurance NV) in Serbia, the minority stake in Nova Ljubljanska banka (NLB) in Slovenia and Zagiel (Polish consumer finance). In July 2012, Warta was sold to Talanx (Germany). In February 2012, KBC Group and Banco Santander announced their intention to merge their respective Polish banking subsidiaries, Kredyt Bank and BZ WBK; the merger was signed by both entities management boards in May 2012 and approved by both entities general shareholders meeting, as well as by the EU competition authorities. Early December 2012, approval was obtained from the Polish Financial Supervision Authority KNF. In July 2012, Zagiel was sold to Santander Consumer Finance. Agreements on the divestment of Absolut Bank and NLB have been respectively signed on 24 and 28 December 2012. Both deals are however not yet closed. The divestment of KBC Banka is still outstanding.

For the Merchant Banking Business Unit, the objective was to exit in an orderly manner from the bulk of the lending and investment banking activities that do not have clear synergies with the Belgium and Central and Eastern European markets. This meant the closure of some branches and the sale of a number of subsidiaries including Antwerp Diamond Bank, KBC Bank Deutschland, KBC Finance Ireland, KBC Financial Products and KBC Peel Hunt. As at the end of 2012, the bulk of the divestments was finalised, with the exception of

Antwerp Diamond Bank and KBC Bank Deutschland. Moreover, the international credit portfolio outside the Home Markets has been downscaled.

The entire former European Private Banking Business Unit (consisting of KBC Bank's former sister companies KBL European Private Bankers and Vitis Life) was considered non-core and was sold in July 2012 to Precision Capital.

### **The updated strategic plan of KBC Group**

On 8 October 2012, KBC Group announced publically its strategic plan for the future (the "**Strategic Plan**"). Six drivers define KBC Group's updated strategy:

- (i) KBC Group will focus first and foremost on the client. KBC Group aims at building and deepening sustainable relationships with retail, SME and midcap clients. KBC Group's competitive advantage is understanding local clients and tailoring to their local needs. Hence, 'local responsiveness' is the key strategic priority and thus the point of gravity is local;
- (ii) KBC Group continues to focus on core bank and core insurance products and services. KBC Group confirms its long-standing and long-term commitment to its integrated bank-insurance model, a model which KBC Group has mastered and which has produced excellent results through the cycle;
- (iii) KBC Group clearly defines its core markets as those markets where it is present with banking and insurance companies. These core markets are Belgium, the Czech Republic, Hungary, Slovakia and Bulgaria, where the group is strongly embedded in the local economies. All activities which do not contribute to serving the client relationships in KBC Group's core markets will be stopped;
- (iv) KBC Group further mobilises cross-border cooperation and group leverage to create cost-efficiencies throughout the group. International Product Factories and International Service Providers will focus on offering products and services which support and are tailored to the distribution strategy of the business units and help to increase local responsiveness. Exchange of know-how, best practices, experience, products and services between the different business units and corporate functions will be stimulated through communities;
- (v) KBC Group implements a new organisational structure that is fully aligned with the strategic choices and which supports effective decision making and accountability. The new structure includes, among other things, the creation of a new, separate business unit for the Czech Republic franchise, and clarification of the future role of the Merchant Banking Business Unit; and
- (vi) KBC Group commits to a clearly defined group culture. KBC Group will strengthen its agility and responsiveness by emphasising and streamlining performance management and accountability for all staff. A clear link will be established between the strategic priorities and accountability (through key performance indicators).

## **16. Recent Events**

Detailed information is set out in KBC Group's and KBC Bank's press releases and financial reports, all of which are available on [www.kbc.com](http://www.kbc.com). For the avoidance of doubt, the information available on KBC Group's website, [www.kbc.com](http://www.kbc.com), shall not be incorporated by reference in, or form part of, this Prospectus (other than as referred to in the section "Documents incorporated by reference").

### **KBC Bank NV 1H2012 consolidated result (unaudited)**

KBC Bank NV ended the first six months of 2012<sup>8</sup> (1H2012) with a consolidated net result according to IFRS of EUR - 865 million, compared with EUR +911 million in the first six months of 2011 (1H2011). The 'underlying' net result for 1H2012 (i.e. excluding exceptional and non-operating items, see below) came to EUR +562 million, compared to EUR +861 million in 1H2011.

The exceptional and non-operating items, which impacted the IFRS result for 1H2012 and which were excluded in the underlying figures, totalled EUR - 1.4 billion euro after tax. They mainly consisted of:

- (i) Impairment charges for remaining divestments (EUR -1.1 billion after tax). On the basis of the progress made in the respective divestment processes, a thorough assessment was made of the value of the businesses of Absolut Bank (Russia), NLB (Slovenia), KBC Bank Deutschland (Germany) and Antwerpse Diamantbank (Belgium). Given KBC Group's determination to continue with the divestments, it has decided to reclassify three of these businesses under IFRS 5 and record impairment charges for the divestment files. The impact of these charges is EUR 1.1 billion, after tax. Given that impairment is largely related to goodwill, the impact on regulatory capital is substantially lower at EUR 0.6 billion. This negative capital impact will be reversed entirely at the time these divestments are closed, mainly through the release of risk-weighted assets (RWAs).
- (ii) Valuation of own debt (EUR -0.3 billion, after tax). The improvement in the credit spread of KBC Bank NV debt between year-end 2011 and the end of June 2012 resulted in a negative marked-to-market adjustment of EUR 0.3 billion.

The main special elements that impacted both the IFRS and underlying results in 1H2012 were:

- (i) Greece. As a result of the exchange offer of Greek bonds (PSI debt restructuring), KBC Bank NV recorded an additional and final negative result of EUR 25 million (pre-tax) on its Greek government bond portfolio.
- (ii) Ireland. Recent economic indicators point towards resilience in Irish exports, continuing strength in the pipeline of foreign direct investment and progress in reducing the deficit in public finances. These developments have been reflected in continuing positive assessments by the EU/IMF. While residential mortgage arrears continue to deteriorate, the pace of deterioration has slowed markedly compared to 2011, which is also positively impacting non-performing loan trends. There are tentative early signs of house prices stabilising, but local confidence remains fragile. Commercial collateral values continue to suffer as all Irish banks deleverage in an illiquid market. As a consequence, a loan loss provision of EUR 331 million (pre-tax) was recorded in 1H2012. KBC estimates that full-year impairment charges at KBC Ireland will end up between EUR 500 and EUR 600 million.

Business highlights for 1H2012:

- (i) Further steps forward in implementing the Strategic Plan. In Poland, KBC Bank signed an investment agreement with Banco Santander to combine their Polish subsidiaries, Kredyt Bank and Bank Zachodni WBK. KBC Private Equity sold its participation in Dynaco, KBC Asset Management concluded the sale of its 49% stake in KBC Goldstate (China) to Value Partners Ltd, and KBC Lease sold KBC Autolease Polska to Business Lease Group. At the end of July,

---

<sup>8</sup> [https://multimediafiles.kbcgroup.eu/ng/published/KBCCOM/PDF/COM\\_IT\\_pdf\\_halfjaarverslag\\_2012\\_bank\\_EN.pdf](https://multimediafiles.kbcgroup.eu/ng/published/KBCCOM/PDF/COM_IT_pdf_halfjaarverslag_2012_bank_EN.pdf)

KBC Bank sold Żagiel (consumer finance business in Poland). Moreover, KBC Bank decided to record impairment charges for the remaining divestment files (see above).

- (ii) Further reduction in the volatility of results, due in part to reducing the exposure to CDOs and ABS by roughly EUR 1.7 billion and scaling back the exposure to bonds issued by Southern European governments by EUR 1.4 billion in 1H2012.
- (iii) Focus firmly remains on catering to KBC Bank's customer base in its core markets in Belgium and Central and Eastern Europe.

Financial highlights for 1H2012 (compared to 1H2011):

- (i) Good commercial results, surpassed by impairment charges recorded on the remaining divestments, leading to a negative reported result under IFRS.
- (ii) Year-on-year decrease in net interest income, due in part to divestments, a lower reinvestment yield and higher senior debt costs.
- (iii) Good growth of loan and deposit volumes in the Belgium and Central and Eastern Europe business units.
- (iv) Net fee and commission income slightly down year-on-year.
- (v) Underlying cost/income ratio of 58% year-to-date.
- (vi) Credit cost ratio at a low 0.59% year-to-date, almost exclusively accounted for by Ireland. Excluding Ireland, the ratio stands at 0.18%.
- (vii) Strong liquidity position, with an excellent loan-to-deposit ratio of 83%.
- (viii) Solvency: continued strong capital base: *pro forma* tier-1 ratio, including the effect of divestments for which an agreement has been signed to date (Kredyt Bank), at approximately 12.9% (Basel II).

More detail can be found in KBC Bank's Half-Year Report 1H2012, available on [www.kbc.com](http://www.kbc.com).

### **KBC Bank NV residential mortgage covered bonds programme**

On 19 November 2012 KBC Bank NV announced its Belgian residential mortgage covered bonds programme in the aggregate principal amount of 10 billion euro. This programme has been put into place following the entry into force of the Act of 3 August 2012 establishing a legal framework for Belgian covered bonds. KBC has obtained the required licences from the National Bank of Belgium (the "NBB").

On 3 December 2012, KBC successfully launched a EUR 1.25 billion covered bond issue, which will mature on 11 December 2017.

### **KBC Group NV partial repayment of core capital securities and capital increase**

On 10 December 2012, KBC Group announced

- (i) the accelerated full repayment of EUR 3.0 billion of core capital securities subscribed to by the Belgian State, together with a premium of EUR 0.45 billion to the Belgian Federal Government in December 2012, approved by the National Bank of Belgium;
- (ii) its intention to accelerate repayment of EUR 1.17 billion of core capital securities subscribed to by the Flemish Regional Government with a premium of EUR 0.58 billion in the first half of 2013 subject to the National Bank of Belgium's customary approval;

- (iii) its intention to maintain a fully loaded Basel 3 common equity target ratio of 10% as of 1 January 2013;
- (iv) an issuance of new shares for an amount of approximately EUR 1.25 billion. KBC Group successfully placed 58,835,294 ordinary shares at a price of EUR 21.25 per share, resulting in gross cash proceeds of EUR 1,250,250,000. The offering comprises approximately 35.8 million new ordinary shares which were listed on 13 December 2012 and 23 million new registered shares which will be swapped with a core shareholder (M.R.B.B. CVBA) against existing ordinary shares held by it. The intention is to list the new registered shares by the annual shareholders' meeting of May 2013; and
- (v) a contingent capital note issue of approximately EUR 0.75 billion to be issued in the first quarter of 2013.

The Securities will be this last element of such announcement.

#### **Pro forma core tier 1 ratio as at 30 September 2012**

KBC Group NV reported a core-tier1 ratio of 13.4% as at 30 September 2012. After giving effect to various transactions that took place or were signed during the last quarter of financial year 2012 – i.e., taking into account the impact of the signed divestments of Absolut Bank, NLB and a full exit of Kredyt Bank, the capital increase of EUR 1.25 billion, the sale of the treasury shares for EUR 350 million and the reimbursement of the remaining EUR 3 billion core capital securities subscribed by the Federal State (including the 15% penalty premium) – the pro-forma core tier1 ratio of KBC Group NV as at such date amounts to 12.7%.

### **17. Trend Information**

Significant progress has been made towards the stabilisation of the euro area over the past few months, both on the political and financial front, with the creation of a banking union as a true game-changer. The very accommodating monetary policy in the Economic and Monetary Union (the “EMU”) (amongst others, low interest rates, Longer-Term Refinancing Operations and the Outright Monetary Transactions Programme) and the U.S. (further quantitative easing) should help to overcome an austerity-induced recession in the EMU and anticipated government savings (once reaching the government debt ceiling) in the U.S., and therefore restore economic confidence and growth early 2013. These central bank interventions have raised the probability of the scenario in which growth in the developed economies will gradually recover (though will remain moderate for an extended period of time), while growth in the Emerging Markets, particularly in China, remains more resilient. KBC Bank's home markets (Belgium, Czech Republic, Slovak Republic, Hungary and Bulgaria) will benefit from the gradual economic recovery in the euro area - especially in Germany - allowing them to climb out of the recessionary environment.

### **18. Material Contracts**

Except as stated in the paragraph below, KBC Bank has not entered into any material contracts outside the ordinary course of its business which could result in any member of KBC Bank Group being under an obligation or entitlement that is material to KBC Bank's ability to meet its obligations to holders.

KBC Group has concluded certain transactions with the Belgian State and the Regional Flemish government in order to strengthen its capital and to secure credit protection for a large part of KBC Group's structured credit exposure. The content of these transactions has been summarised in section 14 above (*Capital Transactions and Guarantee Agreements with the Government in 2008 and 2009*).

## 19. Management of KBC Bank NV

### The Board of Directors

The Board of Directors of KBC Bank has the powers to perform everything that is necessary or useful to achieve the objectives of the company, with exception of those powers which, pursuant to the law and the articles of association, solely another body is empowered to perform.

The corporate objectives of KBC Bank are set out in article 2 of its articles of association. They include the execution of all banking operations in the broadest sense, as well as the exercise of all other activities which banks are or shall be permitted to pursue and all acts that contribute directly or indirectly thereto.

Pursuant to article 26 of the Act of 22 March 1993 on the legal status and supervision of credit institutions, and article 524*bis* of the Belgian Companies Code, the Board of Directors of KBC Bank has conferred powers on the Executive Committee to perform the acts referred to in Article 522 of the Belgian Companies Code and Article 18 of the articles of association of KBC Bank. However, this transfer of powers relates neither to the definition of general policy, nor to the powers which are reserved to the Board of Directors by the other provisions of the Belgian Companies Code. The Board of Directors is responsible for the supervision of the Executive Committee. There are no potential conflicts of interest between the duties to KBC Bank of the Members of the Board of Directors of KBC Bank detailed below and their private interests or other duties.

Members of the Board of Directors of KBC Bank are as follows:

<b>Name and business address</b>	<b>Position</b>	<b>Expiry date of current term of office</b>	<b>Main external offices</b>
LEYSEN Thomas Dennenlaan 9a 2020 Antwerpen	Chairman	2015	Chairman of the Board of Directors of Umicore NV Member of Supervisory Board Bank Metzler seel. Sohn & Co Chairman of the Board of Directors of Corelio NV Director of De Vijver NV Executive Director of Mediacore NV Executive Director of Tradicor NV Executive Director of Booisshot NV Chairman of the Board of Directors of KBC Verzekeringen NV
DE RAYMAEKER Danny KBC Bank NV Havenlaan 2 1080 Brussel	Executive Director	2016	Member of the Executive Committee of KBC Groep NV Executive Director of KBC Verzekeringen NV Chairman of the Executive Committee of KBC Global Services NV Chairman of the Supervisory Board of KBC Asset Management SA

<b>Name and business address</b>	<b>Position</b>	<b>Expiry date of current term of office</b>	<b>Main external offices</b>
			Chairman of the Supervisory Board of KBC Fund Management Limited
			Member of the Supervisory Board of Valuesource NV
			Member of the Supervisory Board of Valuesource Technologies Private Limited
			Chairman of the Supervisory Board of KBC Lease Holding NV
			Chairman of the Supervisory Board of CSOB Leasing a.s. (CR)
			Chairman of the Supervisory Board of CSOB Leasing a.s. (SR)
			Chairman of the Supervisory Board of Zagiel S.A.
			Member of the Board of Directors of Romstal Leasing IFN S.A.
			Member of the Supervisory Board of Kredyt Lease SA
GIJSENS Lucien KBC Bank NV Havenlaan 2 1080 Brussel	Executive Director	2015	Chairman of the Board of Directors of Old Broad Street Invest NV
			Member of the Executive Committee of KBC Groep NV
			Executive Director of KBC Verzekeringen NV
			Non-executive Director of KBC Bank Deutschland AG
			Non-executive Director IIB Finance Ireland
			Non-executive Director of KBC Investments Limited
			Non-executive Director of KBC Financial Holding Inc.
			Non-executive Director of KBC Financial Products UK Limited
			Non-executive Director of Mezzafinance NV
			Non-executive Director of KBC Securities NV
			Non-executive Director of KBC Private Equity NV

<b>Name and business address</b>	<b>Position</b>	<b>Expiry date of current term of office</b>	<b>Main external offices</b>
			<p>Non-executive Director of KBC Financial Products Hong Kong Limited Ltd.</p> <p>Non-executive Director of KBC Alternative Investment Management Limited</p> <p>Non-executive Director of KBC Global Services NV</p> <p>Non-executive Director of KBC Bank Ireland Plc.</p> <p>Non-executive Director of Gemma Frisius-Fonds K.U. Leuven NV</p> <p>Non-executive Director of KBC Credit Investments NV</p>
HOLLOWS John KBC Bank NV Havenlaan 2 1080 Brussel	Executive Director	2013	<p>Non-executive Director of Nova Ljubljanska banka d.d. "NLB"</p> <p>Executive Director of KBC Verzekeringen NV</p> <p>Executive Director of KBC Groep NV</p> <p>Member of the Board of Directors of KBC Global Services NV</p>
POPELIER Luc KBC Bank NV Havenlaan 2 1080 Brussel	Executive Director	2013	<p>Executive Director of KBC Verzekeringen NV</p> <p>Executive Director of KBC Groep NV</p> <p>Executive Director of KBC Global Services NV</p> <p>Non-executive Director of KBC Bank Ireland Plc.</p> <p>Non-executive Director of KBC Financial Products UK Limited</p>
THIJS Johan KBC Bank NV Havenlaan 2 1080 Brussel	Executive Director	2013	<p>Non-executive Director of CBC BANQUE SA</p> <p>Executive Director of KBC Global Services NV</p> <p>Non-executive Director of Group VAB NV</p> <p>Executive Director of KBC Verzekeringen NV</p> <p>Non-executive Director of Febelfin</p> <p>Non-executive Director of KBC Groep NV</p> <p>Non-executive Director of VOKA</p>

<b>Name and business address</b>	<b>Position</b>	<b>Expiry date of current term of office</b>	<b>Main external offices</b>
			Non-executive Director of Assuralia Non-executive Director of BVB Non-executive Director of FBD Holding Plc
VOLJC Marko KBC Bank NV Havenlaan 2 1080 Brussel	Executive Director	2014	Non-executive Director of K&H Bank Zrt  Member of the Executive Committee of KBC Groep NV Executive Director of KBC Verzekeringen NV Non-executive Director of Commercial bank “Absolut Bank” (ZAO) Executive Director of KBC Global Services NV Executive Director of Ceskoslovenska Obchodní Banka a.s. (SR) Non-executive Director of Československá Obchodní Banka a.s.(CR) Non-executive Director of CSOB Pojist’ovna a.s. Non-executive Director of CIBANK AD Non-executive Director of Kredyt Bank SA Non-executive Director of DZI Insurance Plc Non-executive Director of DZI - HEALTH INSURANCE AD Non-executive Director of DZI - GENERAL INSURANCE JSC
DE WILDE Julien Jabekestraat 49 9230 Wetteren	Independent Director	2014	Non-executive Director of Arseus Non-executive Director of Nyrstar NV Non-executive Director of Telenet Group Holding NV
DEPICKERE Franky Cera Philipssite 5/10 3001 Leuven	Non-executive Director	2015	Executive Director of Almancora Beheersmaatschappij NV Non-executive Director of Commercial bank “Absolut Bank” (ZAO) Executive Director of Cera cvba Non-executive Director of MIKO NV

<b>Name and business address</b>	<b>Position</b>	<b>Expiry date of current term of office</b>	<b>Main external offices</b>
			Executive Director of Cera Beheersmaatschappij NV
			Executive Director of BRS VZW
			Non-executive Director of Cera Ancora VZW
			Non-executive Director of International Raiffeisen Union e.V.
			Non-executive Director CBC BANQUE SA
			Non-executive Director of KBC Groep NV
			Non-executive Director of Almancora VZW
			Non-executive Director of Euro Pool System International BV
			Non-executive Director of KBC Verzekeringen NV
DISCRY Luc Cera Philipssite 5 B 10 3001 Leuven	Non-executive Director	2014	Executive Director of Cera CVBA Non-executive Director of KBC Verzekeringen NV Non-executive Director of KBC Groep NV Executive Director of De Onderlinge Ziekenkas Executive Director of Almancora Beheersmaatschappij NV Executive Director of Cera Beheersmaatschappij NV
VANTHEMSCHE Pieter MRBB Diestsevest 40 3000 Leuven	Non-executive Director	2015	Non-executive Director of Gimv-Agri+ Investment Fund Non-executive Director of KBC Groep NV Non-executive Director of M.R.B.B. cvba - Maatschappij voor Roerend Bezit van de Boerenbond Non-executive Director of Agri Investment Fund CVBA Non-executive Director of BB-Patrim CVBA Director of KBC Verzekeringen NV
WITTEMANS Marc MRBB cvba Diestsevest 40	Non-executive Director	2014	Non-executive Director of KBC Groep NV Non-executive Director of Agro Services

<b>Name and business address</b>	<b>Position</b>	<b>Expiry date of current term of office</b>	<b>Main external offices</b>
3000 Leuven			<p>CVBA</p> <p>Non-executive Director of Aktiefinvest CVBA</p> <p>Non-executive Director of Arda Immo NV</p> <p>Non-executive Director of Acerta CVBA</p> <p>Non-executive Director of Acerta Consult CVBA</p> <p>Non-executive Director of SBB Accountants en Belastingconsulenten BV cvba</p> <p>Non-executive Director of M.R.B.B. cvba - Maatschappij voor Roerend Bezit van de Boerenbond</p> <p>Non-executive Director of Covalis NV</p> <p>Non-executive Director of KBC Verzekeringen NV</p>
BOSTOEN Alain Coupure 126 9000 Gent Belgium	Non-executive Director	2016	<p>Executive Director of Quatorze Juillet BVBA</p> <p>Delegate Director of AGROBOS NV</p> <p>Non-executive Director of KBC Group NV</p> <p>Member of the Board of Directors of KBC Verzekeringen NV</p> <p>Executive Director of Christeyns NV</p> <p>Executive Director of ALGIMO NV</p>
TYTGADT Alain  Prinses Josephinelaan 7 8300 Knokke-Heist Belgium	Non-executive Director	2016	<p>Non-executive Director of KBC Group NV</p> <p>Chairman of the Board of Directors of Metalunion CVBA</p> <p>Non-executive Director of Hallex NV</p> <p>Non-executive Director of Hallex Nederland BV</p> <p>Non-executive Director of Sloestal BV</p> <p>Chairman of the Board of Directors of Sinfonia Investments NV</p> <p>Non-executive Director of Sobemetal NV</p> <p>Non-executive Director of KBC Verzekeringen NV</p> <p>Executive Director of CENTEA NV</p>

<b>Name and business address</b>	<b>Position</b>	<b>Expiry date of current term of office</b>	<b>Main external offices</b>
FALQUE Daniel Bovenbosstraat 78 3053 Haasrode Belgium	Executive Director	2016	Executive Director of CBC BANQUE SA Executive Director of KBC Verzekeringen NV Member of the Executive Committee of KBC Group NV Executive Director of KBC Asset Management NV Non-executive Director of KBC Financial Indemnity Insurance SA Non-executive Director of ADD NV Non-executive Director of KBC Group Re SA Non-executive Director of FIDEA NV Non-executive Director of Kredietcorp SA Non-executive Director of Groep VAB NV Member of the Board of Directors of BVB
DONCK Frank Floridalaan 62 1180 Ukkel Belgium	Non-executive Director	2016	Executive Director of 3D NV Non-executive Director of Telenet Group Holding NV Non-executive Director of Telenet NV Non-executive Director of Iberanfra BVBA Member of the Board of Directors of Ibervest NV Non-executive Director of Ter Wyndt NV Non-executive Director of Ter Wyndt CVBA Member of the Board of Directors of Zenitel NV Non-executive Director of Aspel Slovakia sro Non-executive Director of Anchorage NV Non-executive Director of Aspel Polyform SA Executive Director of Hof Het Lindeken CVBA Executive Director of Huon & Kauri NV Executive Director of Tris

<b>Name and business address</b>	<b>Position</b>	<b>Expiry date of current term of office</b>	<b>Main external offices</b>
			<p>Non-executive Director of KBC Group NV</p> <p>Non-executive Director of J. Zinner NV</p> <p>Non-executive Director of PinguinLutosa NV</p> <p>Non-executive Director of Winge Golf NV</p> <p>Non-executive Director of KBC Verzekeringen NV</p>
MORLION Lode Weststraat 18 8647 Lo-Reninge Belgium	Non-executive Director	2016	<p>Executive Director of M&amp;D Invest NV</p> <p>Chairman of the Board of Directors of Cera Beheersmaatschappij NV</p> <p>Member of the Board of Directors Woonmaatschappij Ijzer en Zee CVBA</p> <p>Non-executive Director of KBC Verzekeringen NV</p> <p>Non-executive Director of Bedrijvencentrum Westhoek NV</p> <p>Non-executive Director of KBC Group NV</p>
VLERICK Philippe Ronsevaalstraat 2 8510 Bellegem Belgium	Member of the Board of Directors	2016	<p>Deputy Chairman of the Board of Directors of KBC Groep NV</p> <p>Non-executive Director of Mercurius Invest NV</p> <p>Member of the Board of Directors of Concordia Textiles NV</p> <p>Chairman of the Board of Directors of Wilton Weavers Private Ltd.</p> <p>Chairman of the Board of Directors of Indus Kamdhenu Fund</p> <p>Director of EMTHERICK NV</p> <p>Chairman of the Board of Directors of Lurick NV</p> <p>Chairman of the Board of Directors of THERICK NV</p> <p>Chairman of the Board of Directors of Vlerick Investeringsmaatschappij CVBA</p> <p>Chairman of the Board of Directors of Vlerick Vastgoed NV</p> <p>Chairman of the Board of Directors of Raymond Uco denim Private Ltd.</p>

<b>Name and business address</b>	<b>Position</b>	<b>Expiry date of current term of office</b>	<b>Main external offices</b>
			Member of the Board of Directors of B.M.T. Nv
			Member of the Board of Directors of ETEX GROUP SA
			Member of the Board of Directors of IVC NV
			Chairman of the Board of Directors of BATIBIC NV
			Chairman of the Board of Directors of Vobis Finance NV
			Non-executive Director of Isarick NV
			Non-executive Director of Charick NV
			Chairman of the Board of Directors HIFI International SA
			Managing Director of F.B.I. NV
			Member of the Board of Directors of HALLO NV
			Member of the Board of Directors of HAMON & CIE (INTERNATIONAL) SA
			Chairman of the Board of Directors of UCO NV
			Member of the Board of Directors KBC Verzekeringen NV
			Member of the Board of Directors M.T.V. NV
			Deputy Chairman of the Board of Directors of Durabilis NV
			Managing Director of Point NV
			Managing Director of CECAN Invest Nv
			Executive Director of TESSA LIM NV
			Member of the Board of Directors of Ispahan NV
			Executive Director of Vrij & Vrank CVBA
			Executive Director of Creatio Invest NV
			Chairman of the Board of Directors of Midelco NV
			Deputy Chairman of the Board of Directors of Spector Photo Group NV

<b>Name and business address</b>	<b>Position</b>	<b>Expiry date of current term of office</b>	<b>Main external offices</b>
			Member of the Board of Directors of BESIX Group NV
			Member of the Board of Directors of EXMAR NV
			Chairman of the Board of Directors of VIT NV
			Chairman of the Board of Directors of Belgian International Carpet C° NV
			Member of the Board of Directors of LVD Company NV
			Deputy Chairman of the Board of Directors of CORELIO NV
			Representative of Hermes Invest NV
			Chairman of the Board of Directors of Pentahold NV
			Executive Director of CECAN NV
ROUSSIS Theodoros Poederstraat 51 2370 Arendonk Belgium	Non-executive director	2016	Member of the Board of Directors of K&H Bank Zrt
			Member of the Board of Directors of Polymed Distribution FZE
			Member of the Board of Directors of Ravago Holding America, Inc.
			Member of the Board of Directors of Resinex BMY Plastik Kim.San. Ve Ticaret
			Member of the Board of Directors of Resinex UK Ltd.
			Member of the Board of Directors of Plastomark (Proprietary) Ltd.
			Non-executive Director of Campi Y Jove sau
			Non-executive Director of Winnco Productos Quimicos sl
			Non-executive Director of Resinex Spain sl
			Non-executive Director of Pegasus Petrochemical Asia Ltd.
			Non-executive Director of Polymed Global Group Ltd.
			Member of the Board of Directors of Ultra

<b>Name and business address</b>	<b>Position</b>	<b>Expiry date of current term of office</b>	<b>Main external offices</b>
			Plastik Boya ve Kimya
			Non-executive Director B&R NV
			Non-executive Director of Ravago Holding America, Inc.
			Non-executive Director of Resinex Denmark
			Member of the Board of Directors of KBC Verzekeringen NV
			Member of the Board of Directors of KBC Groep NV
			Non-executive Director of Pegasus Trading Co Ltd
			Non-executive Director of Polymed Trading FZE
			Member of the Board of Directors of Ravago Italia SPA
VAN DEN BRINCK Dolf Gijsbert Carel Raboes 19 1251 AK Laren	Non-executive director	2016	Non-executive Director of Akzo Nobel Non-executive Director of Legal & General Nederland Levensverzekering Maatschappij NV Non-executive Director of Center Parcs Europe NV Non-executive Director of Elsevier Reed Finance B.V. Non-executive Director of Nederlandse Waterschapsbank NV Non-executive Director of De Heus Veevoeders B.V. Non-executive director of Almancora Beheersmaatschappij NV
VAN KERCKHOVE Ghislaine Wegvoeringstraat 62 9230 Wetteren	Non-executive director	2016	Non-executive director of Cera Beheersmaatschappij NV Non-executive director of KBC Groep NV Non-executive director of KBC Verzekeringen NV

### **Members of the Audit Committee**

The members of the Audit Committee of KBC Bank are:

- Julien De Wilde
- Franky Depickere
- Frank Donck
- Marc Wittemans

The Audit, Risk and Compliance Committee (the “**ARC Committee**”) was set up by the Board of Directors and has an advisory role. The role and remit of this Committee is defined by the Board of Directors and set out in its own regulations. On behalf of the Board, the ARC Committee supervises the integrity and effectiveness of the internal control measures and the risk management in place, paying special attention to correct financial reporting. The ARC Committee also follows the procedures set up by KBC Bank to comply with Belgian law and other regulations. To be able to achieve this, the ARC Committee has unrestricted access to all information and may start up special investigations in all the areas for which it has responsibility. The ARC Committee evaluates its composition and operations once a year.

## TAXATION

### EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the “**Savings Directive**”), Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Savings Directive which may, if implemented, amend or broaden the scope of the requirements described above.

### Belgium

*The following summary describes the principal Belgian tax considerations of acquiring, holding and selling the Securities. This information is of a general nature and does not purport to be a comprehensive description of all Belgian tax considerations that may be relevant to a decision to acquire, to hold or to dispose of the Securities. In some cases, different rules can be applicable. This summary does not describe the tax consequences for a holder of Securities of a Contingent Write-down. Furthermore, this description is based on current legislation, published case law and other published guidelines and regulations as in force at the date of this document and remains subject to any future amendments, which may or may not have retroactive effect.*

*Each prospective holder of Securities should consult a professional adviser with respect to the tax consequences of an investment in the Securities, taking into account their own particular circumstances and the influence of each regional, local or national law.*

### Belgian withholding tax

For Belgian income tax purposes, interest includes (i) periodic interest income, (ii) any amounts paid by the Issuer in excess of the issue price (upon full or partial redemption whether or not at maturity, or upon purchase by the Issuer), and (iii) in case of a sale of the Securities between interest payment dates to any third party, excluding the Issuer, the pro rata of accrued interest corresponding to the holding period.

Payments of interest on the Securities made by or on behalf of the Issuer are as a rule subject to Belgian withholding tax, currently at a rate of 25 per cent. on the gross amount.

However, the holding of the Securities in the X/N clearing system of the NBB (the “**Securities Settlement System**”) permits investors to collect interest on their Securities free of Belgian withholding tax if and as long as at the moment of payment or attribution of interest the Securities are held by certain investors (the “**Eligible Investors**”, see below) in an exempt securities account (“**X-account**”) that has been opened with a financial institution that is a direct or indirect participant (a “**Participant**”) in the Securities Settlement System. Euroclear and Clearstream Luxembourg are directly or indirectly Participants for this purpose.

Holding the Securities through the Securities Settlement System enables Eligible Investors to receive the gross interest income on their Securities and to transfer the Securities on a gross basis.

Participants to the Securities Settlement System must keep the Securities which they hold on behalf of Eligible Investors on an X-account, and those which they hold on behalf of non-Eligible Investors in a non-exempt securities account (“**N-account**”). Payments of interest made through X-accounts are free of withholding tax; payments of interest made through N-accounts are subject to withholding tax, currently at a rate of 25 per cent, which is withheld from the interest payment and paid by the NBB to the tax authorities.

Eligible Investors are those entities referred to in article 4 of the Belgian Royal Decree of 26 May 1994 on the deduction of withholding tax (*koninklijk besluit van 26 mei 1994 over de inhouding en de vergoeding van de roerende voorheffing/arrêté royal du 26 mai 1994 relatif à la perception et à la bonification du précompte mobilier*), which includes *inter alia*:

- (i) Belgian resident companies referred to in article 2, §1, 5°, b) of the Belgian Income Tax Code of 1992 (*wetboek van inkomstenbelastingen 1992/code des impôts sur les revenus 1992*) (“**BITC**”);
- (ii) Without prejudice to article 262, 1° and 5° of the BITC, the institutions, associations or companies referred to in article 2, §3 of the law of 9 July 1975 with respect to the control of insurance companies other than those referred to in 1° and 3°;
- (iii) Semi-governmental institutions (*institutions parastatales/parastatalen*) for social security or institutions equated therewith referred to in article 105, 2° of the Royal Decree of 27 August 1993 implementing the BITC (“**RD/BITC**”);
- (iv) Non-resident investors referred to in article 105, 5° of the RD/BITC whose holding of the Securities is not connected to a professional activity in Belgium;
- (v) Investment funds referred to in article 115 of the RD/BITC;
- (vi) Investors referred to in article 227, 2° of the BITC, subject to non-resident income tax (*belasting van niet inwoners/impôt des non-résidents*) in accordance with article 233 of the BITC and which have used the income generating capital for the exercise of their professional activities in Belgium;
- (vii) The Belgian State, in respect of investments which are exempt from withholding tax in accordance with article 265 of the BITC;
- (viii) Investment funds governed by foreign law (such as *fonds de placement/beleggingsfondsen*) that are an undivided estate managed by a management company for the account of the participants, provided the funds units are not publicly issued in Belgium or traded in Belgium; and
- (ix) Belgian resident companies not referred to under (i), whose activity exclusively or principally exists of granting credits and loans.

Eligible Investors do not include, *inter alia*, Belgian resident individuals and Belgian non-profit organisations, other than those mentioned under (ii) and (iii) above.

Transfers of Securities between an X-account and an N-account give rise to certain adjustment payments on account of withholding tax:

- A transfer from an N-account (to an X-account or N-account) gives rise to the payment by the transferor non-Eligible Investor to the NBB of withholding tax on the accrued fraction of interest calculated from the last interest payment date up to the transfer date.
- A transfer from an X-account (or N-account) to an N-account gives rise to the refund by the NBB to the transferee non-Eligible Investor of withholding tax on the accrued fraction of interest calculated from the last interest payment date up to the transfer date.

- Transfers of Securities between two X-accounts do not give rise to any adjustment on account of withholding tax.

When opening an X-account for the holding of Securities, an Eligible Investor will be required to certify its eligible status on a standard form claimed by the Belgian Minister of Finance and send it to the participant to the Securities Settlement System where this account is kept. This statement needs not be periodically reissued (although Eligible Investors must update their certification should their eligible status change). Participants to the Securities Settlement System are however required to make declarations to the NBB as to the eligible status of each investor for whom they hold Securities in an X-account during the preceding calendar year.

These identification requirements do not apply to Securities held with Euroclear or Clearstream Luxembourg acting as Participants to the Securities Settlement System, provided that they only hold X-accounts and that they are able to identify the holders for whom they hold Securities in such account.

## **Belgian income tax and capital gains**

### **Belgian resident individuals**

For natural persons who are Belgian residents for tax purposes, i.e. who are subject to the Belgian personal income tax (*Personenbelasting/Impôt des personnes physiques*) and who hold the Securities as a private investment, payment of the 25 per cent. withholding tax fully discharges them from their personal income tax liability with respect to these interest payments (*précompte mobilier libérateur/bevrijdende roerende voorheffing*). This means that they do not have to declare the interest obtained on the Securities in their personal income tax return, provided withholding tax was levied on these interest payments.

Belgian resident individuals may nevertheless elect to declare the interest payment (as defined above in the Section “Belgian withholding tax”) in their personal income tax return. Where the beneficiary opts to declare them, interest payments will normally be taxed at the interest withholding tax rate of 25 per cent. (or at the progressive personal tax rate taking into account the taxpayer’s other declared income, whichever is lower). If the interest payment is declared, the withholding tax retained may be credited.

Capital gains realised on the sale of the Securities are in principle tax exempt, unless the capital gains are realised outside the scope of the normal management of one’s private estate or unless the capital gains qualify as interest (as defined above in the Section “*Belgian withholding tax*”). Capital losses are in principle not tax deductible.

Other tax rules apply to Belgian resident individuals who do not hold the Securities as a private investment.

### **Belgian resident companies**

Interest on the Securities derived by Belgian corporate investors who are Belgian residents for tax purposes, i.e. who are subject to Belgian Corporate Income Tax (*Vennootschapsbelasting/Impôt des sociétés*) and capital gains realised on the Securities will be subject to Belgian corporate income tax at a rate of in principle 33.99 per cent. Capital losses are in principle deductible.

### **Belgian legal entities**

For legal entities subject to Belgian legal entities tax (*Rechtspersonenbelasting/Impôts des personnes morales*) which have been subject to the 25 per cent. Belgian withholding tax on interest payments, such withholding tax constitutes the final taxation.

Belgian legal entities which have received interest income on Securities without deduction for or on account of Belgian withholding tax are required to declare and pay the 25 per cent. withholding tax to the Belgian tax authorities themselves.

Capital gains realised on the sale of the Securities are in principle tax exempt, unless the capital gain qualifies as interest (as defined above in the Section “*Belgian withholding tax*”). Capital losses are in principle not tax deductible.

### **Organisation for Financing Pensions**

Interest and capital gains derived by Organisations for Financing Pensions in the meaning of the Law of 27 October 2006 on the activities and supervision of institutions for occupational retirement provision, are in principle exempt from Belgian corporate income tax. Capital losses are in principle not tax deductible. Subject to certain conditions, the Belgian withholding tax that has been levied can be credited against any corporate income tax due and any excess amount is in principle refundable.

### **Belgian non-residents**

Securities holders who are non-residents of Belgium for Belgian tax purposes and are not holding the Securities through a Belgian establishment and do not invest the Securities in the course of their Belgian professional activity will not incur or become liable for any Belgian tax on income or capital gains by reason only of the acquisition, ownership or disposal of the Securities, provided that they qualify as Eligible Investors and hold their Securities in an X-account.

If the Securities are not entered into an X-account by the Eligible Investor, withholding tax on the interest is in principle applicable at the current rate of 25 per cent., possibly reduced pursuant to a tax treaty, on the gross amount of the interest.

### **European Directive on taxation of savings income in the form of interest payments**

The EU has adopted a directive (European Council Directive 2003/48/EC) regarding the taxation of savings income (hereinafter “**Savings Directive**”). Under the Savings Directive, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or other similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State (hereinafter “**Disclosure of Information Method**”). However, for a transitional period, Luxembourg and Austria instead are required (unless during that period they elect otherwise) to operate a withholding system (hereinafter “**Source Tax**”) in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Savings Directive which may, if implemented, amend or broaden the scope of the requirements described above.

### **Individuals not resident in Belgium**

Interest paid or collected through Belgium on the Securities and falling under the scope of application of the Savings Directive will be subject to the Disclosure of Information Method.

### **Individuals resident in Belgium**

An individual resident in Belgium will be subject to the provisions of the Savings Directive, if he receives interest payments from a paying agent (within the meaning of the Savings Directive) established in another EU Member State, Switzerland, Liechtenstein, Andorra, Monaco, San Marino, Curaçao, Bonaire, Saba, Sint Maarten, Sint Eustatius (formerly the Netherlands Antilles), Aruba, Guernsey, Jersey, the Isle of Man, Montserrat, the British Virgin Islands, Anguilla, the Cayman Islands or the Turks and Caicos Islands.

If the interest received by an individual resident in Belgium has been subject to a Source Tax, such Source Tax does not liberate the Belgian individual from declaring the interest income in the personal income tax

declaration. The Source Tax will be credited against the personal income tax. If the Source Tax withheld exceeds the personal income tax due, the excessive amount will be reimbursed, provided it reaches a minimum of EUR 2.5.

### **Tax on stock exchange transactions**

A tax on stock exchange transactions (*beurstaks/taxe sur les opérations de bourse*) will be due on the purchase and sale (and any other transaction for consideration) with respect to existing Securities if such transaction is either entered into or carried out in Belgium through a professional intermediary. The rate applicable for secondary sales and purchases in Belgium through a professional intermediary is 0.09 per cent. with a maximum amount of EUR 650 per transaction and per party. The tax is due separately from each party to any such transaction, i.e. the seller (transferor) and the purchaser (transferee), both collected by the professional intermediary.

However, no tax on stock exchange transactions will be payable by exempt persons acting for their own account including investors who are not Belgian residents provided they deliver an affidavit to the financial intermediary in Belgium confirming their non-resident status and certain Belgian institutional investors as defined in Article 126.1 2° of the Code of miscellaneous taxes and duties (*Code des droits et taxes divers/Wetboek diverse rechten en taksen*).

## **USE OF PROCEEDS**

The net proceeds from the issue of the Securities are expected to amount to approximately USD 988,000,000 (after deduction of fees and expenses). They will strengthen the Issuer's capital base (and also as contingent capital for the purposes of testing under stressed conditions) and are part of the Issuer's long-term funding, which the Issuer uses to fund and manage its activities.

## SUBSCRIPTION AND SALE

Credit Suisse Securities (Europe) Limited, Goldman Sachs International, J.P. Morgan Securities plc, KBC Bank NV/SA, Merrill Lynch International and Morgan Stanley & Co. International plc (together the “**Joint Lead Managers**”) have, pursuant to a Subscription Agreement dated 21 January 2013 (the “**Subscription Agreement**”), jointly and severally agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe and pay for the Securities at 100 per cent. of their principal amount, plus accrued interest (if any) less certain fees and commissions. To the extent permitted by local law, the Joint Lead Managers and Issuer have agreed that commissions may be offered to certain brokers, financial advisors and other intermediaries in connection with the purchase of Securities by such intermediary and/or its customers.

The Issuer has also agreed to reimburse the Joint Lead Managers for certain of their expenses, and has agreed to indemnify the Joint Lead Managers against certain liabilities, incurred in connection with the issue of the Securities.

The Joint Lead Managers are entitled to terminate the Subscription Agreement in certain circumstances prior to payment to the Issuer.

### United States

The Securities have not been and will not be registered under the U.S. Securities Act of 1933 (the “**Securities Act**”) and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act (“**Regulation S**”).

The Securities are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Joint Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Securities (a) as part of their distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the Closing Date (as defined in the Subscription Agreement), within the United States or to, or for the account or benefit of, U.S. persons, and that it will have sent to each dealer to which it sells any Securities during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Securities within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

In addition, until 40 days after the commencement of the offering of the Securities, an offer or sale of any such Securities within the United States by any dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

### United Kingdom

Each Joint Lead Manager has represented, warranted and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) received by it in connection with the issue

or sale of any Securities in circumstances in which section 21(1) of the Financial Services and Markets Act 2000 does not apply to the Issuer; and

- (b) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 with respect to anything done by it in relation to any Securities in, from or otherwise involving the United Kingdom.

## **Switzerland**

Neither this Prospectus nor any other document relating to the sale of the Securities constitutes a public offering prospectus within the meaning of article 652a or 1156 of the Swiss Federal Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange. The Securities may not be publicly offered, sold or advertised, directly or indirectly, in or from Switzerland. Neither this Prospectus nor any other document relating to the Securities may be publicly distributed or otherwise made publicly available in or from Switzerland. This Prospectus is not intended as an offer or solicitation with respect to the purchase or sale of the Securities by the public and may be distributed only on a private placement basis, without any public distribution, offering or marketing in, or from, Switzerland, provided that any such distribution does not occur as a result of, or in connection with, public solicitation or marketing with respect to the purchase or sale of the Securities.

## **Hong Kong**

Each Joint Lead Manager has represented and agreed that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Securities other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a prospectus as defined in the Companies Ordinance (Cap. 32) or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Securities, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Securities which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

## **Singapore**

Each Joint Lead Manager has acknowledged that this Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Lead Manager has represented and agreed that it has not offered or sold any Securities or caused such Securities to be made the subject of an invitation for subscription or purchase and will not offer or sell such Securities or cause such Securities to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Securities, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or

(iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Securities are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Securities pursuant to an offer made under Section 275 of the SFA except:

- 1.1 to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- 1.2 where no consideration is or will be given for the transfer;
- 1.3 where the transfer is by operation of law; or
- 1.4 as specified in Section 276(7) of the SFA.

## **Korea**

The Securities have not been and will not be registered under the Financial Investment Services and Capital Markets Act and its subordinate decrees and regulations (collectively, the "FSCMA"). Accordingly, each Joint Lead Manager represents and agrees, that it has not offered, sold or delivered, directly or indirectly, in Korea or to any Korean resident (as such term is defined in the Foreign Exchange Transaction Law and its subordinate decrees and regulations (collectively, the "FETL")), except as otherwise permitted under applicable Korean laws and regulations, including the FSCMA and FETL.

## **People's Republic of China**

Each Joint Lead Manager has represented and agreed that neither it nor any of its affiliates has offered or sold or will offer or sell any of the Securities in the People's Republic of China (excluding Hong Kong, Macau and Taiwan) as part of the initial distribution of the Securities except as permitted by the securities laws of the People's Republic of China.

## **General**

No action has been or will be taken in any country or jurisdiction by the Issuer or the Joint Lead Managers that would permit a public offering of the Securities, or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Prospectus comes are required by the Issuer and the Joint Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver the Securities or have in their possession or distribute such offering material, in all cases at their own expense.

Each Joint Lead Manager has agreed that it shall comply to the best of its knowledge with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers the Securities or has in its

possession or distributes this Prospectus or any other offering or publicity material, in all cases at its own expense.

## GENERAL INFORMATION

### Authorisation

The creation and issue of Securities have been duly authorised by resolutions of the Issuer's Executive Committee (*directiecomité/comité de direction*) dated 15 January 2013.

### Listing and admission to trading of Securities on the Luxembourg Stock Exchange

Application has been made to the Financial Services and Markets Authority (*Autoriteit voor Financiële Diensten en Markten/Autorité des services et marchés financiers*) (the “**FSMA**”) in its capacity as competent authority under article 23 of the Belgian Law dated 16 June 2006 concerning the public offer of investment securities and the admission of investment securities to trading on a regulated market (the “**Prospectus Law**”) to approve this document as a Prospectus for the purposes of Article 23 of the Belgian Prospectus Law and Article 5.3 of the Prospectus Directive (as defined herein). This approval cannot be considered as a judgment as to the opportunity or the quality of the transaction, nor on the situation of the Issuer. The FSMA will notify the Prospectus to the *Commission de Surveillance du Secteur Financier* together with a certificate of approval from the FSMA pursuant to Article 18 of the Prospectus Directive attesting that the Prospectus has been drawn up in accordance with the Prospectus Directive. Application has also been made to the Luxembourg Stock Exchange for the Securities to be listed on the official list of the Luxembourg Stock Exchange. References in this Prospectus to the Securities being listed (and all related references) shall mean that the Securities have been listed on the Luxembourg Stock Exchange and admitted to trading on the Luxembourg Stock Exchange's regulated market. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of the Prospectus Directive.

### Documents Available

Copies of the following documents (together with English translations thereof where relevant) will be available on the website of KBC Group at [www.kbc.com](http://www.kbc.com), on the website of the Luxembourg Stock Exchange at [www.bourse.lu](http://www.bourse.lu) and during normal business hours at the registered office of the Issuer:

- (i) a copy of this Prospectus;
- (ii) the audited annual consolidated financial statements of the Issuer in respect of the financial years ended 31 December 2010 and 31 December 2011, together, in each case, with the related statutory auditors' report;
- (iii) the semi-annual financial statements of the Issuer for the half year ended 31 June 2012;
- (iv) the Extended Quarterly Report 3Q2012 of KBC Group; and
- (v) the constitutional documents of the Issuer.

A copy of the Agency Agreement will be available for inspection during normal business hours at the registered office of the Issuer and on request.

### Clearing Systems

The Securities have been accepted for clearance through the Securities Settlement System, which has links to Euroclear and Clearstream Luxembourg. The appropriate ISIN is BE6248510610 and the common code is 087855422.

The address of the NBB is De Berlaimontlaan 14, 1000 Brussels, Belgium, the address of Euroclear is 3 Boulevard du Roi Albert III, B.1210 Brussels, Belgium and the address of Clearstream Luxembourg is 42 Avenue J. F. Kennedy, L-1855 Luxembourg.

## **Significant or Material Change**

Save as disclosed in sections “*Description of the Issuer – Recent events*” and “*General information – Litigation*”, there has been:

- (a) no significant change in the financial or trading position of the Issuer or the KBC Bank Group since 30 June 2012; and
- (b) no material adverse change in the financial position, business or prospects of the Issuer or the KBC Bank Group since 31 December 2011.

## **Litigation**

The following describes material litigation to which KBC Bank or any of its companies (or certain individuals in their capacity as current or former employees or officers of KBC Bank or any of its companies) and/or KBC Group are party. It describes all claims, quantified or not, that could lead to the impairment of the relevant company's reputation or to a sanction by an external regulator or governmental authority, or that could present a risk of criminal prosecution for that corporation, its members of the board or its management.

Although the outcome of these matters is uncertain and some of the claims concern relatively substantial amounts in damages, the management does not believe that the liabilities arising from these claims will adversely affect KBC Bank's or KBC Group's consolidated financial position or results, given the provisions that, where necessary, have been set aside for these disputes.

### **1. Judicial inquiries and criminal proceedings**

#### *1.1 Cash companies*

From late 1995 until early 1997, Kredietbank NV, the predecessor of KBC Bank, (“**KB**”) and KB Consult NV (“**KB Consult**”) were involved in the sale of "cash companies" to various purchasers. A "cash company" is characterised by the fact that a substantial majority of the assets consist of accounts receivable, fixed financial assets, cash and other highly liquid assets. KB Consult acted as an intermediary between the seller and the purchaser of the cash companies. The involvement of KB differed from sale to sale, but generally related to the handling of payments and the granting of loans. The transfer of a cash company is in principle a legal transaction. However, in March 1997, KB and KB Consult discovered that certain purchasers of these cash companies failed to reinvest such companies' cash in qualifying assets and to file tax returns for the cash companies they purchased in order to thereby defer the taxes owed by such companies. KB and KB Consult immediately took the necessary measures to preclude any further involvement with these parties. The activities of KB Consult were subsequently wound up.

KBC Bank and KB Consult were summoned separately or jointly to court in 28 legal actions. This resulted in 20 lawsuits of which 18 are still pending before the courts. In one lawsuit the court ruled that KB Consult was summoned as third party without cause and therefore the claim was dismissed. In another lawsuit the claim of the Belgian State was dismissed and the judgment is definite. Subsequently the provision for these cases was offset in the accounts. KB Consult was placed under suspicion by an investigating magistrate in December 2004. A provision of EUR 50 million (status as at 31 December 2012) has been made to cover the potential impact of any liability with respect to these actions.

In addition to KB Consult and KBC Bank, KBC Group was also summoned before the Chambers section of the Court of First Instance in Bruges on 25 February 2009. The charges against the aforesaid KBC entities relate only to the use of false documents. The trial was postponed several times. On 9 November 2011 a judgment ordered KBC Bank and KB Consult be prosecuted together with 21 other parties indicted of various crimes with regard to tax fraud. KBC Group was dismissed. An appeal was lodged against this dismissal by the Prosecutor and two civil parties.

## 1.2 *The Kulcsár fraud case K&H Equities*

In 2003, an important case of fraud perpetrated by an employee, Atilla Kulcsár, involving about EUR 140.6 million, came to light at K&H Equities in Hungary. Orders and portfolio statements of the clients were forged. Many clients suffered substantial losses in their portfolio as a result of unauthorised speculation and the misappropriation of funds. On 28 August 2008 a Budapest court sentenced Atilla Kulcsár to eight years imprisonment and a fine of 230 million forints. The court acquitted Tibor E. Rejto, former CEO of K&H Bank, who had also been charged with embezzlement as an accomplice. Other persons involved were sentenced to severe punishments.

The Public Prosecutor and all the persons which had been found guilty filed an appeal before the Court of Appeal. On 27 May 2010, the Court of Appeal annulled the first instance court verdict and ordered a complete retrial. The new trial before the first instance court started on 1 December 2010 and is ongoing.

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. Among these pending claims, DBI Kft. (Betonut) is the most important case, involving an initial total claimed amount of HUF 11.8 billion (ca. 41.9 million EUR) plus interest, which the Issuer believes is manifestly exaggerated. Recently a judicial expertise has been carried out in favour of K&H and two employees confirmed in court having ordered (disputed) debits of the accounts. The proceedings are ongoing and an award is expected in the course of 2013.

## 2. **Other litigation**

### 2.1 *Broeckdal*

In March 2000, the Belgian State, Finance Department, summoned Rebeo (currently Almafin Real Estate Services) and Trustimmo, two former subsidiaries of former Almafin, currently KBC Real Estate, a Belgian subsidiary of KBC Bank, before the civil court in Brussels, together with four former directors of Broeckdal Vastgoedmaatschappij (a real estate company), for not paying approximately EUR 16.7 million in taxes due by Broeckdal Vastgoedmaatschappij. In November 1995, this company had been converted into a cash company and sold to Mubavi België (currently BeZetVe), a subsidiary of Mubavi Nederland (a Dutch real estate investment group). According to the Belgian State, Finance Department, Mubavi België did not make real investments and failed to file proper tax returns. A criminal investigation is pending. However Broeckdal Vastgoedmaatschappij contested the tax claims and in December 2002 commenced a lawsuit before the civil court in Antwerp against the Belgian State, Finance Department.

The civil lawsuit pending in Brussels has been suspended pending a final judgment in the tax lawsuit in Antwerp. A provision of EUR 27 million (status as at 31 December 2012) has been reserved to cover the potential impact of liability with respect to these actions.

In July 2003, Broeckdal Vastgoedmaatschappij, Mubavi België and Mubavi Nederland summoned KBC Bank, KB Consult, Rebeo and Trustimmo before the commercial court in Brussels in order to indemnify them against all damages the former would suffer if the tax claims were approved by the court in Antwerp. In March 2005, Mubavi Nederland was declared bankrupt by the court of 's-Hertogenbosch in the Netherlands.

In November 2005, KBC Bank, KB Consult, Rebeo and Trustimmo and the four former directors of Broeckdal Vastgoedmaatschappij summoned the auditor of Broeckdal Vastgoedmaatschappij, Deloitte & Touche, before the civil court in Brussels in order to indemnify them for any amount they should be ordered to pay as a result of the aforementioned claims. In November 2008 Mubavi België (currently BeZetVe) was also declared bankrupt by the commercial court in Antwerp.

## 2.2 *Beverly Securities*

In March 2008 KBC Group, KBC Bank, KBL and Kredietrust were summoned to appear before the commercial court in Brussels by the British company Beverly Securities Limited. This company has made reference to business relations that KBC/KBL are said to have had with the Republic of South Africa almost 20 years ago, at the time of apartheid and the trade embargo recommended by the UN.

The company is seeking payment of a substantial commission linked to a business transaction totally foreign to KBC and KBL. In the past it has already tried to obtain payment of this commission from third parties through legal proceedings launched in South Africa and France, where on each occasion the case was dismissed. It is now attempting to obtain payment on the pretext of having opened an account with KBL more than 17 years ago.

KBC and KBL consider the complaint to be totally unjustified and they claimed damages from the plaintiff for a frivolous and vexatious action. A judgment was rendered on 26 March 2010 whereby the court considered the actions inadmissible and granted damages for the defendants. Beverly Securities Limited lodged an appeal on 2 July 2010. Written arguments have been exchanged. A court date for pleading the case has not yet been determined but it will not take place before October 2013.

## 2.3 *The customers' CDO liability claims*

KBC Bank and subsidiaries such as K&H Bank and CSOB SK received numerous complaints about CDO notes issued by KBC Financial Products that were sold to private banking and corporate clients and which have been downgraded. Such clients have been asking for their notes to be bought back at their original value. KBC Bank decided to examine all CDO related files with respect to private banking and retail clients on a case-by-case basis and to settle the disputes as much as possible out of court. In Belgium settlements were signed with clients in KBC Bank Private Banking and Retail, which represent 99% of the private banking and retail clients involved. In the only judicial case that is still ongoing, the court of first instance of Kortrijk ruled in favour of KBC Bank and dismissed the claim on 24 November 2011. The counterparty lodged an appeal on 12 January 2012.

As a result of complaints, some Corporate Banking files were also examined. Subsequently negotiations started in the files where a decision to propose a settlement was taken and in a limited number of files settlements were reached. Only a few lawsuits are ongoing. On 12 January 2011 the commercial court in Brussels completely dismissed the claim of a corporate client. The judgment has become final. In three other lawsuits entirely favourable judgments were rendered by the commercial court in Brussels on 28 January 2011, 5 September 2011 and 28 March 2012. However the counterparties lodged an appeal. Written arguments are being exchanged. On 14 November 2012 the commercial court in Hasselt ruled also in a case with a listed company in favour of KBC Bank. Three other cases are pending before court in the first instance.

In one case a criminal complaint was lodged against KBC Bank in France. Three representatives of KBC were interrogated by the Police Judiciaire in Paris. The inquiry is still ongoing.

In Hungary a marketing brochure was used which could be misinterpreted as a guarantee on a secondary market and contained a possibly misleading comparison with state bonds. In more than 94% of the files, a settlement has been reached. A limited number of clients started a lawsuit. Most of the lawsuits were

terminated by a settlement out of court; recently three cases were settled as a result of court verdicts; a few clients are still pursuing their claim before the court.

On 10 December 2009, the Hungarian Competition Authority (“**HCA**”) passed a resolution whereby K&H was ordered to pay a fine of HUF 40,000,000 (approximately EUR 150,000) based on the violation of the Hungarian Act on the prohibition of unfair and restrictive market practices in relation to K&H's trade in CDO bonds. The appeal filed by K&H against the HCA resolution was rejected by the Budapest Metropolitan Court. K&H Bank submitted a revision claim before the Supreme Court.

In CSOB SK a similar approach as in Belgium was followed and in all cases of CDO investments with Private Banking and Retail clients settlements were reached. There will be no settlement with four institutional clients. No lawsuit in respect of CDO investments is pending.

#### 2.4 *Lazare Kaplan*

Lazare Kaplan International Inc. (“**LKI**”) is a U.S. based listed diamond company that is involved since 2008 in a serious dispute with its former business partner DD Manufacturing (“**DD**”), an Antwerp based diamond company belonging to Mr. Erez Daleyot. They set up a joint venture 'Gulfdiam' in Dubai. LKI alleges that it was swindled out of some USD 140 million by DD and other Daleyot entities. Both companies became entangled in a complex litigation in Belgium, both claiming that the other party is their debtor. The dispute has escalated to the degree that LKI does not only accuse the Daleyot Group of fraud, theft, money laundering etc but is now also directly involving Antwerpse Diamantbank NV (“**ADB**”), a subsidiary of KBC Bank, and KBC Bank by launching legal claims against ADB in Belgium (Antwerp) and against KBC Bank and ADB in New York for huge amounts (USD 500 million). This development was accelerated by the end of 2009 when ADB terminated LKI's credit facilities, in conformity with the contractual provisions and started recovery actions against LKI before the Court in Antwerp.

The actual status of both proceedings is:

Commercial Court of Antwerp: on 16 March 2010 ADB issued a summons against LKI in order to recover the monies owed to it under the terminated credit facility (approximately USD 45 million). LKB, the Belgian affiliate of LKI, recently voluntarily intervened in this proceeding and claimed an amount of USD 350 million from ADB. In turn LKI claimed an amount of USD 500 million (including the USD 350 million of LKB). The case is pending; no hearing will take place before the fall of 2012. KBC is not a party in this litigation.

District Court Southern District of New York: on 23 December 2011, LKI filed a claim of USD 500 million against KBC and ADB based on the so-called RICO-act; this claim is in fact a non-cumulative duplicate of the one in Belgium.

Based on the information and evidence received this far, ADB and KBC consider the claims to be without merits and, hence, consider the risk that they should pay an amount to LKI and LKB as a result of their allegations against ADB and KBC to be remote.

On 5 September 2012, the New York District Court granted ADB 's and KBC's motions to dismiss based on the doctrine of 'forum non conveniens' meaning that New York is not the appropriate forum for this litigation.

On 6 September, 2012. LKI filed a notice of appeal to the United States Court of Appeals for the Second Circuit.

#### 2.5 *The Lehman Brothers Finance' dispute*

On 15 September 2008, when Lehman Brothers went bankrupt, KBC Bank NV had several outstanding derivative transactions with Lehman Brothers Finance AG (“**LBF**”) as counterparty under an ISDA Master Agreement. Lehman Brothers' bankruptcy triggered an event of default and early termination of all

outstanding derivative transactions. As a result of this early termination KBC Bank NV claimed a net amount of USD 18.2 million payable by LBF. This amount has been set off by KBC Investments Cayman Islands V Ltd ("**Cayman V**") against proceeds due by Cayman V to LBF under an option contract. LBF contests the valuation methodology applied by KBC Bank and asserts, in a letter of claim dated 21 December 2012, that the net amount due under the ISDA Master Agreement is USD 58.1 million payable to LBF. Together with interest as of 17 September 2008 the total amount claimed by LBF from KBC Bank NV amounts to USD 110.9 million as at 19 December 2012. LBF equally contests the inter-affiliate set-off by Cayman V and demands return of the set-off amount from Cayman V. KBC Bank will determine its position on basis of its expert findings and legal analysis.

### **Statutory Auditors**

The statutory auditors of the Issuer are Ernst & Young Bedrijfsrevisoren BCVBA (*erkende revisor/réviseur agréé*), represented by P. Vanderbeek and/or C. Weymeersch, with offices at De Kleetlaan 2, B-1831 Diegem Brussels. The auditors of the Issuer are members of the *Instituut der Bedrijfsrevisoren/Institut des Réviseurs d'Entreprises*. The financial statements of the Issuer for the years ended 31 December 2010 and 31 December 2011 have been audited in accordance with Belgian GAAS and the audits resulted, in each case, in an unqualified opinion. The auditors of the Issuer have no material interest in the Issuer.

The reports of the auditors of the Issuer are included or incorporated in the form and context in which they are included or incorporated, with the consent of the auditors who have authorised the contents of that part of this Prospectus.

### **Joint Lead Managers transacting with the Issuer**

Some of the Joint Lead Managers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Issuer or its affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions. In addition, in the ordinary course of their business activities, the Joint Lead Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or its affiliates. The Joint Lead Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

**THE ISSUER**

**KBC Bank NV**  
Havenlaan 2  
B-1080 Brussels

**JOINT BOOKRUNNERS AND JOINT LEAD MANAGERS**

**Credit Suisse Securities (Europe) Limited**

One Cabot Square  
London E14 4QJ

**Goldman Sachs International**

Peterborough Court  
133 Fleet Street  
London EC4A 2BB

**J.P. Morgan Securities plc**

25 Bank Street  
Canary Wharf  
London E14 5JP

**Merrill Lynch International**

2 King Edward Street  
London EC1A 1HQ

**Morgan Stanley & Co International plc**

25 Cabot Square  
Canary Wharf  
London E14 4QA

**JOINT LEAD MANAGER**

**KBC Bank NV**  
Havenlaan 2  
B-1080 Brussels

**PAYING AND DOMICILIARY AGENT**

**KBC Bank NV**  
Havenlaan 2  
B-1080 Brussels

**LEGAL ADVISER**

*To the Issuer as to Belgian law*

**Linklaters LLP**  
Rue Brederode 13  
B-1000 Brussels

*To the Issuer as to English law*

**Linklaters LLP**  
One Silk Street  
London EC2Y 8HQ

*To the Joint Lead Managers as to Belgian law*

**Allen & Overy LLP**  
Avenue de Tervueren 268/A  
B-1150 Brussels

*To the Joint Lead Managers as to English law*

**Allen & Overy LLP**  
One Bishops Square  
London E1 6AD

**AUDITORS**

*To the Issuer*

**Ernst & Young Bedrijfsrevisoren BCVBA**

De Kleetlaan 2  
B-1831 Diegem