

FINANCIAL REPORT 2012

of

**KBC INTERNATIONALE FINANCIERINGSMAATSCHAPPIJ N.V.
ROTTERDAM**

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DIRECTORS' REPORT

General

The purpose of KBC Internationale Financieringsmaatschappij N.V. (the "company") is the issue of bonds and on-lending the proceeds to KBC Bank NV, its subsidiaries and associated companies. The company has three employees and two directors. The principal activity of the company consists of the administration of the bonds issued and the loans made.

The bonds issued by the company are fully guaranteed by KBC Bank NV.

The company issues a variety of bond types, including fixed interest bonds with different maturities and bonds related to market linked instruments under its various programmes.

With respect to bond issues, a description of the bond types and of the risk factors involved for investors in the bonds is set out comprehensively in the relevant prospectus and final terms which are available at the offices of the company and at the offices of KBC Bank NV, Havenlaan 2, Brussels and at Luxemburg Stock Exchange.

During 2012, the EMTN Eur 40,000,000,000 programme was split into a Wholesale EMTN

Eur 25,000,000,000 programme and a Retail EMTN programme of Eur 15,000,000,000. Furthermore, a Retail Index Linked EMTN programme of Eur 1,000,000,000 was established during the year.

Liquidation of subsidiary company, KBC International Finance N.V.

On September 28th, 2012 KBC International Finance N.V., a fully owned subsidiary of the company, was liquidated, its operations having terminated and all outstanding bonds having been repaid by that date. After payment of all liabilities, the remaining net assets were distributed to the company being the sole shareholder on November 22nd, 2012.

Financial

The company continued to issue bonds under the various financing programmes during 2012.

The net profit after tax for 2012 amounted to Eur 3,604,529. An interim dividend of Eur 3,500,000 out of net profit for 2012 was paid on January 2nd, 2013. The dividend will be recommended to the Annual General Meeting of Shareholders for ratification.

During 2012 the company issued bonds amounting in total to Eur 3,910,431,913 (2011: Eur 4,309,913,273); the interest income of the company amounted to Eur 611,265,414 as compared to Eur 625,948,468 in 2011.

The solvency ratio was 0.06% at December 31st, 2012 (2011: 0.06%).

The liquidity ratio (current assets to current liabilities) was 1 at December 31st, 2012 (2011: 1).

No further important events, material or financial, occurred relating to the company since December 31st 2012.

Management

Mr. D.C.M. Mampaey resigned as supervisory director of the company on January 1st, 2013.

Mr. R.J.G. Janssen was appointed supervisory director on January 1st, 2013.

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the financial statements give a true and fair view of the assets, liabilities, financial position and profit of the company and the directors' report includes a fair review of the development and performance of the business and the position of the company together with a description of the principal opportunities and risks associated with the expected development of the company.

Corporate Governance

The company is a wholly owned subsidiary of KBC Bank NV Brussels and, as such, complies with the control requirements and standards of the KBC Group with regard to accounting, operations, internal controls and risk management. Furthermore, the company is subject to audits carried out periodically by the internal audit department of the KBC Group.

The directors' reporting line is to the corporate treasury department within KBC Bank NV and directors' remuneration is set by KBC Bank NV.

The Board of Supervisory Directors of the company is comprised of senior officials of KBC Bank NV. The Supervisory Directors monitor the transactions and operations of the company periodically during the financial year. Because of the limited size of the company's operations, a separate report of the Supervisory Directors is not considered necessary.

The members of the Board of Directors and the Supervisory Directors of the company are appointed by KBC Bank NV.

The company has an even ratio between male and female members in the Board of Directors and is therefore compliant with the law on Corporate Governance (Wet Bestuur en Toezicht) which applies from January 1st, 2013.

Both members of the Board of Supervisory Directors are male, the appointments or decisions to appoint having been made before the above law came into force. With regard to future appointments the required male/female ratio will be taken into account as far as possible, bearing in mind the necessity for directors and supervisory directors of the company to have extensive relevant experience.

Risk Management

The structure and organisation of the company are such that liquidity risk, interest rate risk, exchange rate risk and credit risk to the company are strictly limited. All bonds issued are on-lent within the KBC Group for the same amount and currency and the same maturities. In addition, the coupon dates for interest receivable on the loans coincide with the dates of the coupons payable on the bonds.

The company's liquidity is generated by the cash flows from interest margins earned on the loans granted. The cash inflows and outflows coincide because the maturity dates and currencies of the loans outstanding and the bonds issued are matched, as are the due dates of interest coupons receivable and payable. Interest margins earned on the loans are principally in Euro. The company is therefore not exposed to a liquidity risk.

Similarly, interest rate risk is eliminated by virtue of the matching of the periods for which interest is received and paid and of the maturities of loans and bonds issued.

As stated above under General, the lending of the company is entirely to KBC Bank NV, its subsidiaries and associated companies. As such, a credit risk exists in respect of lending to these companies. The

bonds issued by the company are fully guaranteed by KBC Bank NV; therefore the credit risk for investors in the company's bonds is ultimately a risk on KBC Bank NV, whose credit rating as at April 4th, 2013 is as follows:

<u>Rating agency</u>	<u>Long-term rating and outlook/watch</u>	<u>Short-term rating</u>
Fitch	A- (stable outlook, since January 2012)	F1, since January 2012
Moody's	A3 (stable outlook, since June 2012)	P2, since June 2012
Standard & Poor's	A- (positive outlook, since December 2012)	A2, since December 2012

Future Developments

It is expected that the company will continue to be active in the Group financing programmes in the present year. The funding requirements of the KBC Group and market conditions will determine the extent of this activity.

During the present year, the company expects to re-finance at least part of the bonds maturing. In 2012 the market conditions associated with margins on the company's bond issues eased somewhat and we expect this trend to continue this year.

Rotterdam, April 4th, 2013

Management Board

J.G. Heffernan

H.B.J. Wouters

BALANCE SHEET AS AT DECEMBER 31ST, 2012
(before profit appropriation)

A s s e t s

	<u>2012</u>		<u>2011</u>	
	€	€	€	€
Fixed assets				
Tangible fixed assets	(1)	1,985	2,218	
Financial fixed assets	(2)	16,729,030,612	16,723,834,552	
Long term bank deposit	(2)	4,803,264	4,803,264	
Derivatives	(2)	<u>666,701,183</u>	<u>1,196,683,130</u>	
		17,400,537,044		17,925,323,164
Current assets				
Derivatives	(2)	62,115,510	109,357,625	
Loans falling due within one year	(2)	2,530,393,722	4,736,495,814	
Interest receivable and prepaid expenses	(3)	280,665,395	229,805,648	
Cash		<u>5,294,533</u>	<u>4,462,402</u>	
		2,878,469,160		5,080,121,489
Total assets		<u><u>20,279,006,204</u></u>		<u><u>23,005,444,653</u></u>

L i a b i l i t i e s

	<u>2012</u>		<u>2011</u>	
	€	€	€	€
Capital and reserves				
Paid-in and called-up share capital	(4)	4,803,264	4,803,264	
Retained earnings	(5)	4,106,733	3,864,725	
Net profit for the year		<u>3,604,529</u>	<u>4,242,008</u>	
		12,514,526		12,909,997
Provisions				
Provision for pre-retirement costs	(6)	-		80,239
Long term liabilities				
Bonds issued	(7)	16,733,265,597	16,730,610,610	
Derivatives	(2)	666,701,183	1,196,683,130	
Current liabilities				
Derivatives	(2)	62,115,510	109,357,625	
Issued bonds falling due within one year	(7)	2,527,412,828	4,730,082,009	
Other current liabilities	(8)	<u>276,996,560</u>	<u>225,721,043</u>	
		2,866,524,898		5,065,160,677
Total liabilities		<u><u>20,279,006,204</u></u>		<u><u>23,005,444,653</u></u>

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31ST, 2012

	<u>2012</u>		<u>2011</u>	
	€	€	€	€
Interest income				
Interest on fixed income investments		213,745		214,916
Other income		<u>611,051,669</u>		<u>625,733,552</u>
Total interest income	(11)	611,265,414		625,948,468
Interest expense	(11)	<u>(606,154,304)</u>		<u>(619,983,045)</u>
Gross margin		5,111,110		5,965,423
Change in fair value of derivatives				
Fair value change -profit		222,021,663		722,843,086
Fair value change -loss		<u>(222,021,663)</u>		<u>(722,843,086)</u>
		-		-
Income from participating interests	(12)	157,501		111,183
Staff and other operating expenses				
General & administrative expenses	(13)	(527,452)		(480,815)
Depreciation of fixed assets		(233)		(117)
Exchange rate differences		<u>(721)</u>		<u>12,940</u>
Total		<u>(528,406)</u>		<u>(467,992)</u>
Profit before taxation		4,740,205		5,608,614
Corporation tax	(14)	<u>(1,135,676)</u>		<u>(1,366,606)</u>
Net profit for the year		<u>3,604,529</u>		<u>4,242,008</u>

CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31ST, 2012

	<u>2012</u>	<u>2011</u>
	€	€
Net profit	3,604,529	4,242,008
Adjustments for:		
Depreciation	233	117
Provision for pre-retirement costs	3,181	5,277
Amortization on loans and bonds	(348,645)	(512,963)
Income from participating interest	(157,501)	(111,183)
	<u>3,101,797</u>	<u>3,623,256</u>
Change in other assets and liabilities	360,533	(833,088)
Taxes received (paid)	55,237	(60,843)
Pre-retirement costs paid	(83,420)	(206,674)
Net cash flow from operational activities	<u>3,434,147</u>	<u>2,522,651</u>
Distribution on liquidation of subsidiary	1,327,728	-
Investment in tangible fixed assets	-	(2,335)
Financial fixed assets – issued	(3,910,431,913)	(4,309,913,273)
Financial fixed assets – repaid	6,145,211,844	5,400,837,039
Net cash flow from investment activities	<u>2,236,107,659</u>	<u>1,090,921,431</u>
Bonds issued	3,910,431,913	4,309,913,273
Bonds repaid	(6,145,141,588)	(5,399,966,580)
Dividend paid	(4,000,000)	(4,750,000)
Net cash flow from financing activities	<u>(2,238,709,675)</u>	<u>(1,094,803,307)</u>
Net cash flow	<u>832,131</u>	<u>(1,359,225)</u>
Cash balance as at January 1 st	4,462,402	5,821,627
Cash balance as at December 31 st	<u>5,294,533</u>	<u>4,462,402</u>
Net cash flow	<u>832,131</u>	<u>(1,359,225)</u>

NOTES TO THE FINANCIAL STATEMENTS 2012

Accounting principles

General

KBC Internationale Financieringsmaatschappij N.V. (the “company”) is a wholly-owned subsidiary of KBC Bank NV, Brussels. The main activity of the company is to assist in financing the activities of KBC Bank NV, its subsidiaries and associated companies.

The address of the company is Watermanweg 92, 3067 GG Rotterdam, The Netherlands. The company is registered in The Netherlands Chamber of Commerce, Rotterdam under number 33168630.

The financial statements are prepared in accordance with accounting principles generally accepted in The Netherlands and comply with the financial reporting requirements included in Part 9 of Book 2 of The Netherlands Civil Code. The financial statements are prepared under the historic cost convention and presented in the joint currency of the European Monetary Union, the euro (“Eur”). Assets and liabilities are stated at amortized cost, unless otherwise stated.

Currency translation

Assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rates ruling at the dates of the transactions. Resulting translation differences are taken to the profit and loss account.

Balance sheet

Tangible fixed assets

Tangible fixed assets are stated at acquisition cost less straight line depreciation over the estimated life of the assets. The tangible assets concerned are depreciated at 10% straight line per year over the lifetime of the assets.

Financial fixed assets / Bonds issued

Loans to group companies and bonds issued under the various programmes are stated at amortized cost. The differences with the proceeds resulting from premiums or discounts are taken to the profit and loss account on the basis of effective interest over the remaining term of the loans/bonds concerned; the unamortized amounts are added to, or deducted from, the amounts of the loans/bonds issued.

Derivatives

The contractual terms of bonds issued, other than fixed interest bonds, can entitle the bondholders to coupons and/or redemptions based on reference items such as floating interest rates (for example Euribor, Libor), the performance of indices or shares, or other underlying factors. These terms constitute derivatives embedded in the bonds issued and are recorded and accounted for as such by the company. In every such case equal and opposite derivatives are recorded in respect of the on-lending of the bond proceeds. Derivative assets and derivative liabilities are equal and opposite. There are, therefore, no exposed positions in derivatives.

The derivatives are stated in the balance sheet at fair value.

At balance sheet date, derivatives with a positive fair value are shown as assets; derivatives with a negative fair value are shown as liabilities. The methodology used to calculate fair values is explained in note 9 (page 21).

Changes in fair value are recorded in the profit and loss account. Because derivative assets and derivative liabilities are equal, the net effect of changes in fair values is equal to zero.

The derivatives consist of interest rate, credit, equity, commodity, and foreign exchange contracts, depending on the terms of the bond issues, and determine the cash flows received and paid in respect of coupons and redemptions for the related loans and bonds, respectively.

The dates of the derivative cash flows coincide exactly with the coupons and redemptions of the loans and bonds to which they relate.

Pension obligations

The company operates a defined benefit pension plan for its employees under which the vested benefits are funded through an insurance contract with a major insurance company in The Netherlands. The defined benefits are based on either final or average salary earned. Pension insurance premiums are charged to income and any unpaid premiums or charges are recorded as a liability or, where paid in advance, as prepaid expense.

Profit and loss account

Income and expenses are recognized in the financial year to which they relate.

Interest

Interest is accrued based on the effective interest level in the financial year. Both loans granted to group companies, and bonds issued have been treated in the same way.

Corporation tax

Corporation tax is based on the income for the year. The company is the head of a fiscal unity which was formed with its subsidiary company KBC International Finance N.V. up to the date of its liquidation. Corporation tax is paid by KBC Internationale Financieringsmaatschappij N.V. on behalf of the fiscal unity. KBC International Finance N.V. paid to the company the corporation tax due on its taxable income for the year.

Consolidation

The company has not prepared consolidated figures, based on the exemption for subholdings (article 408 of the Dutch Civil Code). Consolidated figures of the company and its subsidiary are included in the Financial Statements of KBC Groep NV, Brussels, Belgium. A copy of the annual accounts of KBC Groep NV, of which KBC Bank NV (the sole shareholder of KBC Internationale Financieringsmaatschappij N.V.) is a wholly-owned subsidiary, is deposited at The Netherlands Chamber of Commerce, Rotterdam.

NOTES TO THE BALANCE SHEET

1. Tangible fixed assets

The movement in the cost of tangible fixed assets is as follows:

Cost	<u>2012</u>	<u>2011</u>
	€	€
Balance at January 1 st	2,335	-
Additions	-	2,335
Disposals	-	-
Balance as at December 31 st	<u>2,335</u>	<u>2,335</u>

The movement in the accumulated depreciation of tangible fixed assets is as follows:

Accumulated depreciation	<u>2012</u>	<u>2011</u>
	€	€
Balance at January 1 st	117	-
Depreciation for the year	233	117
Disposals	-	-
Balance as at December 31 st	<u>350</u>	<u>117</u>

The movement in the tangible fixed assets after deduction of depreciation is as follows:

	<u>2012</u>	<u>2011</u>
	€	€
Balance at January 1 st	2,218	-
Investments	-	2,335
Depreciation	(233)	(117)
Balance as at December 31 st	<u>1,985</u>	<u>2,218</u>

The tangible fixed assets consist of office furniture.

2. Financial fixed assets

The breakdown of the financial fixed assets is as follows:

	<u>2012</u>	<u>2011</u>
	€	€
KBC International Finance N.V., Curaçao	-	1,170,227
Loans to group companies	16,729,030,612	16,722,664,325
	<u>16,729,030,612</u>	<u>16,723,834,552</u>

KBC International Finance N.V. was liquidated on September 28th 2012, its operations having terminated. The remaining net asset value of the subsidiary was distributed on liquidation to the sole shareholder, KBC Internationale Financieringsmaatschappij N.V. on November 22nd, 2012. As of the latter date KBC International Finance N.V. was dissolved.

The movement in the investment in KBC International Finance N.V. is as follows:

	<u>2012</u>	<u>2011</u>
	€	€
Balance at January 1 st	1,170,227	1,059,044
Net profit after tax from January 1 st to liquidation date	157,501	111,183
Distributed to shareholder	(1,327,728)	-
Balance as at December 31 st	<u>-</u>	<u>1,170,227</u>

Loans to group companies

The movement in loans to group companies is as follows:

	<u>2012</u>	<u>2011</u>
	€	€
Balance as at January 1 st , over 1 year	16,722,664,325	17,620,691,397
Balance as at January 1 st , less than 1 year	4,736,495,814	4,812,895,175
	<u>21,459,160,139</u>	<u>22,433,586,572</u>
Loans issued during the year	3,910,431,913	4,309,913,273
Amortization of premiums and discounts	19,521,501	17,834,694
Repayments	(6,145,211,844)	(5,400,837,039)
Translation differences	15,522,625	98,662,639
	<u>19,259,424,334</u>	<u>21,459,160,139</u>
Falling due within 1 year	(2,530,393,722)	(4,736,495,814)
Balance as at December 31 st , over 1 year	<u>16,729,030,612</u>	<u>16,722,664,325</u>

Early redemption under specified conditions is possible. Such conditions are laid down in the final terms of the loans which reflect the conditions of the bonds. An example where early redemption could occur, is when the credit rating of KBC Bank NV would deteriorate entitling the bondholders to early repayment or where the conditions of bonds entitle the issuer to redeem bonds early; the related loans would then also be early redeemed.

Loans to group companies are at arm's-length basis. The loans reflect exactly the same market prices as the related bonds issued, except for the market value of future interest margins generated by the loans. The effective rate of interest income on loans to group companies is 3% (2011: 2.85%).

The maturity breakdown of the loans to group companies, being the remaining maturity of the loans based on their contractual redemption dates, as at December 31st is as follows:

	<u>Total</u>	<u>< 1 year</u>	<u>1 < 5 years</u>	<u>> 5 years</u>
Loans:				
As of December 31 st , 2012	19,259,424,334	2,530,393,722	15,552,934,544	1,176,096,068
As of December 31 st , 2011	21,459,160,139	4,736,495,814	14,774,729,063	1,947,935,262

	<u>2012</u>	<u>2011</u>
	€	€
Long term bank deposit	4,803,264	4,803,264

The long term bank deposit is placed with KBC Bank NV at an annual interest rate of 4.45% and will mature on February 28th, 2018.

	<u>2012</u>	<u>2011</u>
	€	€
Derivative Assets		
Falling due within 1 year	62,115,510	109,357,625
Balance at December 31 st , over 1 year	<u>666,701,183</u>	<u>1,196,683,130</u>
Total Derivative assets	<u>728,816,693</u>	<u>1,306,040,755</u>

Derivative Liabilities		
Falling due within 1 year	62,115,510	109,357,625
Balance at December 31 st , over 1 year	<u>666,701,183</u>	<u>1,196,683,130</u>
Total Derivative Liabilities	<u>728,816,693</u>	<u>1,306,040,755</u>

The derivatives are embedded in the loans and bonds issued, and are stated at fair value. The breakdown of derivative assets and liabilities is as follows:

	<u>2012</u>	<u>2011</u>
	€	€
Interest rate contracts	311,824,139	259,136,388
Credit contracts	169,365,842	610,340,852
Equity contracts	236,222,230	421,042,146
Commodity contracts	8,233,980	11,525,530
Foreign exchange contracts	<u>3,170,502</u>	<u>3,995,839</u>
Total	<u>728,816,693</u>	<u>1,306,040,755</u>

The maturity profile of both derivative assets and liabilities, being the remaining maturity of the derivatives based on their contractual redemption dates, is as follows:

	Total	< 1 year	1 < 5 years	> 5 years
As of December 31 st , 2012	728,816,693	62,115,510	414,341,613	252,359,570
As of December 31 st , 2011	1,306,040,755	109,357,625	675,335,566	521,347,564

Derivative notional amounts

The notional amounts of the derivatives, recorded gross, is the amount of the derivatives underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

The breakdown of the notional amount of the derivatives bought (which equals the derivatives sold) is as follows:

	2012	2011
	€	€
Interest rate contracts	5,373,943,824	5,106,145,399
Credit contracts	330,244,796	926,726,742
Equity contracts	1,678,845,537	2,215,962,525
Commodity contracts	27,810,315	41,668,225
Foreign exchange contracts	37,085,372	44,547,405
Total	7,447,929,844	8,335,050,296

The maturity profile of the notional amount of both derivatives bought and sold, being the remaining maturity of the derivatives based on the contractual terms, is as follows:

	Total	< 1 year	1 < 5 years	> 5 years
As of December 31 st , 2012	7,447,929,844	602,966,543	5,961,844,110	883,119,191
As of December 31 st , 2011	8,335,050,296	493,541,127	6,345,400,893	1,496,108,276

Description of derivatives and of the loans and bonds to which they relate

The characteristics of the derivatives embedded and of the related bonds and loans are described as follows:

- Interest rate contracts

Interest rate contracts refer to interest rate swaps which are agreements in which the company either receives or pays a floating rate of interest in return for paying or receiving, respectively, a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

In the case of bonds whose terms and conditions entitle the investor to an interest rate which can vary and is a function of changes in, for example, Euribor, US Dollar Libor or another interest rate benchmark, the company records an interest rate swap as embedded in the bonds.

An equal and opposite interest rate swap is recorded in relation to the on-lending of the bond proceeds, thus eliminating any risk to the company that would otherwise arise from its obligations to the bondholders by ensuring that cash inflows are received from the loan counterparty (KBC Bank NV) matching the cash outflows due to bondholders.

The interest rate swaps give recognition in the books, records and accounts of the company to the fact that an interest rate may be payable to bondholders which is not fixed and predictable but may vary depending on movements in interest rate benchmarks (such as Euribor, USD libor, etc).

Credit contracts

These are credit default swaps which are agreements determining the amounts paid and received on the occurrence of defined credit events and based on specified notional amounts.

The company has bond issues outstanding whose terms and conditions stipulate that the interest rate payable on the bonds and/or the redemption amount, are a function of the credit rating of an underlying entity or basket of entities, the so-called reference entity. For example, the reference entity could be one or more countries or companies.

The company records credit default swaps as embedded in these bonds. Equal and opposite credit default swaps are recorded in relation to the on-lending of the bond proceeds, thus eliminating any risk to the company that would otherwise arise from its obligations to the bondholders by ensuring that cash inflows are received from the loan counterparty (KBC Bank NV) matching the cash outflows due to bondholders.

The credit default swaps give recognition in the books, records and accounts of the company to the fact that an interest rate and/or a redemption amount may be payable to bondholders which is not fixed and predictable but may vary depending on defined credit events, such as deterioration in credit ratings of reference entities.

Equity contracts

Under equity contracts we include equity swaps and equity options.

- Equity swaps are agreements determining the amounts paid and received based on specified notional amounts in relation to movements in a specified underlying equity index.

The company has bond issues outstanding whose terms and conditions stipulate that the interest rate payable on the bonds and/or the redemption amount, are a function of the movement of an underlying equity fund, underlying equity of a company or basket of companies.

The company records equity swaps as embedded in these bonds. Equal and opposite equity swaps are recorded in relation to the on-lending of the bond proceeds, thus eliminating any risk to the company that would otherwise arise from its obligations to the bondholders by ensuring that cash inflows are received from the loan counterparty (KBC Bank NV) matching the cash outflows due to bondholders.

The equity swaps reflect in the books, records and accounts of the company that an interest rate and/or a redemption amount may be payable to bondholders which is not fixed and predictable but may vary depending on defined movements in the underlying equity.

- Equity options convey the right, but not the obligation, for the purchaser either to buy (call) or sell (put) a specific quantity of equity shares at a set price within a certain period of time.

The company has bond issues outstanding whose terms and conditions stipulate that the manner of redemption of the bonds is a function of the movement of an underlying equity fund, underlying equity of a company or basket of companies. The condition is present that repayment of the bond to the bondholder may be settled wholly or in part by delivery of shares, dependent on the movements in the specified underlying reference item.

The company records equity options as embedded in these bonds. Equal and opposite equity options are recorded in relation to the on-lending of the bond proceeds, thus eliminating any risk to the company that would otherwise arise from its obligations to the bondholders by ensuring that the company receives delivery of the quantity of shares from the loan counterparty (KBC Bank NV) so that the stipulated quantity of shares can be delivered to bondholders.

The equity options give recognition in the books, records and accounts of the company to the fact that redemption of the relevant bonds may be made wholly or in part in the underlying shares.

Commodity contracts

These are commodity swaps which are agreements under which the company either receives or pays amounts dependent on movements in specified commodity indices. When the company issues bonds whose terms and conditions lay down that the amount of interest paid to the bondholders and/or the redemption amount is dependent on the movements in a specified commodity index, the company records a commodity swap as embedded in the bonds. An equal and opposite commodity swap is recorded in relation to the on-lending of the bond proceeds, thus eliminating any risk to the company that would otherwise arise from its obligations to the bondholders by ensuring that cash inflows are received from the loan counterparty (KBC Bank NV) matching the cash outflows due to bondholders.

The commodity swaps give recognition in the books, records and accounts of the company to the fact that an interest rate and/or a redemption amount may be payable to bondholders which is not fixed and predictable but may vary depending on movements in specified commodity indices.

Foreign exchange contracts

Currency options convey the right, but not the obligation, for the purchaser either to buy (call) or sell (put) a specific quantity of currency at a set exchange rate within a certain period of time.

The company has bond issues outstanding whose terms and conditions stipulate that the interest payable to the bondholders and the redemption of the bonds is a function of an exchange rate between specified currencies at a specified date or during a specified observation period.

The company records currency options as embedded in these bonds. Equal and opposite currency options are recorded in relation to the on-lending of the bond proceeds, thus eliminating any risk to the company that would otherwise arise from its obligations to the bondholders by ensuring that cash inflows are received from the loan counterparty (KBC Bank NV) matching the cash outflows due to bondholders.

The currency options reflect that an interest rate and/or a redemption amount may be payable to bondholders which is not fixed and predictable but may vary depending on movements in a specified exchange rate.

3. Interest receivable and prepaid expenses

	<u>2012</u>	<u>2011</u>
	€	€
Interest receivable	280,630,351	229,710,265
Prepaid expenses	28,216	33,317
Tax receivable	6,828	62,066
	<u>280,665,395</u>	<u>229,805,648</u>

Interest receivable relates to interest accrued on loans granted.

Prepaid expenses include a deposit paid to finance future pension indexation costs.

4. Paid-in and called-up share capital

	€
Authorized 50,000 ordinary shares of Eur 453.78	<u>22,689,000</u>
Paid-in and called-up share capital 10,585 ordinary shares of Eur 453.78	<u>4,803,264</u>

The paid-in and called-up share capital consists of 10,585 ordinary shares of Eur 453.78 each, which are fully held by KBC Bank NV, Belgium.

There have been no movements in paid-in and called-up share capital during the year (2011: no movements).

5. Retained earnings

The movement in the retained earnings is as follows:

	<u>2012</u>	<u>2011</u>
	€	€
Balance as at January 1 st	3,864,725	3,876,988
Net profit appropriation	4,242,008	4,737,737
Dividend paid during the year	<u>(4,000,000)</u>	<u>(4,750,000)</u>
Balance as at December 31 st	<u>4,106,733</u>	<u>3,864,725</u>

An interim dividend of Eur 3,500,000 was paid out of net profit for 2012 on January 2nd, 2013.

6. Provision for pre-retirement costs

The movements are follows:

	<u>2012</u>	<u>2011</u>
	€	€
Balance as at January 1 st	80,239	281,636
Increase in provision charged to income	3,181	5,277
Pre-retirement payments	<u>(83,420)</u>	<u>(206,674)</u>
Balance as at December 31 st	<u>-</u>	<u>80,239</u>

7. Long term liabilities

	<u>2012</u>	<u>2011</u>
	€	€
Bonds issued as at January 1 st , over 1 year	16,730,610,610	17,629,645,367
Bonds issued as at January 1 st , less than 1 year	4,730,082,009	4,805,116,191
	<u>21,460,692,619</u>	<u>22,434,761,558</u>
Bonds issued during the year	3,910,431,913	4,309,913,273
Amortization of premiums, discounts and issue expenses	19,187,358	16,772,697
Repayments	(6,145,141,588)	(5,399,966,580)
Translation differences	15,508,123	99,211,671
	<u>19,260,678,425</u>	<u>21,460,692,619</u>
Falling due within 1 year	<u>(2,527,412,828)</u>	<u>(4,730,082,009)</u>
Issued bonds as at December 31 st , over 1 year	<u>16,733,265,597</u>	<u>16,730,610,610</u>

The effective rate of interest on the outstanding bonds is 2.98% (2011: 2.82%).

The maturity breakdown of the bonds issued, being the remaining maturity of the bonds based on their contractual terms, as at December 31st is as follows:

	<u>Total</u>	<u>< 1 year</u>	<u>1 < 5 years</u>	<u>> 5 years</u>
As of December 31 st , 2012	19,260,678,425	2,527,412,828	15,555,980,344	1,177,285,253
As of December 31 st , 2011	21,460,692,619	4,730,082,009	14,781,168,210	1,949,442,400

All bonds are guaranteed by KBC Bank NV, Brussels, Belgium.

Risk Factors for Investors

A wide range of bonds may be issued by the company under its various medium term programmes. A number of these bonds may have features which contain particular risks for investors. Set out below is a description of the most common such features:

- **The company's ability to fulfil its obligations under bonds issued under the Programme**

The company is a finance vehicle whose principal purpose is to raise debt to be on-lent to KBC Bank NV, its subsidiaries and associated companies. Accordingly, it does not have any trading assets and does not generate other trading income. Bonds issued under its various programmes are guaranteed on a subordinated or an unsubordinated basis, as specified in the applicable final terms, pursuant to the guarantee by KBC Bank NV. Accordingly, if the guarantor's financial condition were to deteriorate, the company and investors in the bonds may suffer direct and materially adverse consequences.

- **Credit risk**

The loans granted by the company are to KBC Bank NV, its subsidiaries and associated companies and the counterparty to the derivatives embedded in the loans is in all cases KBC Bank NV. In this respect a credit risk on KBC Bank NV exists.

- **Interest rate risks**

Investment in fixed rate bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of the fixed rate bonds.

- **Bonds subject to optional redemption by the issuer**

An optional redemption feature of bonds entitling the company to redeem them earlier than final maturity is likely to limit their market value. During any period when the company may elect to redeem bonds, the market value of those bonds generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

- **Risks relating to Reference Item Linked Bonds**

In the case of bonds linked to a reference item (examples of reference items are an index, an equity, a commodity, a credit event, a currency) which bear interest and/or redemption linked to one or more reference items, the amount of interest payable and/or redemption to bondholders will be contingent on the performance of the relevant reference item(s) and on the structure of such bonds. The risks related to the reference items are recorded by the company in the derivatives embedded in the loans and bonds.

Investors in such bonds may, in certain circumstances and depending on the terms of the bonds, not receive any interest and/or principal amount on redemption. Unless notes are principal protected, the amount paid by the issuer on redemption of the notes may be less than the nominal amount of the notes, together with any accrued interest, and may in certain circumstances be zero.

- **The secondary market**

The company's bonds may 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 bonds easily or at prices that will provide them with an acceptable yield.

8. Other current liabilities

	<u>2012</u>	<u>2011</u>
	€	€
Interest payable	276,947,859	225,671,766
Accounts payable	35,322	36,591
VAT and payroll tax payable	13,379	12,686
	<u>276,996,560</u>	<u>225,721,043</u>

Interest payable is the amount accrued payable on outstanding bonds.

Other current liabilities includes Eur 11,044 for social premiums payable in relation to payroll costs (2011: Eur 10,928).

In June 2012 KBC Internationale Financieringsmaatschappij N.V. and KBC Bank NV were summoned to appear before the court in Brussels on foot of a claim brought on behalf of former bondholders. The claim amounting to Eur 1,306,137 relates to losses incurred by the investors on early redemption of the bonds held by them. The lawsuit is being contested by KBC Internationale Financieringsmaatschappij N.V. and KBC Bank NV. Based on the information available to the directors, they are of the opinion that it is unlikely the company will suffer a loss and therefore no provision has been made in the accounts for this. Judgement is not expected until 2014.

9. Fair value of financial instruments

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties at an arm's length transaction.

The assets and liabilities of the company mainly consist of financial instruments. For most of the financial instruments fair values, such as market values, are not available and can only be estimated using certain calculation models, applying interest rates which are market-conform at balance sheet date. The fair value is determined using valuation models based on the discounted cash flow model. The input for the model consists mainly of market observable data like Euribor and exchange rates. The settlement date is used in accounting for derivatives.

The proceeds of the bonds issued are used for intercompany financing of the KBC Group, in particular KBC Bank NV. The contracts for intercompany financing do not differ other than an interest margin, where applicable, from the structuring of the bonds in terms of maturity, currency, interest terms and rate-fixings.

The financial assets are comprised of derivate assets, loans and a deposit. The financial liabilities are comprised of derivative liabilities and outstanding bonds issued.

The outstanding loans and bonds issued, as well as the related derivatives, are in various currencies, for various periods and at various rates of interest depending on the contractual terms of the individual bonds and related loans.

The fair value of cash balances including long-term bank deposit held at the bank and current liabilities does not differ substantially from the amounts presented in the balance sheet and they are therefore not included here.

The fair value of the financial instruments at December, 31st is as follows:

	<u>2012</u>	<u>2011</u>
	€	€
Financial assets		
Loans	20,435,716,574	22,429,442,647
Derivative assets	728,816,693	1,306,040,755
Total financial assets	<u>21,164,533,267</u>	<u>23,735,483,402</u>
Financial Liabilities		
Bonds issued	20,420,265,469	22,408,806,288
Derivative liabilities	728,816,693	1,306,040,755
Total financial liabilities	<u>21,149,082,162</u>	<u>23,714,847,043</u>

10. Risk management

It is the policy of the company to strictly limit interest rate, exchange, market and operational risks to the company and the structure and organisation of the company are designed to give effect to this policy. Furthermore, the company's financial administration is so arranged as to prevent exposures to the above risks and controls are in place to ensure strict adherence.

This policy, which applies to all bond issues, ensures that the company has no exposures in relation to open or unmatched positions in interest rate risk, market risk, currency risk, liquidity risk, cash flow risk or interest re-pricing risk and consequently runs no risks in respect to these categories. This policy is the basis of the company's asset and liability management. Credit risks are present and are described below. The interest margins on the loans where applicable, have been set in conjunction with KBC Bank NV and take account of the company's obligations under an Advance Pricing Agreement entered into with the Dutch tax authorities.

- **Liquidity risk:** cash inflows and outflows are matched with regard to amount, currency and timing; with the exception of interest margins earned on loans granted which generate positive cash flows on the coupon payment dates, the net cash flows of the company on bond issue, coupon payment and bond redemption dates are zero. In this manner liquidity risk is eliminated.

- **Credit risk:** as explained in the Directors' Report, the company on-lends to KBC Bank NV, its subsidiaries and associated companies the proceeds of bonds issued. A credit risk therefore exists in relation to lending to these companies. The bonds issued by the company are guaranteed by KBC Bank NV; investors in the bonds issued by the company are therefore subject to a credit risk in KBC Bank NV.

- **Interest rate risk and exchange rate risk:** The operations of the company are such that bonds issued are on-lent within the Group with the same conditions, for the same amount, in the same currency, for precisely the same period, with the same interest re-pricing dates, for the same rate of interest (plus an interest margin where applicable) and with the same maturity date. Risks to the company arising from changes in interest rates and exchange rates are restricted in this manner.

- **Market risk:** The risk of losses on financial assets and liabilities arising from changes in market prices is eliminated by the policy of matching the bonds issued with the loans granted in respect of amount, currency, coupon payment and maturity date. Furthermore, the conditions included in some of the bonds which constitute embedded derivatives are matched by equal and opposite derivatives entered into in respect of the loans granted. Derivative assets and derivative liabilities are equal and opposite and therefore there are no exposed positions in derivatives or financial assets or liabilities that could give rise to losses or profits through changes in market prices.

NOTES TO THE PROFIT AND LOSS ACCOUNT

11. Interest income and expense

Income from fixed interest investments results from a fixed interest deposit held with KBC Bank NV. The interest receivable income results from the loans granted by the company to KBC Bank NV, Brussels, Belgium and other group companies. The interest expense relates to bonds issued.

12. Income from participating interests

	<u>2012</u>	<u>2011</u>
	€	€
KBC International Finance N.V., Curaçao	157,501	111,183
	<u>157,501</u>	<u>111,183</u>

13. General and administrative expenses

The General and administrative expenses are as follows:

	<u>2012</u>	<u>2011</u>
	€	€
Salaries	229,237	206,622
Social security costs	12,994	10,051
Pension costs	93,486	82,663
Other staff costs	27,060	24,253
Staff costs	<u>362,777</u>	<u>323,589</u>
Bank charges	10,792	11,976
Office and IT expenses	100,503	84,893
Legal and tax fees	3,588	22,917
Audit fees	48,500	36,036
Administration expenses	1,292	1,404
	<u>527,452</u>	<u>480,815</u>

The company has three employees (2011: three). The remuneration of the Directors amounted to Eur 111,393 (2011: Eur 109,167). The members of the Supervisory Board did not receive any remuneration. Audit fees paid in 2012 amounted to Eur 36,000 (2011: Eur 56,000).

14. Corporation tax

Corporation tax is calculated based on the profit before taxation, taking into account the income from participating interest falling under the participation exemption, at the applicable tax rate in the Netherlands at 25% (2011: 25 %). The effective tax rate amounts to 24% (2011: 24.4%).

The company formed a fiscal unity together with its subsidiary company, KBC International Finance N.V. up to the date of liquidation of the latter company.

The company is liable for any corporation tax payable by the liquidated subsidiary.

15. Commitments

The company entered into an office rental contract in 2003 with a duration period of 5 years, extended to 2013, presently amounting to Eur 19,260 per annum. The total amount of the commitment remaining is Eur 11,235. Of this amount, Eur 11,235 expires within 1 year.

16. Related Parties

The loans of the company are extended exclusively to group companies and interest income on loans is earned entirely from group companies.

NOTES TO THE CASH FLOW STATEMENT

17. Cash flow statement

The Cash Flow Statement is compiled according to the indirect method. Net cash flow from operational activities includes Interest Received amounting to Eur 560,405,667 (2011: Eur 548,887,421) and Interest Paid amounting to Eur 554,878,211 (2011: Eur 544,014,622).

The cash balances of the company are free of encumbrance.

Rotterdam, April 4th, 2013

Board of Directors

J.G. Heffernan

H.B.J. Wouters

Supervisory Board

P.T.M. Roppe

R.J.G. Janssen

OTHER INFORMATION

Statutory rules concerning appropriation of profit

In accordance with Article 26 of the company's Articles of Association, the net profit is at the disposal of the annual General Meeting of Shareholders.

Dividend 2011

A dividend amounting to Eur 4,000,000 was paid on January 2nd, 2012.

Dividend 2012

An interim dividend amounting to Eur 3,500,000 was paid on January 2nd, 2013.

Subsequent events

There have been no material events subsequent to balance sheet date which impact the balance sheet and profit and loss account. Dividends paid after balance sheet dates are detailed above.

INDEPENDENT AUDITOR'S REPORT

To: the Management Board of KBC Internationale Financieringsmaatschappij N.V.

Report on the financial statements

We have audited the accompanying financial statements 2012 of KBC Internationale Financieringsmaatschappij N.V., Rotterdam, which comprise the balance sheet as at December 31, 2012, the profit and loss account for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of these financial statements and for the preparation of the directors' report, both in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the financial statements

In our opinion, the financial statements give a true and fair view of the financial position of KBC Internationale Financieringsmaatschappij N.V. as at December 31, 2012 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under Section 2:393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the directors' report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b-h has been annexed. Further we report that the directors' report, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Dutch Civil Code.

Eindhoven, April 4, 2013

Ernst & Young Accountants LLP

Signed by P.J.A.J. Nijssen