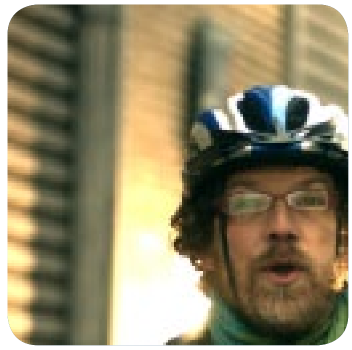
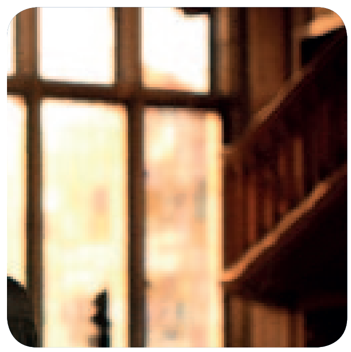
2010

KBC Annual Report





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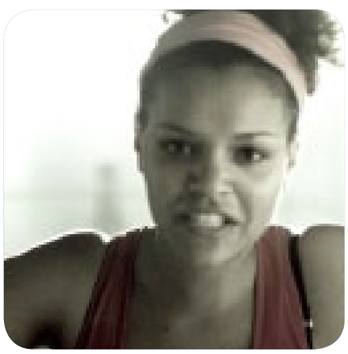
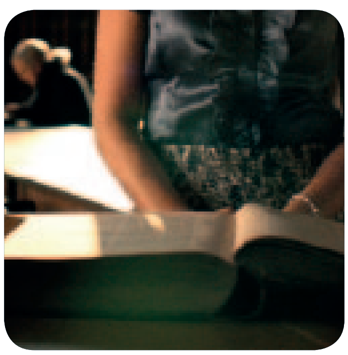
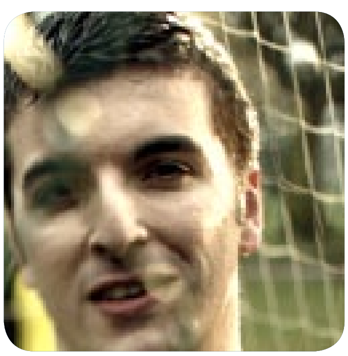
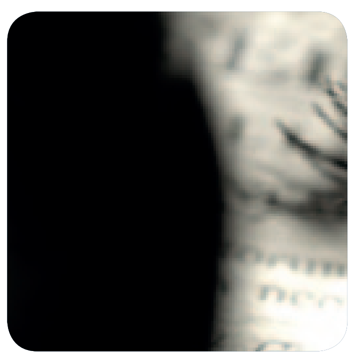
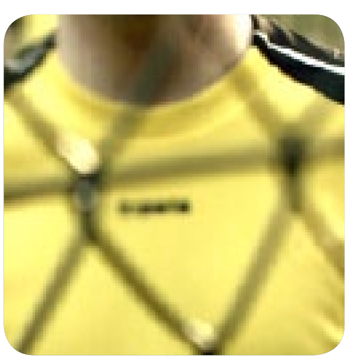







# KBC group passport

## Area of operation

KBC is an integrated bancassurance group, catering mainly for retail, SME and mid-cap customers. It concentrates on its home markets of Belgium and certain countries in Central and Eastern Europe. Elsewhere around the globe, the group has established a presence in selected countries and regions.

The group is made up of the Belgium Business Unit (retail bancassurance, asset management and private banking in Belgium), the Central & Eastern Europe Business Unit (retail bancassurance, asset management, private banking and merchant banking in Central and Eastern Europe), the Merchant Banking Business Unit (corporate banking and market activities in Belgium and abroad, apart from those in Central and Eastern Europe), and the Shared Services & Operations Business Unit (encompassing a number of services that provide support and products to the other business units).

## Shareholders

| | |
|---|---|
| KBC Ancora | 23% |
| Cera | 7% |
| MRBB | 13% |
| Other core shareholders | 11% |
| KBC group companies | 5% |
| Free float | 41% |
| Total | 100% |

## Customers (estimate)*

12 million

## Number of staff (in FTEs)

| | |
|---|---|
| Belgium | 17 537 |
| Central and Eastern Europe | 30 760 |
| Rest of the world (excl. KBL EPB) | 2 197 |
| Total (excl. KBL EPB) | 50 494 |
| Total (incl. KBL EPB) | 52 949 |

## Bank branches*

| | |
|---|---|
| Belgium | 845 |
| Central and Eastern Europe | 1 181 |

## Insurance network

| | |
|---|---|
| Belgium | 506 tied agencies |
| Central and Eastern Europe | sales via various distribution channels |

## Long-term credit ratings, 31-12-2010

| | Fitch | Moody's | Standard & Poor's |
|---|---|---|---|
| KBC Bank NV | A | Aa3 | A |
| KBC Insurance NV | A | – | A |
| KBC Group NV | A | A1 | A- |

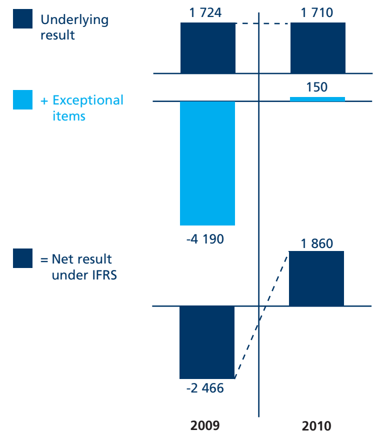
## Information

| | |
|---|---|
| Website | www.kbc.com |
| Telecentre | kbc.telecenter@kbc.be |

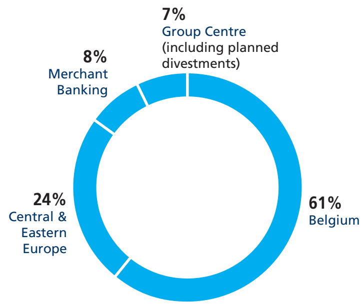
Data relates to year-end 2010, unless otherwise indicated. For definitions and comments, please see the detailed tables and analyses in this report.

* In the home markets.

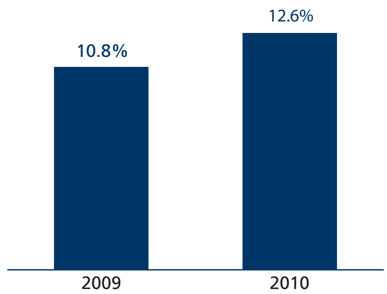
**Results**
(in millions of EUR)




**Breakdown of underlying net result by business unit (2010)**




**Group tier-1 ratio (Basel II)**



# Key financial figures

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|
| **Consolidated balance sheet and assets under management, end of period** (in millions of EUR) | | | | | | |
| Total assets | 325 801 | 325 400 | 355 597 | 355 317 | 324 231 | 320 823 |
| Loans and advances to customers | 119 475 | 127 152 | 147 051 | 157 296 | 153 230 | 150 666 |
| Securities | 125 810 | 111 959 | 105 023 | 94 897 | 98 252 | 89 395 |
| Deposits from customers and debt securities | 171 572 | 179 488 | 192 135 | 196 733 | 193 464 | 197 870 |
| Technical provisions and liabilities under investment contracts, insurance | 22 394 | 25 121 | 26 833 | 26 724 | 29 951 | 29 948 |
| Parent shareholders' equity, including non-voting core-capital securities | 15 751 | 17 219 | 17 348 | 14 210 | 16 662 | 18 147 |
| Risk-weighted assets at group level (Basel I to end of 2006, Basel II since 2007) | 128 680 | 140 016 | 146 998 | 155 291 | 143 359 | 132 034 |
| Assets under management | 196 358 | 208 560 | 230 890 | 206 842 | 205 234 | 208 813 |
| **Consolidated income statement according to IFRS** (in millions of EUR) | | | | | | |
| Total income | 8 370 | 9 650 | 9 802 | 4 827 | 4 625 | 8 378 |
| Operating expenses | -4 914 | -4 925 | -5 219 | -5 600 | -4 779 | -4 436 |
| Impairment | -103 | -175 | -267 | -2 234 | -2 725 | -1 656 |
| Net result, group share | 2 249 | 3 430 | 3 281 | -2 484 | -2 466 | 1 860 |
| Basic earnings per share (in EUR) | 6.26 | 9.68 | 9.46 | -7.31 | -7.26 | 3.72 |
| Diluted earnings per share (in EUR) | 6.15 | 9.59 | 9.42 | -7.28 | -7.26 | 3.72 |
| **Consolidated underlying[1] results** (in millions of EUR) | | | | | | |
| Total income | 8 323 | 8 738 | 9 481 | 9 172 | 9 111 | 8 744 |
| Operating expenses | -4 794 | -4 976 | -5 164 | -5 591 | -4 888 | -4 832 |
| Impairment | -54 | -175 | -191 | -743 | -1 913 | -1 525 |
| Net result, group share | 2 306 | 2 548 | 3 143 | 2 270 | 1 724 | 1 710 |
| Basic earnings per share (in EUR) | 6.42 | 7.19 | 9.06 | 6.68 | 5.08 | 3.28 |
| Diluted earnings per share (in EUR) | 6.27 | 7.13 | 9.02 | 6.66 | 5.08 | 3.28 |
| Net result per business unit | | | | | | |
| Belgium | – | – | – | 1 080 | 1 050 | 1 051 |
| Central & Eastern Europe | – | – | – | 469 | 161 | 406 |
| Merchant Banking | – | – | – | 461 | 300 | 133 |
| Group Centre (including planned divestments) | – | – | – | 258 | 213 | 120 |
| **KBC share** | | | | | | |
| Number of shares outstanding, end of period ('000) | 366 567 | 363 217 | 355 115 | 357 753 | 357 918 | 357 938 |
| Parent shareholders' equity per share, end of period (in EUR) | 43.8 | 49.2 | 50.7 | 31.5 | 28.4 | 32.8 |
| Highest share price for the financial year (in EUR) | 79.0 | 93.3 | 106.2 | 95.0 | 39.4 | 38.0 |
| Lowest share price for the financial year (in EUR) | 56.0 | 76.2 | 85.9 | 18.2 | 5.5 | 25.5 |
| Average share price for the financial year (in EUR) | 66.4 | 85.9 | 95.8 | 65.2 | 20.9 | 32.6 |
| Share price at year-end (in EUR) | 78.7 | 92.9 | 96.2 | 21.5 | 30.4 | 25.5 |
| Gross dividend per share (in EUR)[2] | 2.51 | 3.31 | 3.78 | 0.0 | 0.0 | 0.75 |
| Equity market capitalisation, end of period (in billions of EUR) | 28.8 | 33.7 | 34.2 | 7.7 | 10.9 | 9.1 |
| **Ratios** | | | | | | |
| Return on equity | 18% | 24% | 21% | -18% | -23% | 12% |
| Return on equity (based on underlying profit) | 18% | 18% | 20% | 16% | 16% | 11% |
| Cost/income ratio, banking | 60% | 53% | 56% | 104% | 104% | 56% |
| Cost/income ratio, banking (based on underlying profit) | 58% | 58% | 57% | 64% | 55% | 56% |
| Combined ratio, non-life insurance | 96% | 96% | 96% | 95% | 101% | 100% |
| Credit cost ratio, banking | 0.01% | 0.13% | 0.13% | 0.70% | 1.11% | 0.91% |
| Tier-1 ratio, group (Basel I to end of 2006, Basel II since 2007) | 10.2% | 9.8% | 8.8% | 8.9% | 10.8% | 12.6% |

For definitions and comments, please see the detailed tables, analyses and glossary of ratios in this report. Please note that certain result components for 2009 have been retroactively restated to reflect the application of IFRS 5 (more information in this regard is provided in the 'Results in 2010' section).

1 The underlying results are explained in the 'Results in 2010' section. Given that the breakdown by business unit of these results was changed in 2010, the reference figures for 2009 and 2008 have also been restated.

2 Dividend for 2010 subject to the approval of the General Meeting of Shareholders.

# Table of contents

## 1 Report of the Board of Directors



## 2 Consolidated financial statements

*To the reader*

**Company name** 'KBC', 'the group' or 'the KBC group' as used in this annual report refer to the consolidated entity, i.e. KBC Group NV including its subsidiaries and sub-subsidiaries. 'KBC Group NV' refers solely to the parent company.

KBL European Private Bankers is abbreviated to KBL EPB in this report.

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

**Forward-looking statements** The expectations, forecasts and statements regarding future developments that are contained in this annual report are, of course, based on assumptions and are contingent on a number of factors that will come into play in the future. Consequently, the actual situation may turn out to be (substantially) different.

**Annual reports of KBC Bank, KBL EPB and KBC Insurance** KBC is a bancassurance group and, therefore, most of the financial information contained in this report is presented on an integrated basis (i.e. banking and insurance information combined). If you are interested in separate details of KBC's banking or insurance activities and results, these may be found in the individual annual reports of KBC Bank NV, KBL European Private Bankers SA and KBC Insurance NV.

**Articles 96 and 119 of the Belgian Companies Code** These articles specify the minimum content of company and consolidated annual reports required by law. This information has been incorporated into the different sections of the Report of the Board of Directors, which also contains additional, non-compulsory information. To avoid repetition, reference is sometimes made to information presented in other sections of this brochure. Pursuant to Article 119, KBC Group NV has combined the reports for its company and consolidated annual accounts.

# 1 Report of the Board of Directors

# Main events in 2010

### January

- Further elaboration and implementation of the new strategy, which will make the group an even more focused, regional European financial player with a conservative risk profile.

### February

- Sale agreement for KBC Financial Products' reverse mortgage portfolio.

### March

- Divestment of Japanese equities business.

### April

- Change in the Group Executive Committee: John Hollows is appointed Chief Risk Officer, succeeding Chris Defrancq on his retirement. Marko Voljč assumes John Hollows' former position as CEO of the Central & Eastern Europe Business Unit.

### May

- Publication of first-quarter results for 2010: net profit of 442 million euros. Adjusted for exceptional items, 'underlying' net profit comes to 543 million euros, thanks in part to healthy deposit and loan margins, a gradual recovery in fee and commission income, robust dealing room activities, effective cost control and lower loan losses. Publication of exposure to the government bonds of selected Southern European countries and Ireland; in the case of Greece, the portfolio of government bonds totals 1.9 billion euros at that moment, but falls to 0.6 billion euros by year-end.
- Agreement with the Hinduja Group for the sale of KBL EPB. However, in mid-March 2011, it turns out that this sale cannot go ahead (see the 'Group Centre' section).

### June

- Management buyout of KBC Asset Management's British operations and agreement reached for the sale of its Irish activities. Completion of significant reduction in exposure to credit derivatives at KBC Financial Products.
- A presentation on the roll-out of the group's new strategy is given by senior management at an Investor Lunch in London.

### July

- Sale agreements reached for KBC Financial Products' Global Convertible Bonds and Asian Equity Derivatives businesses and for Secura, KBC's reinsurance company. Management buyouts at KBC Securities Baltic Investment Company (in Latvia) and KBC Peel Hunt.
- Publication of the EU stress test results confirms that KBC Bank meets the legal and market requirements in terms of solvency.

### August

- Publication of second-quarter results for 2010: net profit of 149 million euros. Adjusted for exceptional items (such as the write-down on goodwill related to the sale agreement for KBL EPB), 'underlying' net profit comes to 554 million euros, again supported by relatively good net interest income, rising fee and commission income, effective cost control and lower loan losses. However, dealing room results are weak and flooding in Central Europe has a negative impact on non-life insurance.

### September

- Agreement reached for the sale of KBC Business Capital (UK), which specialises in asset-based lending.

### November

- Agreement reached for the sale of the US life settlement portfolio held by KBC Financial Products.
- Publication of third-quarter results for 2010: net profit of 545 million euros. Adjusted for exceptional items, 'underlying' net profit comes to 445 million euros, bolstered in part by stable net interest income, solid dealing room income and tight cost control, but adversely affected by lower fee and commission income, higher loan losses and the new Hungarian bank tax.
- Change in the Group Executive Committee: retirement of Etienne Verwilghen, CEO of the former European Private Banking Business Unit.

### December

- As part of the ongoing expansion of its service provision, KBC announces a reorganisation of the commercial approach within its Belgian distribution network. That network will be further optimised in the years ahead and aligned even more closely with customer expectations.
- Stake in Bulgaria's CIBANK is raised to 100%.

## Main events at the start of 2011

- January: the Board of Directors decides to nominate Thomas Leysen as director at the General Meeting, with a view to succeeding Jan Huyghebaert as Chairman of the Board of Directors on 1 October 2011.
- February: publication of fourth-quarter results for 2010: net profit of 724 million euros. Adjusted for exceptional items (such as gains on divestments and positive value adjustments for structured credit), 'underlying' net profit comes to 168 million euros, supported by good levels of net interest income and net fee and commission income, and an improved combined ratio, but adversely affected by additional provisioning for the Irish loan portfolio and a case of irregularities at KBC Lease UK.
- March: KBC announces that Luc Popelier will succeed Luc Philips as Group CFO on 1 May 2011. Luc Gijsens will replace Luc Popelier as CEO of the Merchant Banking Business Unit.
- March: agreement with Crédit Agricole for the sale of Centea for a total consideration of 527 million euros.
- March: announcement that the sale of KBL EPB to the Hinduja Group will not go ahead (see the 'Group Centre' section).

**Our group ended the year with a net profit of 1.9 billion euros.**

This performance marks a substantial turnaround compared to the two previous years, when factors such as valuation losses on structured products pushed our results deep into the red. If we disregard exceptional and non-operating items, our underlying net profit came to an excellent 1.7 billion euros in 2010, due primarily to good levels of net interest income, a strong recovery in the fee and commission income generated by our asset management activities, ongoing rigorous cost control, and lower impairment charges on our loan portfolio.

**Our core activities in Belgium and in Central and Eastern Europe had a very good 2010.**

At 1 051 million euros, the underlying result of the Belgium Business Unit was in line with the high level recorded last year. This unit now accounts for 61% of underlying group profit. The Central & Eastern Europe Business Unit generated an underlying result of 406 million euros – or 2.5 times the figure for 2009 – thanks primarily to higher income and lower loan losses. The Merchant Banking Business Unit closed the year with an underlying result of just 133 million euros, which was due mainly to additional impairment charges being recorded for the loan portfolio held by our Irish subsidiary and the impact of irregularities at a group company. Lastly, the Group Centre – which also incorporates companies that will be divested in the years ahead under our strategic plan – recorded an underlying result of 120 million euros in 2010.

**We have made good progress with the implementation of our strategic plan.**

The goal of our strategic plan is to make us an even more focused, regional European player with a considerably lower risk profile. We have reorganised our risk management function and have already taken numerous steps towards implementing our divestment plan. For example, we have already significantly scaled down international lending that is not linked to our home markets. We have also ceased or sold off a number of other non-core activities and have made good progress in preparing for the sale of various other assets in Belgium and elsewhere. In this regard, an agreement was reached in March 2011 for the sale of Centea. All these projects are naturally discussed in more detail in this annual report. Although we were and are unable to do anything to prevent the sale of KBL EPB to the Hinduja Group from not going through, there is no denying that this is disappointing for us. However, it does not jeopardise implementation of our strategic plan. We will start the sales process again.
The new focus – allied with organic profit generation in the years ahead – should also enable us to accumulate the funds needed to redeem the core-capital securities sold to the Belgian State and the Flemish Region within a reasonable period of time.
At the end of 2010, our tier-1 capital ratio according to Basel II and including the aforementioned core-capital securities was a solid 12.6%. The results of the European stress test, which were announced in July 2010, offered further proof that KBC Bank is adequately capitalised. The new, more rigorous Basel III capital requirements would also appear to be feasible for our group.

**We have made clear choices regarding our core activities.**

Not only did we concentrate on scaling down our non-core activities in 2010, we also devoted an exceptional amount of time to fleshing out our strategy for the activities that will form the core of KBC going forward. To be more specific, these are our bancassurance activities in Belgium and selected countries in Central Europe, with the emphasis on catering for retail, SME and mid-cap customers. In the process, we are opting for a modified and targeted approach to the market. In some cases, we will position ourselves among the leaders and adopt a general approach to the market in question. In others, we will operate as a 'selective champion' and focus on specific customer segments and products capable of generating an above-average return. At the same time, we will further bolster our efficiency by making a judicious choice between local and central product development. Our different business lines will be given responsibility for the risks they take and the capital they use, within a generally conservative but dynamic value and risk management framework.

**We pay constant attention to all our stakeholders.**

Despite the challenges we faced in the past year, we did not neglect our duty as a member of society. It is and remains our intention to operate in a socially responsible manner, something we work at constantly to put into practice. Customers continue to be central at the new KBC and staff are treated with respect, as borne out by consistently high levels of customer and employee satisfaction. As in previous years, we also undertook a variety of initiatives in 2010 in relation to socially responsible business practices. To give you a taster, we have presented some examples in this annual report, but deal with the subject in more detail in our dedicated *Corporate Social Responsibility Report*.

**We remain cautiously optimistic about the years to come.**

Generally speaking, the macroeconomic climate in our home markets is encouraging. In saying that, of course, we are also fully aware of the challenges ahead of us. The budgetary problems confronting certain European countries continue to be a source of uncertainty. And like our peers, we have to contend with higher capital requirements, increased regulation, tighter supervision and more intensive competition. However, our new strategic plan has equipped us for the future. We know where we want to be in a few years' time and will do everything in our power to achieve our goals. In closing, we would like to extend a sincere word of thanks to all our customers, employees, shareholders and all other stakeholders for the confidence they have placed in our group. It is our firm intention to live up to that confidence.

Jan Vanhevel,
President of the Executive Committee

Jan Huyghebaert,
Chairman of the Board of Directors

# Strategy and company profile

**The new KBC will be an even more focused regional European bancassurer, with a conservative risk profile and a strategy aimed primarily at retail, SME and mid-cap customers in Belgium and selected countries in Central and Eastern Europe**

Jan Vanhevel, KBC Group CEO

KBC announced its updated strategic plan at the end of 2009. This plan also formed the basis of the reform plan approved by the European Commission in respect of the financial support received from the authorities. The intention is to make our group an even more focused, regional European player with a lower risk profile, while retaining existing strengths, such as the successful bancassurance concept and the extra growth driver in Central and Eastern Europe. The group worked in 2010 to further implement this new strategy, which is summarised below.

## Pillars of the new group

- Integrated bancassurer
- Local responsiveness: focus on retail, SME and mid-cap customers in Belgium and selected countries in Central and Eastern Europe, with a differentiated market approach in each country
- Maximum global efficiency based on a judicious choice between local and central solutions
- Streamlined collaboration between distribution channels and product developers by means of a partnership model
- Responsible use of available capital within a generally conservative risk profile

The group focuses on providing services to retail, SME and mid-cap customers in its home markets of Belgium and Central and Eastern Europe (Czech Republic, Slovakia, Hungary, Poland and Bulgaria). KBC takes the view that its presence in Central and Eastern Europe represents an extra growth driver for the group, given that the region is expected to catch up with other countries in terms of economic growth and financial product penetration. Its presence outside these home markets is geared primarily towards catering for 'network customers', i.e. customers who also use KBC's services or are linked with it in its home markets.

We are very firmly embedded in our home markets. Within that geographical target area, we approach the market in a focused and tailored manner. In some markets, we aim to position ourselves (or continue positioning ourselves) among the market leaders, i.e. to be a top-five player with a general approach to the market. In other markets, we see ourselves more as a 'selective champion', which means we will concentrate on specific customer segments and/or products where we enjoy a comparative advantage and/or which generate an above-average return. Our product offering will, of course, take account of the choices we make in terms of the approach adopted. We will remain a bancassurer, but the bank and the insurance company individually will each have to be profitable in each home market.

Local responsiveness means that the group can react more effectively to the local needs of the customer in each home market. Where products or services are closely bound up with the local environment, they will be developed locally too. Where the development of services and products can be organised more efficiently at group level, we will opt for group-wide, central product development. This should lead to maximum global efficiency for the group as a whole. The product providers – both local and group-wide – will, moreover, form effective partnerships in each of the relevant markets with the group's local distributors (banks and insurers), as these are close to customers and know which products they want. Clear agreements and objectives will be formalised on both sides.

We will take account of risk and of responsible use of capital when making all important business decisions. The different business lines will operate within a clearly defined risk profile and assume responsibility for the risks they take and the capital they use.

As a major player in each of our home markets, we also devote a great deal of attention to the social and environmental aspects of our activities, in addition to their profitability and efficiency. In practice, this is reflected in the relationship of respect we have with our customers and employees and in a variety of initiatives on the environmental and social fronts, several examples of which are given in this annual report.

The group's new focus and strategy will be translated into new financial targets. Until then, the existing targets will remain in place, with the main ones being a tier-1 ratio of at least 10% under Basel II (and a core tier-1 ratio of 8%) and an underlying cost/income ratio for the banking business of maximum 55%.

The refocusing exercise carried out by the group also means that a substantial part of the non-core activities will be scaled down in the years ahead. A total of roughly 39 billion euros in risk-weighted assets will be considered for run-down or sale in the 2009-13 period, representing approximately 25% of the group total compared to the situation at year-end 2008. This relates primarily to the sale of the European private banking network, the sale in due course of the operations in Russia, Serbia and Slovenia, the sale, termination or gradual run-down of various specialised investment banking activities, and the run-down of a substantial portion of the loan portfolios outside the home markets.
In addition to scaling down these non-core activities, the plan includes further actions to allow the core-capital securities sold to the Belgian State and the Flemish Region (see elsewhere in this report) to be redeemed within a reasonable period of time. Among these actions are the sale of the complementary distribution channels Centea and Fidea in Belgium and Żagiel (consumer finance) in Poland, and the IPO of a minority interest in our Czech banking subsidiary. A considerable amount of time and energy was put into preparing these projects in 2010. Additional measures might also be taken, such as selling treasury shares currently held on the balance sheet. The group does not intend to make any significant acquisitions in the years ahead.

The implementation of the divestment programme had progressed well by the end of 2010, with various activities and companies already sold. What's more, a substantial proportion of the planned run-down of the loan portfolio outside the home markets had been completed. In March 2011, we reached an agreement to sell Centea. However, the original agreement with the Hinduja Group for the sale of KBL EPB did not go ahead. More details in this regard can be found in the sections devoted to the respective business units in this report.

## Non-core activities scaled down and other actions

- Sale or run-down of various non-core activities → sold: Secura, KBC Peel Hunt, KBC Securities Baltic Investment Company, KBC Asset Management's British and Irish operations, KBC Business Capital, many of KBC Financial Products' activities
- Sale or run-down of a substantial proportion of the loan portfolios outside the home market → sharp reduction in risk-weighted assets for corporate banking
- Sale of complementary channels in Belgium → agreement reached in March 2011 for the sale of Centea

Largely on account of this divestment programme and the reduction in the loan portfolio, the group's risk-weighted assets fell by roughly 8% in 2010. The tier-1 capital ratio improved from 10.8% at year-end 2009 to 12.6% at year-end 2010.

The current capital base still includes 7 billion euros in core-capital securities issued to the Belgian Federal and Flemish Regional governments in 2008 and 2009. KBC intends to redeem these securities within a reasonable period. The capital required to that end and the funds needed to finance internal growth will be accumulated through the profit generated in the coming years and by the capital released as a consequence of the aforementioned run-down or sale of activities and other actions. More information about the core-capital securities sold to the Belgian Federal and Flemish Regional governments, as well as details of the CDO guarantee scheme agreed with the Belgian Federal Government in 2009, can be found in the 'Additional information' section of this report.

## Core-capital securities sold to the government

- 7 billion euros' worth of core-capital securities sold to the Belgian State and Flemish Region (3.5 billion euros each) in 2008 and 2009
- Core-capital securities to be redeemed within a reasonable period of time through profit generation in the years ahead and capital released from divestments, the run-down of activities and other measures

# Structure and management

## Legal structure

The group's legal structure is shown in the schematic. The group basically comprises a holding company – KBC Group NV – in control of three underlying companies, viz. KBC Bank, KBC Insurance and KBL EPB. Each of these companies has several subsidiaries and sub-subsidiaries, the most important of which are listed in Note 44 in the 'Consolidated financial statements' section.

**KBC Group NV**

| 100% KBC Bank NV | 100% KBC Insurance NV | 99.9% KBL EPB SA |
|---|---|---|

## Our business units

The group's management structure has been built around a number of business units, which are discussed in more detail in this annual report. The breakdown into business units is based on geographic criteria (Belgium and Central and Eastern Europe, the group's two core markets) and business criteria (either retail bancassurance or merchant banking). The Shared Services & Operations Business Unit incorporates a number of services that provide support and products to the other business units.

**Group Executive Committee**

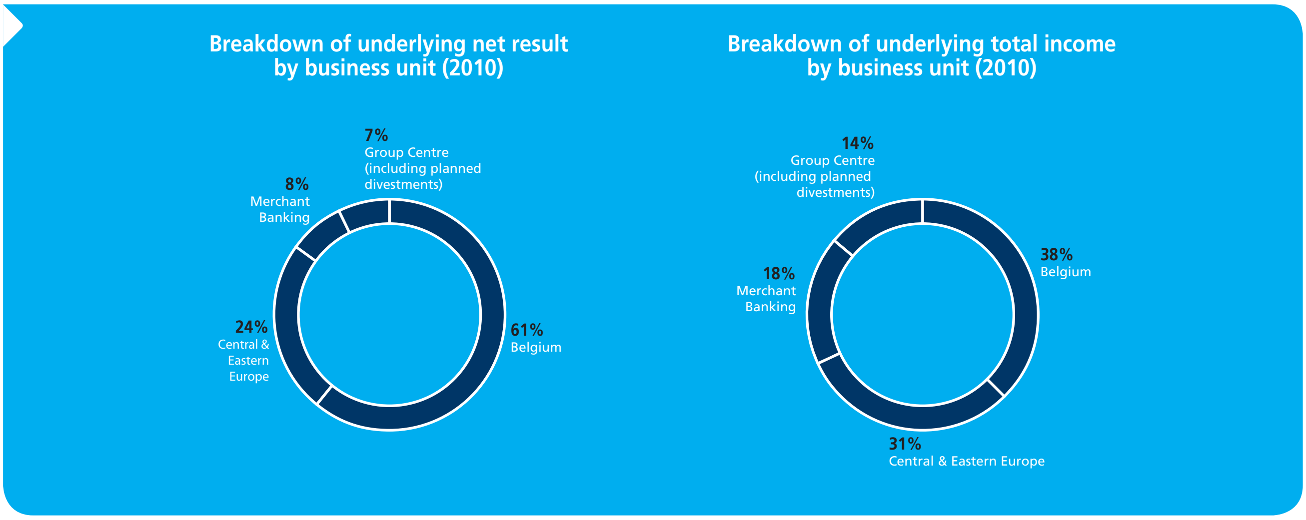
Group-level support services

| Belgium Business Unit | Central & Eastern Europe Business Unit[1] | Merchant Banking Business Unit | Shared Services & Operations Business Unit |
|---|---|---|---|
| Retail and private bancassurance in Belgium | Retail and private bancassurance and merchant banking in Central and Eastern Europe | Corporate banking and market activities in Belgium and abroad (apart from those in Central and Eastern Europe) | Services providing support and products to other business units |
| Main companies[2] | | | Main services |
| KBC Bank (retail and private banking activities), KBC Insurance, CBC Banque, KBC Asset Management, ADD, KBC Lease (retail), Assurisk, VAB | ČSOB and ČSOB Pojišťovna (Czech Republic), ČSOB and ČSOB Poisťovňa (Slovakia), K&H Bank and K&H Insurance (Hungary), Kredyt Bank and WARTA (Poland), CIBANK and DZI Insurance (Bulgaria) | KBC Bank (merchant banking activities), KBC Commercial Finance, KBC Bank Ireland, KBC Clearing, KBC Credit Investments, KBC Lease (corporate), KBC Internationale Financieringsmaatschappij, KBC Real Estate, KBC Securities | asset management, payments, consumer finance, trade finance, ICT, leasing, organisation |
| More information can be found | | | |
| in the 'Belgium Business Unit' section of this annual report | in the 'Central & Eastern Europe Business Unit' section of this annual report | in the 'Merchant Banking Business Unit' section of this annual report | in the 'Shared Services & Operations Business Unit' section of this annual report |

1 The full name of this business unit is the 'Central & Eastern Europe and Russia Business Unit'. However, for the sake of simplicity, and since the results from Russia (and some other countries) have been transferred to the Group Centre, the unit is referred to as the 'Central & Eastern Europe Business Unit' throughout this annual report.
2 Excluding the activities earmarked for sale or run-down under the strategic plan (these are listed in the sections dealing with the individual business units).
N.B.: Given the planned divestment, the former European Private Banking Business Unit is not included in the schematic.

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

The results by segment or business unit that are dealt with in this annual report are based on the business units referred to above, with two exceptions:
- No results are allocated to the Shared Services & Operations Business Unit, since all its income and expenses are passed on to the other business units and reflected in their results. Consequently, this business unit is not presented separately when the results are reported by segment.
- With effect from 2010 (and with the reference figures being restated), all the group companies earmarked for sale under the strategic plan have been combined in the Group Centre. As before, the Group Centre also includes a limited amount relating to certain head-office services and costs that cannot be allocated.



# Group Executive Committee

On 31 December 2010, the Group Executive Committee comprised seven members. It is chaired by the Group CEO. The members of the Group Executive Committee are appointed by the Board of Directors and some also sit on the Board as executive directors. More information on the management of KBC, including changes in the composition of the Group Executive Committee in 2010, can be found in the 'Corporate governance statement'.

Jan Vanhevel °1948
Doctorate in Law and Master's Degree in Notarial Sciences (Katholieke Universiteit Leuven)
Joined KBC in 1971
Group CEO and CEO of Corporate Banking Operations
in the Merchant Banking Business Unit

Danny De Raymaeker °1959
Degree in Commercial and Business-Economic Engineering (Katholieke Universiteit Leuven)
Master's Degree in Internal Auditing (Universiteit Antwerpen)
Joined KBC in 1984
Chief Operating Officer (COO)

John Hollows °1956
Master's Degree in Law and Economics (Cambridge University)
Joined KBC in 1996
Chief Risk Officer (CRO)

Luc Philips °1951
Master's Degree in Commercial and Financial Sciences (Hoger Instituut voor Bestuurs- en Handelswetenschappen, Brussels)
Joined KBC in 1971
Chief Financial Officer (CFO)

Luc Popelier °1964
Master's Degree in Applied Economic Sciences (Universiteit Antwerpen)
Joined KBC in 1988
CEO of Market Activities in the Merchant Banking Business Unit*

Johan Thijs °1965
Master's Degree in Science (Applied Mathematics) and Actuarial Sciences (Katholieke Universiteit Leuven)
Joined KBC in 1988
CEO of the Belgium Business Unit

Marko Voljč °1949
Master's Degree in Economics (Universities of Ljubljana and Belgrade)
Joined KBC in 2004
CEO of the Central & Eastern Europe Business Unit

* Luc Popelier will become Chief Financial Officer on 1 May 2011 and will be replaced by Luc Gijsens as CEO of the Merchant Banking Business Unit.

# Information for shareholders and bondholders

## Shareholders

The table shows the shareholder structure of KBC Group NV. For the core shareholders, this is the situation stated in the most recent notifications made under the transparency rules or (if more recent) disclosures made under legislation on public takeover bids. In the case of the other figures, it is 31 December 2010. No convertible bonds were in circulation at balance sheet date. Notifications of shareholdings that were received in 2010 and information on treasury shares held by group companies are listed in the 'Corporate governance statement' and 'Company annual accounts'.

| Shareholder structure on 31-12-2010 | Number of ordinary shares | % |
|---|---|---|
| KBC Ancora | 82 216 380 | 23% |
| Cera | 26 127 166 | 7% |
| MRBB | 46 289 864 | 13% |
| Other core shareholders | 39 652 997 | 11% |
| **Subtotal for core shareholders** | **194 286 407** | **54%** |
| KBC group companies | 18 171 795 | 5% |
| Free float* | 145 479 991 | 41% |
| **Total** | **357 938 193** | **100%** |

* Including BlackRock Inc. (based on the disclosure regarding the situation on 15 September 2010, this group owned 3.09% of the total number of KBC shares on that date). After year-end 2010, a new disclosure was received from BlackRock Inc. regarding the situation on 2 March 2011 (decrease to 2.99%).

## Credit ratings

The table shows the long-term and short-term credit ratings of KBC Group NV, KBC Bank NV and KBC Insurance NV on 31 December 2010. There was no change in these ratings in the course of 2010.

| Credit ratings* on 31-12-2010 | Long-term rating (+ outlook) | | Short-term rating |
|---|---|---|---|
| **Fitch** | | | |
| KBC Bank NV | A | (Stable) | F1 |
| KBC Insurance NV | A | (Stable) | – |
| KBC Group NV | A | (Stable) | F1 |
| **Moody's** | | | |
| KBC Bank NV | Aa3 | (Negative) | P-1 |
| KBC Group NV | A1 | (Negative) | P-1 |
| **Standard & Poor's** | | | |
| KBC Bank NV | A | (Stable) | A1 |
| KBC Insurance NV | A | (Stable) | – |
| KBC Group NV | A- | (Stable) | A2 |

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

## Dividend

The group suffered a net loss in 2008 and 2009 and did not pay a dividend. A gross dividend of 0.75 euros per share entitled to dividend will be proposed for financial year 2010 (payment in 2011), subject to the approval of the General Meeting of Shareholders on 28 April 2011.

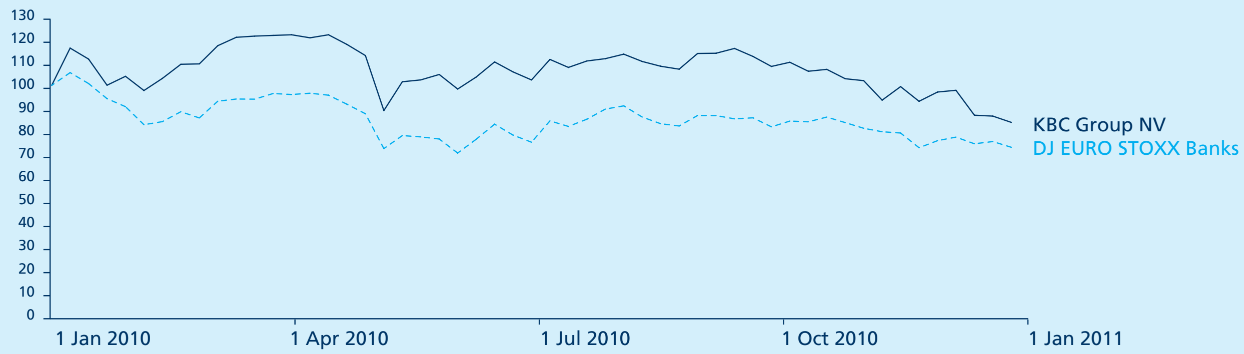
Payment of a coupon on the core-capital securities sold to the Belgian Federal and Flemish Regional governments (see 'Additional information') is related to the payment of a dividend on ordinary shares, i.e. when a dividend is paid, a coupon will also be paid. For financial year 2010, therefore, a total of 595 million euros (8.5% of 7 billion euros) will be paid in this regard (in 2011) to the relevant governments (the accounting treatment under IFRS is comparable with that for dividends).

## KBC share in 2010

Information regarding the KBC share is provided in the table. A limited number of new KBC shares were issued in 2010 as a result of a capital increase reserved for members of staff (more information can be found in the 'Company annual accounts' section). A reference to international broker analyses of our group and the KBC share is provided at www.kbc.com/Investor Relations.

| Share details | 2009 | 2010 |
|---|---|---|
| Number of shares outstanding at year-end (in '000) | 357 918 | 357 938 |
| Number of shares entitled to dividend at year-end (in '000) | 344 392 | 344 558 |
| Highest share price for the financial year (in EUR) | 39.4 | 38.0 |
| Lowest share price for the financial year (in EUR) | 5.5 | 25.5 |
| Average share price for the financial year (in EUR) | 20.9 | 32.6 |
| Closing share price for the financial year (in EUR) | 30.4 | 25.5 |
| Equity market capitalisation at year-end (in billions of EUR) | 10.9 | 9.1 |
| Average daily volume traded (millions of shares) | 1.56 | 0.74 |
| Average daily volume traded (in millions of EUR) | 31.1 | 24.2 |
| Equity per share | 28.4 | 32.8 |
| **Annual return (including dividends)** | **KBC Group NV** | **DJ EURO STOXX Banks** |
| 1 year (2009-2010) | -16% | -25% |
| 3 years (2007-2010) | -35% | -24% |
| 5 years (2005-2010) | -18% | -12% |

### KBC share price (1 January 2010 = 100, end-of-week prices)




## Financial calendar and contact details

For the most up-to-date version of the financial calendar, see www.kbc.com/Investor Relations. Information on the group's products, services and publications can be obtained from the KBC-Telecenter. Shareholders and the press can also contact KBC's Press Office and Investor Relations Office. The financial calendar and contact details can be found under 'Additional information'.

# Results in 2010

## ✓ Net interest income

Up 2% year-on-year (on an underlying basis). Improvement in net interest margin and 6% increase in volume of deposits. Decline in credit volume, attributable primarily to the deliberate run-down of international lending activities not linked to the home markets.

## ✓ Insurance

In Belgium, higher sales of non-life insurance and an excellent combined ratio, but weather conditions adversely affect this ratio in Central and Eastern Europe. Increased sales of unit-linked life insurance products offset lower sales of guaranteed-rate products.

## ✓ Net fee and commission income

Sharp recovery compared with 2009 (up 6% on an underlying basis), thanks in part to increased fee and commission income from asset management activities.

## ✓ Trading and fair value income

Vast improvement following exceptionally negative impact of value adjustments to CDOs in 2009, among other factors.

## ✓ Other income

Comprises gains realised on investment portfolios, dividend income from equity investments and other net income. Other net income negatively impacted by irregularities at KBC Lease UK.

## ✓ Expenses

Unchanged on their (underlying) level for 2009, due to ongoing cost-efficiency measures and run-down of merchant banking activities, despite the adverse effect of factors like the new bank tax in Hungary.

## ✓ Impairment

Loan impairment much lower than in 2009, thanks in part to Central and Eastern Europe, Russia and branches located abroad. However, higher provisioning in Ireland. Impairment also much lower on goodwill and on available-for-sale securities.

## ✓ Net result

On balance, net profit of 1.9 billion euros, as opposed to a net loss of 2.5 billion euros in 2009. Adjusted for exceptional items, underlying net profit of 1.7 billion euros, in line with the year-earlier figure.

## Overview of the income statement

| Consolidated income statement, KBC group (in millions of EUR) | IFRS 2009 | IFRS 2010 | Underlying result 2009 | Underlying result 2010 |
|---|---|---|---|---|
| Net interest income | 5 817 | 6 245 | 5 497 | 5 603 |
| Interest income | 11 687 | 10 542 | * | * |
| Interest expense | -5 871 | -4 297 | * | * |
| Earned premiums, insurance (before reinsurance) | 4 848 | 4 616 | 4 856 | 4 621 |
| Non-life | 1 925 | 1 916 | 1 925 | 1 916 |
| Life | 2 923 | 2 700 | 2 931 | 2 705 |
| Technical charges, insurance (before reinsurance) | -4 412 | -4 261 | -4 416 | -4 281 |
| Non-life | -1 244 | -1 249 | -1 224 | -1 249 |
| Life | -3 168 | -3 012 | -3 192 | -3 031 |
| Ceded reinsurance result | -63 | -8 | -64 | -9 |
| Dividend income | 139 | 97 | 96 | 73 |
| Net result from financial instruments at fair value through profit or loss | -3 485 | -77 | 938 | 855 |
| Net realised result from available-for-sale assets | 224 | 90 | 293 | 98 |
| Net fee and commission income | 1 132 | 1 224 | 1 569 | 1 666 |
| Fee and commission income | 2 059 | 2 156 | * | * |
| Fee and commission expense | -927 | -932 | * | * |
| Other net income | 427 | 452 | 342 | 118 |
| **Total income** | **4 625** | **8 378** | **9 111** | **8 744** |
| Operating expenses | -4 779 | -4 436 | -4 888 | -4 832 |
| Impairment | -2 725 | -1 656 | -1 913 | -1 525 |
| on loans and receivables | -1 901 | -1 483 | -1 883 | -1 481 |
| on available-for-sale assets | -326 | -31 | -16 | -34 |
| on goodwill | -483 | -88 | 0 | 0 |
| other | -14 | -54 | -15 | -10 |
| Share in results of associated companies | -25 | -63 | -22 | -61 |
| **Result before tax** | **-2 904** | **2 224** | **2 289** | **2 326** |
| Income tax expense | 256 | -82 | -507 | -587 |
| Net post-tax result from discontinued operations | 101 | -254 | 0 | 0 |
| **Result after tax** | **-2 547** | **1 888** | **1 782** | **1 739** |
| Result after tax, attributable to minority interests | -82 | 28 | 58 | 29 |
| **Result after tax, attributable to equity holders of the parent** | **-2 466** | **1 860** | **1 724** | **1 710** |
| Breakdown by business unit | | | | |
| Belgium Business Unit | 504 | 1 187 | 1 050 | 1 051 |
| Central & Eastern Europe Business Unit | -87 | 440 | 161 | 406 |
| Merchant Banking Business Unit | 411 | 172 | 300 | 133 |
| Group Centre | -3 293 | 62 | 213 | 120 |
| Return on equity | -23% | 12% | 16% | 11% |
| Cost/income ratio, banking | 104% | 56% | 55% | 56% |
| Combined ratio, non-life insurance | 101% | 100% | 101% | 100% |
| Credit cost ratio, banking | 1.11% | 0.91% | 1.11% | 0.91% |

For a definition of the ratios, see 'Glossary of ratios used'. The breakdown by business unit (and the changes to it) can be found under 'Structure and management'. The underlying results are examined in more detail in this section of the report. Certain result components for 2009 have been restated to reflect the application of IFRS 5 (see 'Additional information').

* Not available, as the analysis of these underlying result components is performed on a net basis within the group.

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

## IFRS results compared with underlying results

In addition to results prepared in accordance with IFRS as approved for use in the European Union ('results according to IFRS' in this annual report), KBC publishes results which exclude all exceptional items and in which certain items have been rearranged to provide a clearer picture of how the results from ordinary business activities are developing ('underlying results'). These results are presented in segment reporting in the consolidated financial statements and thus comply with IFRS 8. This standard specifies that IFRS principles should be deviated from if such deviation reflects the management view. That is indeed the case, as the underlying results are an important element in assessing and managing the business units. They provide an insight into the operating results, after one-off or exceptional items have been excluded. The auditor has reviewed the segment reporting presentation as part of the consolidated financial statements.

A description of the differences between the IFRS results and the underlying results is provided under 'Notes on segment reporting' in the 'Consolidated financial statements' section. Items influencing the net result that have not been included in the underlying results in 2009 and 2010 are summarised below.

| **Simplified overview of differences between IFRS results and underlying results** | **Results according to IFRS** | **Underlying results** |
|---|---|---|
| Changes in fair value of ALM hedging instruments | Under 'Net result from financial instruments at fair value' | Excluded |
| Changes in fair value of own debt instruments | Included | Excluded |
| Exceptional items (including results from actual divestments and exceptional valuation losses on financial assets – CDOs, shares, etc. – due to the financial crisis) | Included | Excluded |
| Interest on ALM hedging instruments | Under 'Net result from financial instruments at fair value' | Under 'Net interest income' |
| Income from professional trading activities | Divided up among different items | Grouped together under 'Net result from financial instruments at fair value' |
| Contribution to results from discontinued operations | Under 'Net post-tax result from discontinued operations' | Under the different result components |

| **Overview of items excluded from the underlying result** (in millions of EUR)[1] | **2009** | **2010** |
|---|---|---|
| Amounts before tax and minority interests | | |
| Changes in fair value of ALM hedging instruments | 79 | -278 |
| Gains/losses relating to CDOs | -1 849 | 564 |
| Fee for government guarantee scheme to cover CDO-related risks | -1 409 | -103 |
| Valuation losses on available-for-sale shares | -367 | 0 |
| (Reversal of) valuation losses relating to troubled US and Icelandic banks | 65 | 13 |
| Gain on repurchase of hybrid tier-1 securities | 128 | 0 |
| Impairment on goodwill and associated companies | -493 | -119 |
| Loss on legacy structured derivatives business (KBC Financial Products) | -1 078 | -260 |
| Changes in fair value of own debt instruments | 44 | 53 |
| Results on divestments[2] | 0 | -186 |
| Other | 141 | -22 |
| Taxes and minority interests relating to the above items[3] | 549 | 487 |
| **Total exceptional items** | **-4 190** | **150** |

1 These items are dealt with in more detail under 'Notes on segment reporting' in the 'Consolidated financial statements' section.

2 Also includes the write-down on goodwill of -0.3 billion euros relating to the agreement entered into in May 2010 to sell KBL EPB (in mid-March 2011, however, it was announced that the sale to the Hinduja Group will not go ahead).

3 Figure for 2010 influenced by the recognition (in 2Q 2010) of a 0.4-billion-euro deferred tax asset relating to earlier CDO losses.

## Key consolidated balance sheet, solvency and assets under management figures

| **Selected balance-sheet and solvency items and assets under management, KBC group** (in millions of EUR) | **2009** | **2010** |
|---|---|---|
| Total assets | 324 231 | 320 823 |
| Loans and advances to customers[1] | 153 230 | 150 666 |
| Securities (equity and debt instruments)[1] | 98 252 | 89 395 |
| Deposits from customers and debt securities[1] | 193 464 | 197 870 |
| Technical provisions (before reinsurance) and liabilities under investment contracts, insurance[1] | 29 951 | 29 948 |
| Risk-weighted assets | 143 359 | 132 034 |
| Total equity[2] | 17 177 | 18 674 |
| Parent shareholders' equity | 9 662 | 11 147 |
| Non-voting core-capital securities | 7 000 | 7 000 |
| Minority interests | 515 | 527 |
| Parent shareholders' equity per share (in EUR) | 28.4 | 32.8 |
| Tier-1 ratio, group (Basel II) | 10.8% | 12.6% |
| Core tier-1 ratio, group (Basel II) | 9.2% | 10.9% |
| Assets under management (in billions of EUR) | 205 | 209 |

1 In accordance with IFRS 5, the assets and liabilities of certain divestments (KBL EPB) have been reallocated to 'Non-current assets held for sale and disposal groups' and 'Liabilities associated with disposal groups' in 2010. As a consequence, certain balance sheet figures at year-end 2010 are not perfectly comparable with year-end 2009.

2 Details of movements in equity can be found under 'Consolidated statement of changes in equity' in the 'Consolidated financial statements' section. Specific information regarding capital, treasury shares held by the company, etc., can be found in the 'Company annual accounts' section.

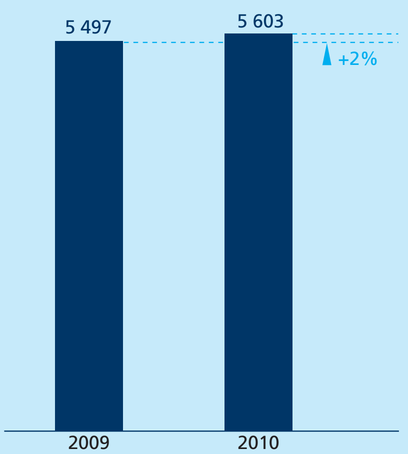
## Additional information

- The names of several headings in the income statement have been simplified compared to the annual report for 2009. A list is provided in Note 1a of the 'Consolidated financial statements' section.
- The comparison of results between 2009 and 2010 is affected by the ongoing divestment programme (discussed in more detail elsewhere in this annual report).
  - As far as the divestments concluded in 2010 are concerned (primarily Secura, KBC Peel Hunt and various activities of KBC Financial Products), the combined impact on the results for the group as a whole was approximately 0.15 billion euros on a group total net result of 1.86 billion euros. This includes mainly realised gains and losses upon sale (most of which was recognised as 'Other net income', but excluded from the underlying figures) and a minor amount that is no longer contributed to the results by the divested companies or activities.
  - Material divestments that had not been completed at year-end 2010 but which were covered by IFRS 5 relate solely to KBL EPB (including VITIS Life), which was recognised, moreover, as a discontinued operation. That means that all the relevant items (including the results relating to the sale, i.e. -0.3 billion euros) have been grouped together under 'Net post-tax result from discontinued operations' in the IFRS income statement, with the reference figure being restated for 2009 (in the underlying figures, the results for KBL EPB remain under all the relevant headings and the result from the sale itself is viewed as an exceptional item and hence excluded). Please note: it was announced in mid-March 2011 that the sale of KBL EPB to the Hinduja Group will not go ahead (see the 'Group Centre' section).
  - The balance sheet has also been affected by the divestments concluded in 2010 (i.e. they no longer appear in the balance sheet at year-end 2010) and those covered by IFRS 5 (the relevant assets and liabilities are grouped together under 'Non-current assets held for sale and disposal groups' and 'Liabilities associated with disposal groups', although the reference figures have not been restated for 2009). Note 18 of the consolidated financial statements contains figures for 2009 that have been calculated for the principal products excluding the relevant divestments (to allow for comparison with the 2010 figures).
- The overall impact on the net result of fluctuations in the exchange rates of the main non-euro currencies was very limited (in the order of +20 million euros).
- Information on financial instruments, hedge accounting and the use thereof is provided in the 'Consolidated financial statements' section (including Notes 1b, 5 and 18–29) and in the 'Value and risk management' section.

## Net interest income

Net interest income came to 6 245 million euros in 2010. On an underlying basis, the figure was 5 603 million euros, a 2% improvement on its year-earlier level. At 1.92%, the net interest margin was roughly 8 basis points higher than in 2009 (thanks in part to Central and Eastern Europe). On a comparable basis, the total volume of credit declined by 2% in the course of 2010. Implementation of the refocused strategy meant that the increase in Belgian retail credit (+5%) was offset by the ongoing deliberate reduction in international loan portfolios outside the home markets (-13% at the Merchant Banking Business Unit). The loan portfolio in Central and Eastern Europe contracted slightly (-3%), with the biggest relative decline occurring in Hungary. On a comparable basis, the total volume of deposits went up by 6%, with increases being recorded in the Belgium Business Unit, the Central & Eastern Europe Business Unit and the Merchant Banking Business Unit.

**Net interest income**
(underlying, in millions of EUR)

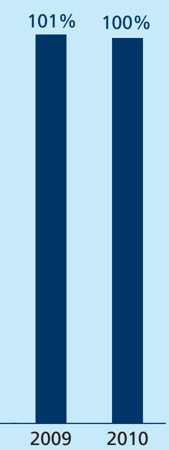



## Non-life insurance premiums

Earned premiums in non-life insurance came to 1 916 million euros in 2010, virtually on a par with the year-earlier figure. Premium income increased again in Belgium, rising by 3% (not including Secura, which was sold in 2010), whereas it fell slightly in Central and Eastern Europe. Storms and flooding in 2010 resulted in a relatively high claims burden, especially in Central and Eastern Europe, and pushed up the combined ratio for that region to 108%. The combined ratio in Belgium, by contrast, remained at an excellent 95%. As a result, the ratio for the group as a whole remained at 100% in 2010, in line with the previous year's figure.

**Earned premiums non-life insurance**
(in millions of EUR)

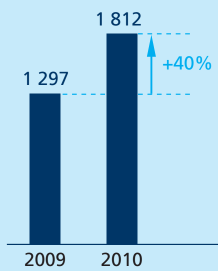

**Combined ratio non-life insurance**




## Life insurance premiums

Earned premiums in life insurance came to 2 700 million euros in 2010. In compliance with IFRS, this figure does not include certain types of life insurance (mostly unit-linked products). If the premium income from such products is included, premium income from the life insurance business totalled 4.6 billion euros, comparable with the figure for 2009. Lower sales of guaranteed-rate products were offset by higher sales of unit-linked products. Overall, products offering guaranteed rates accounted for about 61% of premium income from the life insurance business, and unit-linked products for 39%. On 31 December 2010, the group's total life reserves stood at 26 billion euros (excluding VITIS Life). The Belgium Business Unit accounted for the bulk of that figure (83%), while the Central & Eastern Europe Business Unit was good for 8% (and the Group Centre for 9%).

**Sales of unit-linked life insurance**
(in millions of EUR)

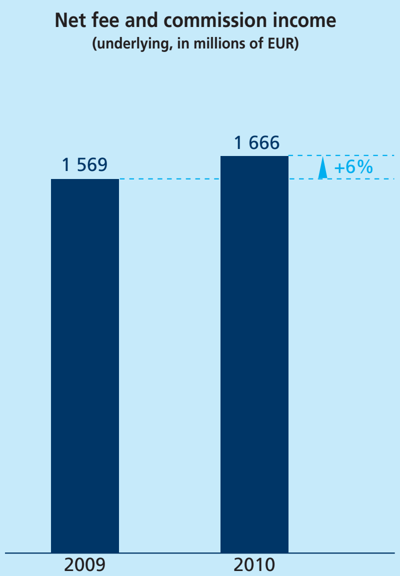



**Sales of guaranteed-rate life insurance**
(in millions of EUR)

## Net fee and commission income

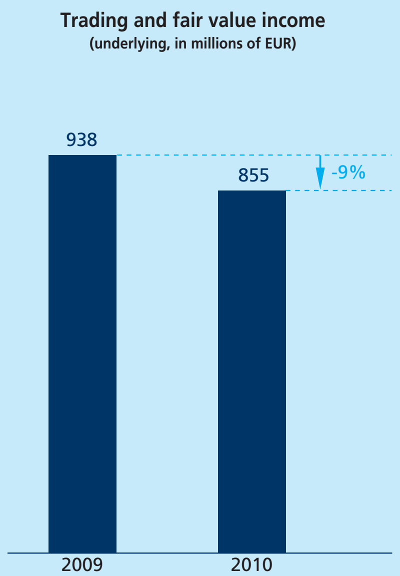
Net fee and commission income amounted to 1 224 million euros in 2010. On an underlying basis, it was 1 666 million euros, well up (+6%) on the previous year's figure. The revival in fee and commission income is attributable in part to growth in fee and commission income from asset management activities, which naturally reflected the improved investment climate.

At the end of 2010, the group's total assets under management (investment funds and assets managed for private and institutional investors) amounted to approximately 209 billion euros, which is slightly higher than the year-earlier figure. At year-end 2010, assets under management totalled 146 billion euros at the Belgium Business Unit, some 13 billion euros at the Central & Eastern Europe Business Unit, and approximately 50 billion euros at the Group Centre (i.e. primarily KBL EPB and Centea).



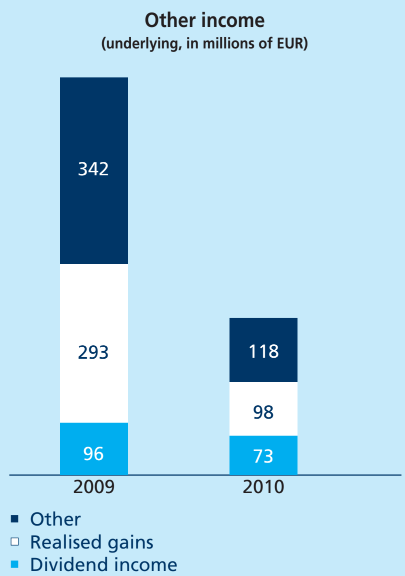

## Trading and fair value income

The net result from financial instruments at fair value through profit or loss (trading and fair value income) came to -77 million euros in 2010, compared with -3 485 million euros in 2009, when relatively high losses on the legacy structured derivatives business of KBC Financial Products and valuation markdowns on CDOs hit extremely hard. Adjustments to the value of CDOs were – on balance – positive in 2010, due mainly to the higher market price for corporate credit, though adjustments to the value of certain PIIGS sovereign bonds (used for the fair value option) did have a negative impact of around 0.3 billion euros. If this and other exceptional items are excluded from this trading and fair value income, and all trading-related income recorded under IFRS in various other income items is included, underlying trading and fair value income amounted to a positive 855 million euros in 2010.



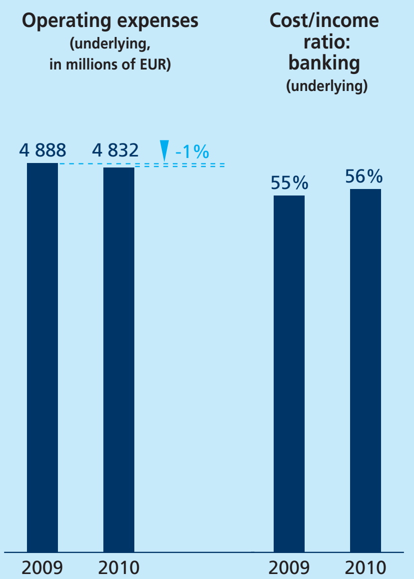

## Other income

At 73 million euros, underlying dividend income was a quarter lower than the figure for 2009. The underlying net realised result from available-for-sale assets came to 98 million euros, down on its level of the previous year, which had benefitted from sizeable gains on the sale of bonds, whereas 2010 included losses on the sale of certain PIIGS sovereign bonds. Underlying other net income amounted to 118 million euros, compared with 342 million euros in 2009. The 2010 figure was adversely affected by the recognition of 175 million euros (before tax) for irregularities at KBC Lease UK. It should be noted that the IFRS figure for 2010 (452 million euros) also included a gain of 0.2 billion euros on divestments that had been completed (excluded from the underlying figures).



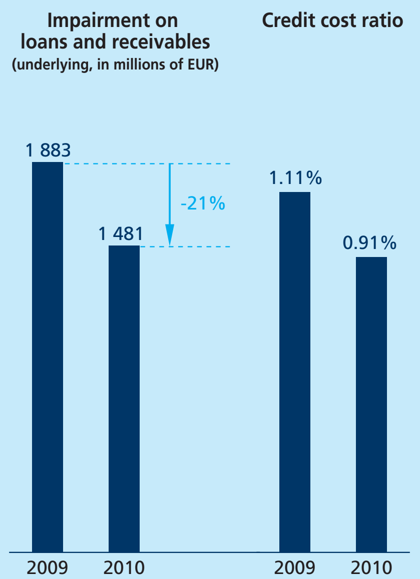
## Operating expenses

Operating expenses came to 4 436 million euros in 2010, or 4 832 million euros on an underlying basis, comparable (-1%) with the year-earlier figure, despite additional expenses relating to the new bank tax in Hungary (Central & Eastern Europe Business Unit) and the Belgian deposit protection scheme (Belgium Business Unit), while they fell in the Merchant Banking Business Unit and the Group Centre. As a result, the underlying cost/income ratio for the group's banking activities (operating expenses/total income) was 56% in 2010, in line with the previous year. Like 2009, the net expense ratio for the insurance activities (net expenses/net written premiums) was 32%.



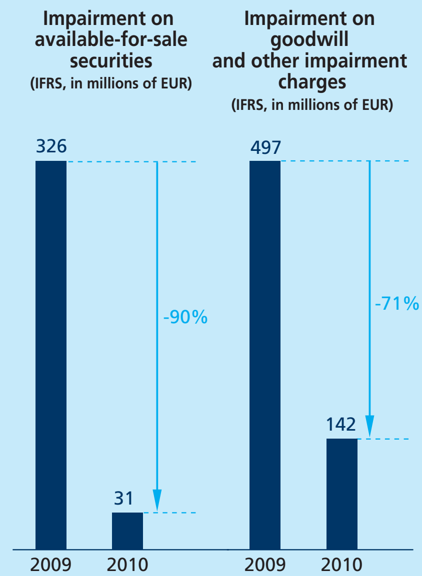

## Impairment on loans

Impairment on loans and receivables (loan loss provisions) amounted to 1.5 billion euros in 2010. Despite higher provisioning in Ireland (525 million euros in 2010, compared with 176 million euros in 2009), that was a vast improvement on the 1.9 billion euros recorded in 2009, due primarily to the fact that less provisioning was required in Central and Eastern Europe (mainly Poland and the Czech Republic) and in Russia, for the branches abroad, and for US asset-backed securities (recognised as loans and receivables). As a result, the group's credit cost ratio fell from 111 basis points in 2009 to 91 basis points in 2010 (138 basis points at the Merchant Banking Business Unit, 122 basis points at the Central & Eastern Europe Business Unit and a very favourable 15 basis points at the Belgium Business Unit). The proportion of non-performing loans in the total loan portfolio was 4.1% at year-end 2010, compared with 3.4% in 2009.




## Other impairment charges

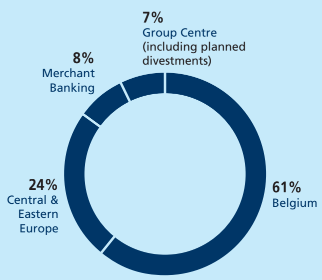
Impairment on available-for-sale assets came to 31 million euros in 2010 and relate almost entirely to valuation markdowns on shares in the investment portfolio. That is a considerable improvement on 2009. The remaining impairment charges relate largely to valuation markdowns on goodwill in relation to certain subsidiaries and associated companies (likewise much lower than in 2009). Goodwill markdowns of this kind have been eliminated from the underlying results. In compliance with IFRS 5, the write-down on goodwill relating to the agreement entered into in May 2010 for the sale of KBL EPB to the Hinduja Group (but which subsequently did not go ahead), has been recognised under 'Net post-tax result from discontinued operations' (and also excluded from the underlying figures).



## Net results per business unit

The group's net result under IFRS in 2010 breaks down as follows among its different business units: Belgium 1 187 million euros, Central & Eastern Europe 440 million euros, Merchant Banking 172 million euros and the Group Centre (which also includes the results of group companies earmarked for divestment) 62 million euros. When adjusted for exceptional items, the underlying result stood at 1 051 million euros for the Belgium Business Unit (comparable with the previous year's figure), 406 million euros for the Central & Eastern Europe Business Unit (2.5 times the 2009 figure, thanks in part to lower loan losses), 133 million euros for the Merchant Banking Business Unit (down 56% on 2009, due in part to higher loan loss provisioning in Ireland and the impact of irregularities at a group company), and 120 million euros for the Group Centre. An overview of all the items not included in the underlying results is given towards the start of this section. An analysis of the results for each business unit can be found in the relevant sections.

**Breakdown of underlying net result by business unit (2010)**

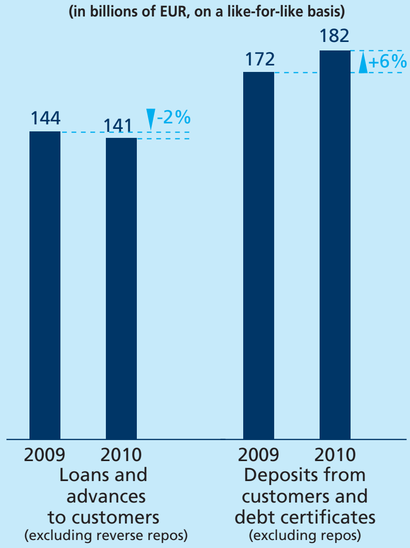



## Balance sheet and solvency

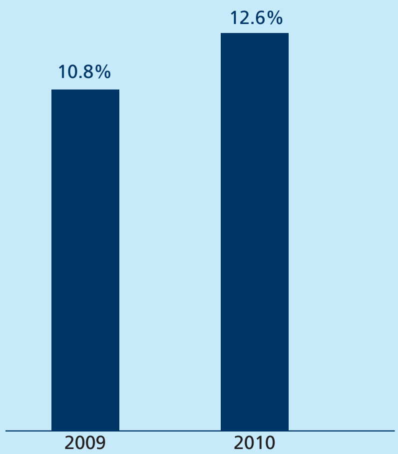
At the end of 2010, the KBC group's consolidated total assets came to 321 billion euros, down 1% year-on-year. Risk-weighted assets fell by 8% and stood at 132 billion euros on 31 December 2010, due primarily to the deliberate run-down of loan portfolios not linked to our home markets and to divestments made. As in 2009, the main products on the asset side of the balance sheet were 'Loans and advances to customers' (141 billion euros in loans at the end of 2010, not including reverse repos) and 'Securities' (89 billion euros, 96% of which were debt instruments). On a comparable basis, lending was down 2%, due mainly to the scaling back of international loan portfolios outside the home markets. In the home markets, though, it remained more or less stable (Belgium Business Unit +5%, Central & Eastern Europe Business Unit -3%). The main credit products (figures including reverse repos) were again term loans (72 billion euros) and home loans (62 billion euros, up 7% year-on-year). On a comparable basis, total cus–tomer deposits (excluding repos) rose by 6% to 182 billion euros at group level, with growth being recorded in all business units (Belgium, Central & Eastern Europe and Merchant Banking). As in 2009, the main products (figures including repos) were time deposits (59 billion euros), demand deposits (48 billion euros) and savings deposits (40 billion euros, i.e. an increase of 1.6 billion euros in 2010). Technical provisions and liabilities under the insurer's investment contracts totalled 30 billion euros at year-end 2010.

On 31 December 2010, the group's total equity came to 18.7 billion euros. This figure includes parent shareholders' equity (11.1 billion euros), minority interests (0.5 billion euros) and non-voting core-capital securities sold to the Belgian Federal and Flemish Regional governments (7 billion euros – explained in more detail under 'Additional information'). On balance, total equity grew by 1.5 billion euros in 2010, due primarily to the inclusion of net annual profit of 1.9 billion euros and the 0.4-billion-euro decrease in the revaluation reserve for available-for-sale financial assets. As a result, the group's tier-1 ratio stood at a robust 12.6% at year-end 2010. For a detailed overview of changes in equity, see the 'Consolidated statement of changes in equity' in the 'Consolidated financial statements' section.

**Loans and customer deposits**
(in billions of EUR, on a like-for-like basis)



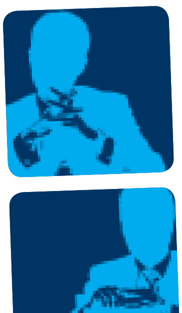

**Group tier-1 ratio (Basel II)**



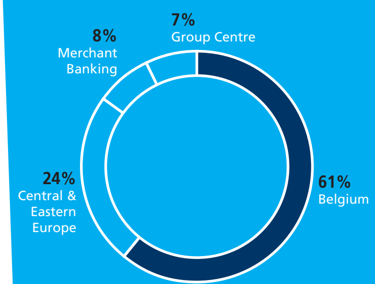
# Belgium Business Unit

- Net result of 1.2 billion euros in 2010
- Underlying net result of 1.1 billion euros, on a par with 2009
- Higher net interest income and recovery in net fee and commission income
- Increase in sales of non-life insurance and excellent combined ratio
- Favourable cost levels and persistently low loan losses
- New strategy remains focused on bancassurance via a close-knit sales network and unique bancassurance model
- Launch of programme to optimise the commercial approach for the distribution network
- Agreement entered into at the start of March 2011 for the sale of Centea

Johan Thijs,
CEO of the Belgium Business Unit



**Breakdown of underlying net result by business unit (2010)**




The Belgium Business Unit brings together all the group's retail and private bancassurance activities in Belgium. The main group companies that belonged to this unit in 2010 were ADD, CBC Banque, KBC Asset Management, KBC Bank (Belgian retail and private banking activities), KBC Insurance, KBC Lease (Belgian retail activities), Secura (since sold), Assurisk (reported under this particular business unit for the first time) and VAB Group.
Centea and Fidea, which have been earmarked for divestment under the strategic plan, also belong to this business unit, but their results have been allocated to the Group Centre (which incorporates the results of all group companies scheduled for divestment).

## Contribution to group results

| Belgium Business Unit* (in millions of EUR) | 2009 | IFRS 2010 | 2009 | Underlying 2010 |
|---|---|---|---|---|
| Net interest income | 2 375 | 2 496 | 2 144 | 2 243 |
| Earned premiums, insurance (before reinsurance) | 3 315 | 2 886 | 3 315 | 2 886 |
| Technical charges, insurance (before reinsurance) | -3 226 | -2 851 | -3 206 | -2 851 |
| Ceded reinsurance result | -44 | -11 | -44 | -11 |
| Dividend income | 66 | 50 | 62 | 50 |
| Net result from financial instruments at fair value through profit or loss | -430 | -252 | 69 | 60 |
| Net realised result from available-for-sale assets | 111 | 51 | 139 | 51 |
| Net fee and commission income | 653 | 770 | 653 | 770 |
| Other net income | 129 | 248 | 129 | 119 |
| **Total income** | **2 949** | **3 388** | **3 262** | **3 318** |
| Operating expenses | -1 899 | -1 703 | -1 700 | -1 702 |
| Impairment | -322 | -109 | -75 | -104 |
| on loans and receivables | -74 | -82 | -74 | -82 |
| on available-for-sale assets | -245 | -23 | -1 | -23 |
| on goodwill | -3 | -6 | 0 | 0 |
| other | 0 | 0 | 0 | 0 |
| Share in results of associated companies | 0 | 0 | 0 | 0 |
| **Result before tax** | **728** | **1 576** | **1 488** | **1 513** |
| Income tax expense | -242 | -384 | -433 | -457 |
| Net post-tax result from discontinued operations | 0 | 0 | 0 | 0 |
| **Result after tax** | **486** | **1 192** | **1 055** | **1 056** |
| attributable to minority interests | -18 | 5 | 5 | 5 |
| **attributable to equity holders of the parent** | **504** | **1 187** | **1 050** | **1 051** |
| Banking | 646 | 599 | 667 | 725 |
| Insurance | -143 | 588 | 383 | 326 |
| Risk-weighted assets, group (period-end) (Basel II) | 28 542 | 28 744 | 28 542 | 28 744 |
| Allocated capital (period-end) | 2 709 | 2 751 | 2 709 | 2 751 |
| Return on allocated capital | 15% | 42% | 36% | 37% |
| Cost/income ratio, banking | 63% | 59% | 57% | 55% |
| Combined ratio, non-life insurance | 97% | 95% | 97% | 95% |

* N.B.: the results of companies scheduled for divestment have been reallocated to the Group Centre (see below and elsewhere in this report) and the reference figures for 2009 have been restated accordingly. For information on how the underlying figures are calculated, see the 'Results in 2010' section and the reconciliation table below.

| **Result after tax, attributable to equity holders of the parent, reconciliation of IFRS and underlying figures** (in millions of EUR)[1] | 2009 | 2010 |
|---|---|---|
| Result after tax, attributable to equity holders of the parent (underlying) | 1 050 | 1 051 |
| Changes in fair value of ALM hedging instruments | 123 | -216 |
| Gains/losses relating to CDOs | -366 | 210 |
| Fair value of CDO guarantee and commitment fees[2] | -245 | -17 |
| Valuation losses on available-for-sale shares | -268 | 0 |
| Gain on repurchase of hybrid tier-1 securities | 22 | 0 |
| Impairment on goodwill and associated companies | -3 | -6 |
| Results on divestments | 0 | 78 |
| Other | 103 | 15 |
| Taxes and minority interests relating to the above items | 87 | 72 |
| Result after tax, attributable to equity holders of the parent (IFRS) | 504 | 1 187 |

1 A more detailed explanation can be found in the 'Consolidated financial statements' section, under 'Notes on segment reporting'.
2 For more information, see Note 5 of the 'Consolidated financial statements'.

In 2010, the Belgium Business Unit generated a net profit of 1 187 million euros, compared with 504 million euros a year earlier. Underlying net profit came to 1 051 million euros, in line with the figure for the previous year, despite higher costs related to the deposit protection scheme. As mentioned above, the results of companies scheduled for divestment have been reallocated to the Group Centre.

Net interest income totalled 2 496 million euros. On an underlying basis, it amounted to 2 243 million euros, an improvement of 5% on the year-earlier figure. Although the net interest margin for the banking activities fell by 12 basis points to 1.46%, volumes went up (loans were up by 5% – reflecting the gradual economic recovery – and deposits rose by some 8% in the space of a year). The bond portfolio of the insurance business also grew, which helped boost net interest income.

Earned insurance premiums came to 2 886 million euros, 1 885 million euros of which related to life insurance and 1 001 million euros to non-life insurance. The latter continued its steady growth of recent years (+3% in 2010, not including Secura, which was sold in the fourth quarter of 2010), recording another good technical result, as reflected in a combined ratio of 95%. Sales of life insurance – including investment contracts without a discretionary participation feature (unit-linked life insurance policies), which are excluded from the IFRS figures – ended the year at 2.6 billion euros, down 8% on 2009 (an increase in sales of unit-linked products, but a drop in sales of guaranteed-interest products). Despite falling sales, most (72%) life insurance policies sold in 2010 related to products offering guaranteed rates. At year-end 2010, the outstanding life reserves in this business unit totalled 22 billion euros, up 9% on the year-earlier figure.

Net fee and commission income amounted to 770 million euros. The recovery of fee and commission *income* (in the banking business) that began in the second quarter of 2009 continued in 2010, resulting in a significant 12% year-on-year increase, thanks primarily to rising fee and commission income from asset management activities. Assets under management edged up by 1% to 146 billion euros (excluding Centea). Fees and commission *paid* (primarily to agents in the insurance business) fell by 7% over the course of the year.

As regards the other income items, the net realised result from available-for-sale assets totalled 51 million euros (less than in 2009, which was favourably affected by gains on the sale of a bond portfolio), dividend income from equity investments amounted to 50 million euros, the net result from financial instruments at fair value through profit or loss stood at -252 million euros (or 60 million euros on an underlying basis, i.e. after, for example, including all trading-related income recognised in various income items under IFRS), while other net income came to 248 million euros (119 million euros higher than in 2009, attributable in part to the gain on the sale of Secura in 2010).

Operating expenses stood at 1 703 million euros. On an underlying basis, that is the same level as in 2009 – despite higher costs (+47 million euros) related to the deposit protection scheme – with higher variable pay and a fall in the number of staff largely offsetting each other. Consequently, the underlying cost/income ratio of the banking activities came to a good 55% (57% in 2009), while the net expense ratio for the insurance activities stood at just under 30%.

Impairment recorded on loans and receivables amounted to 82 million euros. As in 2009, this duly generated a very favourable credit cost ratio (15 basis points in 2010, virtually unchanged from the previous year). Approximately 1.5% of the Belgian retail loan portfolio was non-performing at year-end 2010, which is again comparable with the year-earlier figure. Impairment on available-for-sale assets fell from 245 million euros in 2009 (consequent mainly on the decrease in share prices in the first quarter) to 23 million euros in 2010.

## Facts and figures

| Belgium Business Unit | 2009 | 2010 | 2010 excluding Centea and Fidea |
|---|---|---|---|
| **Network** | | | |
| Retail bank branches, KBC Bank and CBC Banque[1] | 809 | 793 | 793 |
| Private banking branches, KBC Bank and CBC Banque | 26 | 26 | 26 |
| Bank agencies, Centea | 687 | 667 | – |
| Insurance agencies, KBC Insurance | 498 | 506 | 506 |
| **Assets under management** | | | |
| Total assets under management (in billions of EUR) | 146 | 148 | 146 |
| **Market share** (estimates) | | | |
| Loans | 23% | 23% | 21% |
| Deposits | 18% | 18% | 17% |
| Investment funds | 39% | 39% | 37% |
| Life insurance (guaranteed-interest and unit-linked products) | 17% | 17% | 16% |
| Non-life insurance | 10% | 10% | 8% |
| **E-payments indicators – Belgium** | | | |
| Percentage of payment transactions via electronic channels | 94% | 94% | 94% |
| Number of KBC- and CBC-Matic ATMs | 1 254 | 1 246 | 1 246 |
| Number of cash withdrawals at KBC- and CBC-Matic ATMs per month (in millions) | 4.7 | 4.7 | 4.7 |
| Active subscribers to KBC Internet and PC banking facilities | 884 000 | 992 000 | 879 000 |
| **Customer satisfaction** | | | |
| Percentage of customers surveyed who gave their KBC Bank branch a score of 'good' or 'very good' (min. 8/10) | 74% | 74% | – |
| **Loan portfolio[2]** | | | |
| Amount granted (in billions of EUR) | 57.5 | 60.1 | – |
| Share of the group's total portfolio | 29% | 31% | – |

1 Including branches catering for the social profit segment; excluding CBC's main branches (*succursales*), which are covered in the Merchant Banking Business Unit section.
2 Centea is included in the loan portfolio of the Group Centre for both 2009 and 2010.

### Macroeconomic trends in 2010 and forecasts

On the back of very robust growth in Germany, real GDP growth in Belgium reached 2.1%, twice as strong as forecast in early projections at the beginning of the year. Although the recovery in activity was driven primarily by exports, domestic demand also gained momentum in 2010, thanks in part to the surprising upturn in the labour market. The Belgian public deficit was restricted to 4.6% in 2010, below the target set by the European Stability Programme for Belgium. In 2011, KBC expects growth to be supported by a continued improvement in domestic demand, whereas exports will probably expand somewhat slower on account of the slightly less vigorous world economy. However, with GDP projected to grow at 2% in 2011, the Belgian economy will probably expand slightly faster than the European Monetary Union as a whole (1.9%).

### Strategy and Net 3.0

The strategy pursued by the Belgium Business Unit builds on success formulas from the past. The most important in this regard is the strong local responsiveness, based on the provision of relationship bancassurance products and services through a close-knit network of bank branches and insurance agencies, backed up by a complementary online channel.

The unique and successful model of co-operation between bank branches and insurance agencies in micro markets also contributes significantly to the good performance of this business unit. The model enables KBC to provide its customers with a comprehensive product offering, which is aligned to their individual needs and which also stimulates cross-selling. In 2010, for example, KBC sold a home insurance policy with roughly eight out of every ten home loans granted, and loan balance insurance in around three quarters of them. Bank branches accounted for some 80% of life insurance sales in 2010. Insurance agents were the principal sales channel for non-life insurance policies (responsible for around two-thirds of sales), with bank branches accounting for approximately one-fifth.

A programme was launched in 2010 to further optimise the commercial network in Belgium, with the goal of safeguarding KBC's position within a highly competitive and constantly changing environment. This project is known as Net 3.0 in Flanders and Brussels and will be rolled out early in 2011. With this project, KBC is making a three-fold commitment to its customers, viz. (i) providing relationship management services that are tailored to each customer; (ii) offering readily available expertise to each customer; and (iii) enhancing proximity and accessibility via a multi-channel network. New elements of the model include:

- further expansion of online services;
- longer opening hours and appointments with relationship managers outside normal working hours;
- more comprehensive relationship management for SMEs, local businesses, the self-employed and members of the liberal professions;
- the creation of KBC Corporate Insurance to provide an even better insurance service to companies above a certain size;
- a new KBC Premium Banking service for retail customers with assets invested at KBC of between 250 000 euros and 1 million euros;
- the creation of a wealth management branch within the private banking segment for clients with assets of 5 million euros or more;
- further investment in the expansion of the insurance agency network.

In Brussels and Wallonia, CBC Banque & Assurance caters for local businesses and (wealthy) clientele, focusing on personal banking for customers with assets between 75 000 euros and 500 000 euros, and on private banking for wealthy individuals with assets of over 500 000 euros.

## Sales process for Centea and Fidea

The group's strategic plan includes the divestment of certain entities as part of the focus on core activities and the generation of funds to pay back the financial support received from the government. In Belgium's case, that relates to the sale of Centea and Fidea, for which a considerable amount of preparatory work was performed in 2010. Separation was completed in the middle of the year, following which preparations began for the actual sales process. In March 2011, an agreement was reached with Crédit Agricole for the sale of Centea (additional information is provided in the 'Group Centre' section). The deal is expected to be finalised later in the year.

Secura, KBC's reinsurance company, was also sold in 2010 (see the 'Group Centre' section).

## Expansion of direct channels

The Internet also occupies an important place within the updated distribution network, functioning as a support channel with particular emphases for specific customer groups.

A series of sales applications were added to the 'www.kbc.be' website in 2010. Thousands of share and fund transactions are carried out on it every month and countless applications submitted for loans, accounts, cards and insurance. The KBC website receives over 20 million visits a month and almost 2 million unique visitors. Alongside the standard website, a mobile site (m.kbc.be) was launched in 2010, which can be accessed from a wide range of smartphones. KBC-Online was further expanded, too. Security, for instance, was further enhanced by the addition of extra protection when customers are transferring large amounts. At year-end, KBC-Online and CBC-Online had almost 900 000 active subscribers in total, another considerable increase on the previous year.

## Market shares

Despite the stock-market recovery, most customers continued to opt for low-risk investments. The volume on savings accounts rose to 40 billion euros, and customers showed a heightened interest in time deposit accounts, which grew significantly as a result. As far as investment products were concerned, customers also had little appetite for taking risks. Once again, various innovative investment funds and investment-type insurance products were launched in 2010, including KBC Safe4Life, a flexible investment-type insurance policy combined with death cover.

Within a highly competitive environment, KBC's market share (based on provisional data) remained fairly stable, coming to approximately 17% for deposits and 21% for lending (excluding Centea in each case). Its share of the insurance market came to an estimated 16% for life insurance (guaranteed-interest and unit-linked products, combined) and just over 8% for non-life insurance (excluding Fidea in both cases), an increase on 2009. As in previous years, the group recorded a very high share – an estimated 37% (excluding Centea) – of the investment fund market. Excluding Centea and Fidea, the group estimates its customer base in Belgium at around 3.4 million.

## Customer and employee satisfaction

KBC's relationship bancassurance approach was again rewarded with a high level of customer satisfaction. The most recent survey relating to the bank branches confirmed once more that customers are generally more than satisfied (95% of customers are 'satisfied', with as many as 74% describing themselves as 'very satisfied', i.e. they gave their branch a score of eight or more out of ten).

KBC also scored very well with its staff. The most recent survey found that no less than 96% of employees rated themselves as 'satisfied' and 'very satisfied', in line with the results in previous years. This solid score was confirmed by the 'Best Employer' survey conducted by Vlerick Leuven Gent Management School and the Great Place to Work® Institute, in collaboration with the recruitment publication *Vacature.* As in previous years, KBC was proclaimed one of the 'Best Employers in Belgium' in 2010.

As a major bancassurer, KBC attaches great importance not only to its relationship with customers and employees, but also to its role in society in general. This is expressed through a range of initiatives in areas like patronage and combating social deprivation and exclusion (for instance, working with the *Bonnevie* and *Foyer* neighbourhood centres), the environment, the products offered (e.g., green home loans, socially responsible investment funds) and social engagement (e.g., blood donation drives for members of staff). Further details of KBC's corporate social responsibility initiatives can be found in its dedicated *CSR Report*, available from www.kbc.com.

# Central & Eastern Europe Business Unit

**Net result of 0.4 billion euros in 2010**

**Underlying net result also 0.4 billion euros, 2.5 times the figure for 2009**

**Higher total income and more or less stable expenses, despite the impact of the new Hungarian bank tax**

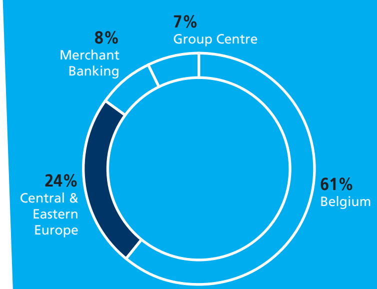
**Significant fall in loan losses**

**New strategy focused on bancassurance in selected core countries**

**Sale of activities in non-core countries when market conditions are optimal**

Marko Voljč,
CEO of the Central & Eastern Europe Business Unit

**Breakdown of underlying net result by business unit (2010)**




The Central & Eastern Europe Business Unit comprises all group activities pursued in Central and Eastern Europe. The main group companies that belonged to this unit in 2010 were CIBANK (Bulgaria), ČSOB (Slovakia), ČSOB (Czech Republic), ČSOB Poist'ovňa (Slovakia), ČSOB Pojišt'ovna (Czech Republic), DZI Insurance (Bulgaria), K&H Bank (Hungary), K&H Insurance (Hungary), Kredyt Bank (Poland), and WARTA (Poland).

Absolut Bank (Russia), KBC Banka (Serbia), NLB Vita (Slovenia) and Nova Ljubljanska banka (Slovenia, minority interest) – all earmarked for divestment under the strategic plan – also belong to this business unit, but their results are recognised under the Group Centre.

## Contribution to group results

| **Central & Eastern Europe Business Unit*** (in millions of EUR) | **2009** | **IFRS 2010** | **2009** | **Underlying 2010** |
|---|---|---|---|---|
| Net interest income | 1 595 | 1 877 | 1 656 | 1 855 |
| Earned premiums, insurance (before reinsurance) | 1 083 | 1 360 | 1 083 | 1 360 |
| Technical charges, insurance (before reinsurance) | -748 | -1 054 | -748 | -1 054 |
| Ceded reinsurance result | -25 | -9 | -25 | -9 |
| Dividend income | 9 | 3 | 9 | 3 |
| Net result from financial instruments at fair value through profit or loss | 165 | 177 | 63 | 183 |
| Net realised result from available-for-sale assets | 17 | 22 | 17 | 20 |
| Net fee and commission income | 295 | 284 | 295 | 284 |
| Other net income | 103 | 81 | 103 | 54 |
| **Total income** | **2 494** | **2 740** | **2 453** | **2 696** |
| Operating expenses | -1 535 | -1 532 | -1 477 | -1 532 |
| Impairment | -918 | -467 | -641 | -464 |
| on loans and receivables | -630 | -452 | -630 | -452 |
| on available-for-sale assets | -16 | 0 | 0 | 0 |
| on goodwill | -262 | -3 | 0 | 0 |
| other | -11 | -11 | -11 | -11 |
| Share in results of associated companies | 2 | 1 | 2 | 1 |
| **Result before tax** | **42** | **742** | **337** | **701** |
| Income tax expense | -24 | -90 | -36 | -86 |
| Net post-tax result from discontinued operations | 0 | 0 | 0 | 0 |
| **Result after tax** | **18** | **652** | **301** | **615** |
| attributable to minority interests | 105 | 212 | 140 | 210 |
| **attributable to equity holders of the parent** | **-87** | **440** | **161** | **406** |
| Banking | -81 | 408 | 93 | 376 |
| Insurance | -6 | 32 | 69 | 30 |
| Risk-weighted assets, group (period-end) (Basel II) | 34 112 | 33 288 | 34 112 | 33 288 |
| Allocated capital (period-end) | 2 890 | 2 821 | 2 890 | 2 821 |
| Return on allocated capital | -2% | 19% | 7% | 17% |
| Cost/income ratio, banking | 60% | 53% | 59% | 54% |
| Combined ratio, non-life insurance | 107% | 108% | 107% | 108% |

* N.B.: the results of companies scheduled for divestment have been reallocated to the Group Centre (see below and elsewhere in this report) and the reference figures for 2009 have been restated accordingly. For information on how the underlying figures are calculated, see the 'Results in 2010' section and the reconciliation table below.

| **Result after tax, attributable to equity holders of the parent, reconciliation of IFRS and underlying figures** (in millions of EUR)* | **2009** | **2010** |
|---|---|---|
| Result after tax, attributable to equity holders of the parent (underlying) | 161 | 406 |
| Changes in fair value of ALM hedging instruments | -21 | 14 |
| Gains/losses relating to CDOs | -14 | 30 |
| Valuation losses on available-for-sale shares | -16 | 0 |
| (Reversal of) impairment relating to troubled banks in the US and Iceland | 19 | 0 |
| Gain on repurchase of hybrid tier-1 securities | 36 | 0 |
| Impairment on goodwill and associated companies | -262 | -3 |
| Other | 21 | 0 |
| Taxes and minority interests relating to the above items | -9 | -6 |
| Result after tax, attributable to equity holders of the parent (IFRS) | -87 | 440 |

* A more detailed explanation can be found in the 'Consolidated financial statements' section, under 'Notes on segment reporting'.

In 2010, the Central & Eastern Europe Business Unit generated a net profit of 440 million euros, as opposed to a net loss of 87 million euros in 2009. The underlying net result totalled 406 million euros, roughly 2.5 times the 2009 figure.
The influence of exchange rate fluctuations has been omitted when calculating *organic* growth. As mentioned above, the results of group companies scheduled for divestment have been reallocated to the Group Centre, as have those of the minority interest in ČSOB (Czech Republic) that will be listed on the stock exchange as part of the strategic plan.

Net interest income came to 1 877 million euros in 2010. On an underlying basis, the figure was 1 855 million euros, reflecting organic growth of 7% compared with 2009. The loan portfolio for the region as a whole contracted by 3% in 2010, with the largest relative decline in Hungary (-11%). The total volume of deposits in the region went up by 3% (attributable mainly to Poland and the Czech Republic). The average interest margin was 3.23% in 2010, up 21 basis points on the year-earlier figure.

Earned insurance premiums amounted to 1 360 million euros, 568 million euros of which related to life insurance and 792 million euros to non-life insurance. Earned non-life insurance premiums were slightly lower than the previous year (-3% in organic terms), and were realised mainly in Poland (472 million euros) and the Czech Republic (154 million euros). Storms, floods and other factors in the region resulted in a relatively high combined ratio (108%) again in 2010. At 96%, the combined ratio in the Czech Republic remained below 100%, but the equivalent figures in the other countries exceeded that threshold. Earned life insurance premiums, including premiums on unit-linked life insurance (which, as required under IFRS, are not recognised under earned premiums), totalled 1 billion euros, virtually the same as in 2009 on an organic basis (premiums earned from guaranteed-interest products went down, whereas those earned from unit-linked products went up). Once again, most of the premium income from life insurance was earned in Poland (628 million euros) and in the Czech Republic (248 million euros). At year-end, outstanding life reserves stood at approximately 2 billion euros.

Net fee and commission income came to 284 million euros in 2010. While at first glance that would appear to be a year-on-year organic decline of 7%, the decrease was in fact the result of a reclassification in 2010 of the distribution fees paid to Czech Post, whereby these fees were moved from the expenses heading to 'Fees and commission *paid*' (around 35 million euros). Disregarding this reclassification, organic net fee and commission income would have gone up by roughly 5%. Assets under management in the business unit reached around 13 billion euros by the end of 2010.

As regards the other income items, the net realised result from available-for-sale assets totalled 22 million euros, dividend income amounted to 3 million euros, the net result from financial instruments at fair value through profit or loss stood at 177 million euros (the underlying figure totalled 183 million euros, a considerable improvement on 2009), while other net income came to 81 million euros.

Operating expenses amounted to 1 532 million euros. On an organic basis and excluding the aforementioned reclassification from expenses to fees and commission *paid*, that represents a small year-on-year increase, which, incidentally, was more than entirely accounted for by the new bank tax in Hungary (impact of 57 million euros). The underlying cost/income ratio for the banking activities of this business unit improved from 59% in 2009 to 54% in 2010.

Impairment on *loans and receivables* (loan loss provisions) came to 452 million euros in 2010, significantly better than the 630 million euros recorded in 2009. The decline was concentrated mainly in the Czech Republic and Poland (the 2009 figure for Poland had included a substantial amount relating to consumer credit). Provisions of 133 million euros were set aside in Hungary in the year under review. Foreign-currency mortgage loans accounted for around 14% of the business unit's total loan portfolio and were granted mainly in Poland and Hungary. The overall credit cost ratio fell from 170 basis points in 2009 to 122 basis points in 2010 (75 basis points in the Czech Republic, 96 basis points in Slovakia, 198 basis points in Hungary, 145 basis points in Poland and 200 basis points in Bulgaria). At year-end, around 5.6% of the loan portfolio in KBC's home markets in Central and Eastern Europe was non-performing, compared with 4.1% a year earlier.

Impairment on securities was negligible in 2010 (compared with 16 million euros in 2009). In 2010, 3 million euros was recorded in impairment on the value of goodwill outstanding related to the companies from this business unit, which was significantly less than the 262 million euros recognised in 2009 (relating chiefly to Bulgaria and Slovakia). Impairment on goodwill is not included in the underlying figures.

The underlying results are broken down by country in the following table. The 'Other' heading comprises mainly the funding for the goodwill on acquisitions and certain allocated overheads.

| Breakdown by country of the underlying results of the Central & Eastern Europe Business Unit | Czech Republic* | | Slovakia | | Hungary | | Poland | | Bulgaria | | Other | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (in millions of EUR) | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 |
| **Result after tax, attributable to equity holders of the parent** | **277** | **334** | **13** | **51** | **72** | **78** | **-12** | **36** | **-3** | **4** | **-185** | **-97** |
| Banking | 224 | 300 | 7 | 44 | 58 | 75 | -36 | 36 | -1 | 0 | -159 | -81 |
| Insurance | 53 | 34 | 6 | 7 | 14 | 3 | 23 | 0 | -2 | 3 | -26 | -17 |
| Risk-weighted assets, group (period-end) (Basel II) | 14 689 | 13 496 | 4 125 | 4 142 | 6 042 | 6 219 | 8 222 | 8 544 | 1 026 | 877 | – | – |
| Allocated capital (period-end) | 1 220 | 1 127 | 338 | 341 | 496 | 510 | 736 | 758 | 99 | 84 | – | – |
| Return on allocated capital | 28% | 38% | 0% | 10% | 7% | 10% | -6% | 1% | -26% | -19% | – | – |
| Cost/income ratio, banking | 45% | 44% | 69% | 57% | 55% | 57% | 65% | 59% | 69% | 69% | – | – |
| Combined ratio, non-life insurance | 93% | 96% | 96% | 106% | 85% | 111% | 115% | 111% | 112% | 109% | – | – |

* (Based on a working assumption that) 40% of the net result of ČSOB Bank has been reallocated to the Group Centre.

## Facts and figures

| Central & Eastern Europe Business Unit, 31-12-2010 | Czech Republic | Slovakia | Hungary | Poland | Bulgaria | Serbia[1] | Russia[1] |
|---|---|---|---|---|---|---|---|
| **Network** | | | | | | | |
| Group banks | ČSOB | ČSOB | K&H Bank | Kredyt Bank | CIBANK | KBC Banka | Absolut Bank |
| Group insurance companies | ČSOB Pojišťovna | ČSOB Poisťovňa | K&H Insurance | WARTA | DZI Insurance | – | – |
| Bank branches[2] | 301 | 129 | 252 | 381 | 118 | 63 | 71 |
| **Assets under management** | | | | | | | |
| Total (in billions of EUR) | 5.6 | 0.9 | 2.5 | 3.0 | – | – | – |
| **Market share** (estimate based on provisional data) | | | | | | | |
| Traditional bank products (average share of loans and deposits) | 23%[3] | 10% | 9% | 4% | 3% | >1% | <1% |
| Investment funds | 32% | 11% | 20% | 5% | – | – | – |
| Life insurance | 9% | 5% | 3% | 8% | 13% | – | – |
| Non-life insurance | 5% | 2% | 4% | 9% | 12% | – | – |
| **Loan portfolio** | | | | | | | |
| Amount granted (in billions of EUR) | 21.8 | 4.7 | 7.8 | 9.1 | 0.8 | 0.3 | 2.4 |
| Share of the group's total portfolio | 11% | 2% | 4% | 5% | 0.4% | 0.1% | 1% |

1 The results for these companies have been recognised under Group Centre, as have the results relating to the minority interest in Nova Ljubljanska banka and the participation in NLB Vita (Slovenia).

2 The group's insurance companies operate through various sales channels, including tied agents, brokers, multi-agents and the group's bank branches.

3 Includes 100% of the share of the loans and deposits market held by CMSS (55% joint venture). Taking only 55% into account, the estimated market share comes to between 20% and 21%.

## Macroeconomic trends in 2010 and forecasts

KBC's home markets in Central Europe grew by an aggregate 3% in real terms in 2010. As in Belgium, the recovery was sparked by Germany – the region's most important trading partner – with exports acting as the major driver of economic growth. Having been the only EU Member State able to avoid a recession, Poland is again expected to perform relatively strongly in 2011 and to record the highest growth (an estimated 4%). Hungary's economy is forecast to expand by around 2.7% in 2011, driven primarily by external demand. KBC projects that real GDP for its home markets combined will increase by 3.5% in 2011 (real growth in Russia, which is not one of the home markets, was roughly 4% in 2010 and is expected to be just over 4% in 2011). KBC believes that Central and Eastern Europe will continue to drive growth for the group going forward. This is based on the expectation that the region's economies will steadily converge towards the Western European level, not only in terms of GDP per capita, but also as regards the penetration of financial products.

## Strategy

As already mentioned, KBC's focus in Central and Eastern Europe is on a number of home markets (the Czech Republic, Slovakia, Hungary, Poland and Bulgaria). Group strategy in each country depends on KBC's position in that specific market. In some cases, the group positions itself among the market leaders, adopting a general, broad-based approach to the market. In others, the group aims to be more of a selective champion under its new strategy, focusing on specific customer segments, products or both.

KBC's bancassurance model is underpinned in its Central European home markets – as it is in Belgium – by close collaboration between the group's banking and insurance networks. Whereas KBC works with a network of tied agents in Belgium, the group's insurers in Central and Eastern Europe also co-operate with other distribution channels, including insurance brokers and multi-agents. Bancassurance in Central and Eastern Europe has a regional dimension, too. The staff responsible for distribution there are brought together in a structured way to supervise the implementation of local action plans.

The presence in Central and Eastern Europe is also tested against the group's efficiency targets and policy. Where it is more efficient to develop products locally, that is what will happen. Where central product development makes more sense, it will be done by group-wide product developers. The product developers will make individual, clear and result-oriented agreements with the distributors (bank branches, insurance agencies, etc.).

## Planned divestments

As part of its refocused strategy, the group has decided to sell its holdings in Serbia (KBC Banka), Russia (Absolut Bank) and Slovenia (NLB Vita and a minority interest in Nova Ljubljanska banka) when the best possible market conditions arise. The group also plans to sell Żagiel in Poland (consumer credit via a specialist model).
As part of the strategic plan, a public offering is planned in Prague, meanwhile, for a minority interest in ČSOB – KBC's Czech banking subsidiary – in order to raise additional capital for the future redemption of the core-capital securities sold to the Belgian Federal and Flemish Regional governments. Detailed preparations for this IPO were made in 2010.
Under the new strategy, the group will not make any significant acquisitions in the region in the years ahead. That said, however, KBC's interest in Bulgaria's CIBANK was increased to 100% in 2010, due to the agreement with the minority shareholder, who exercised the put option agreed with KBC some years ago. The transaction had no material impact on the group's capital position.

## Market shares

KBC's share of the market for loans and deposits (average of the two) remained largely unchanged in 2010 (approximately 23% in the Czech Republic (including CMSS' share at 100%), 10% in Slovakia, 9% in Hungary, 4% in Poland and 3% in Bulgaria). Its market share in Serbia and Russia is limited (see table).

As in Belgium, the share of the market in investment funds is greater than that of the market in traditional deposit products. At year-end 2010, the share of the market in investment funds was estimated at 32% in the Czech Republic, at 11% in Slovakia, at 20% in Hungary, and at 5% in Poland. The group's total assets under management in the region stood at 13 billion euros at the end of 2010. The respective shares of the life insurance and non-life insurance markets were an estimated 9% and 5% in the Czech Republic, 5% and 2% in Slovakia, 3% and 4% in Hungary, 8% and 9% in Poland and 13% and 12% in Bulgaria.

Account taken of customers shared by the group's banks and insurers in each country, KBC estimates the total number of customers in Central and Eastern Europe at around 8 million (excluding Russia and Serbia).

## Corporate social responsibility and awards

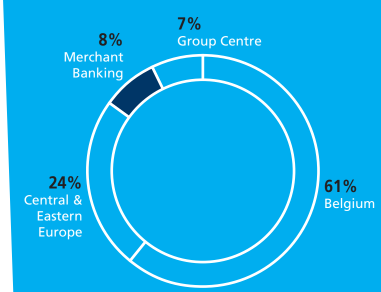
As a major financial player in Central and Eastern Europe, KBC sets great store – as it does in Belgium – by the role it plays in society. The new K&H head office in Budapest (operational end 2011), in which green technology and sustainability were important considerations, is a good example of an initiative showing KBC's ecological commitment. Examples of social involvement, meanwhile, include the option of extending repayment terms for consumer credit and other actions to help the victims of the red mud disaster in Hungary, as well as the installation of ATMs with facilities for visually impaired customers in the Czech Republic. Further details of KBC's corporate social responsibility initiatives can be found in its dedicated CSR Report, available from www.kbc.com.

As in previous years, various group companies won a range of prestigious international prizes in 2010. For instance, several Central European group companies were among the winners once again when *Global Finance* magazine announced its annual 'Best Bank' awards. ČSOB was named 'Best Bank', 'Best Trade Finance Bank', 'Best Foreign Exchange Provider' and 'Best Sub-Custodian Bank' in the Czech Republic. K&H Bank and ČSOB Slovakia also picked up *Global Finance* awards. In Bulgaria, DZI Insurance won the 'Accurate insurer in general insurance' prize from the Bulgarian Association of People Insured and Victims in Car Accidents (BAZK). The award recognises insurance companies that prove themselves to be fair, open and loyal to their customers.

# Merchant Banking Business Unit

- Net result of 172 million euros in 2010, or 133 million euros on an underlying basis
- Fairly stable interest, commission and trading-related income (combined), but fall in other net income on account of irregularities at KBC Lease UK
- Decrease in expenses
- Impairment charges lower, including in the foreign branches, but higher in Ireland
- New strategic focus on corporate banking and market activities for customers with a relationship with KBC's home markets
- Good progress in run-down of international loan portfolios and various investment banking activities outside the core markets already sold

**Breakdown of underlying net result by business unit (2010)**




Luc Popelier,
CEO of the Merchant Banking Business Unit (Market Activities)

The Merchant Banking Business Unit comprises corporate banking (the services provided to larger SME and corporate customers) and market activities in Belgium and abroad (apart from those in Central and Eastern Europe). The main group companies belonging to this business unit in 2010 were KBC Bank (merchant banking activities and foreign branch network), KBC Commercial Finance, KBC Bank Ireland, KBC Clearing, KBC Credit Investments, KBC Lease (corporate), KBC Internationale Financieringsmaatschappij, KBC Real Estate, KBC Private Equity (where various participations have already been sold as part of the strategic plan) and KBC Securities. Antwerp Diamond Bank, KBC Bank Deutschland, KBC Finance Ireland (global trade and project finance), KBC Financial Products (various activities already sold), KBC Peel Hunt (already sold) – which have been earmarked for divestment under the strategic plan – also belong to this business unit, but their results have been allocated to the Group Centre (which incorporates the results of all group companies scheduled for divestment).

## Contribution to group results

| Merchant Banking Business Unit* (in millions of EUR) | IFRS<br>2009 | <br>2010 | Underlying<br>2009 | <br>2010 |
|---|---|---|---|---|
| Net interest income | 1 498 | 1 428 | 829 | 836 |
| Earned premiums, insurance (before reinsurance) | 0 | 0 | 0 | 0 |
| Technical charges, insurance (before reinsurance) | 0 | 0 | 0 | 0 |
| Ceded reinsurance result | 0 | 0 | 0 | 0 |
| Dividend income | 24 | 21 | 10 | 6 |
| Net result from financial instruments at fair value through profit or loss | 3 | -21 | 549 | 539 |
| Net realised result from available-for-sale assets | 73 | 7 | 57 | 3 |
| Net fee and commission income | 200 | 206 | 201 | 225 |
| Other net income | 82 | -15 | 133 | -70 |
| **Total income** | **1 881** | **1 626** | **1 779** | **1 540** |
| Operating expenses | -676 | -580 | -594 | -576 |
| Impairment | -810 | -823 | -814 | -796 |
| on loans and receivables | -786 | -789 | -812 | -789 |
| on available-for-sale assets | -1 | -7 | 0 | -7 |
| on goodwill | -22 | -27 | 0 | 0 |
| other | -1 | 1 | -1 | 1 |
| Share in results of associated companies | 0 | 0 | 0 | 0 |
| **Result before tax** | **395** | **223** | **371** | **168** |
| Income tax expense | 15 | -35 | -3 | -19 |
| Net post-tax result from discontinued operations | 0 | 0 | 0 | 0 |
| **Result after tax** | **410** | **188** | **368** | **149** |
| attributable to minority interests | -1 | 16 | 69 | 16 |
| **attributable to equity holders of the parent** | **411** | **172** | **300** | **133** |
| Banking | 410 | 166 | 299 | 127 |
| Insurance | 1 | 6 | 1 | 6 |
| Risk-weighted assets, group (period-end) (Basel II) | 53 597 | 47 317 | 53 597 | 47 317 |
| Allocated capital (period-end) | 4 288 | 3 785 | 4 288 | 3 785 |
| Return on allocated capital | 9% | 4% | 8% | 3% |
| Cost/income ratio, banking | 36% | 36% | 33% | 37% |

* N.B.: the results of companies scheduled for divestment have been reallocated to the Group Centre (see below and elsewhere in this report) and the reference figures for 2009 have been restated accordingly. For information on how the underlying figures are calculated, see the 'Results in 2010' section and the reconciliation table below.

| **Result after tax, attributable to equity holders of the parent, reconciliation of IFRS and underlying figures** (in millions of EUR)* | 2009 | 2010 |
|---|---|---|
| Result after tax, attributable to equity holders of the parent (underlying) | 300 | 133 |
| Changes in fair value of ALM hedging instruments | -27 | -40 |
| Gains/losses relating to CDOs | 90 | 154 |
| Valuation losses on available-for-sale shares | -1 | 0 |
| (Reversal of) impairment relating to troubled banks in the US and Iceland | 41 | 13 |
| Gain on repurchase of hybrid tier-1 securities | 70 | 0 |
| Impairment on goodwill and associated companies | -22 | -27 |
| Results on divestments | 0 | -9 |
| Other | -17 | -37 |
| Taxes and minority interests relating to the above items | -23 | -16 |
| Result after tax, attributable to equity holders of the parent (IFRS) | 411 | 172 |

* A more detailed explanation can be found in the 'Consolidated financial statements' section, under 'Notes on segment reporting'.

In 2010, the Merchant Banking Business Unit generated a net profit of 172 million euros, compared with 411 million euros a year earlier. Underlying net profit came to 133 million euros, compared with 300 million euros in 2009. As already mentioned, the results of group companies scheduled for divestment under the strategic plan have been reallocated to the Group Centre.

Total income amounted to 1 626 million euros. On an underlying basis, it came to 1 540 million euros, down 13% on the figure for 2009.

At 836 million euros, underlying net interest income remained more or less the same as a year earlier. The 13% decline in the size of the loan portfolio at this business unit in 2010 reflects the group's strategy of refocusing on its home markets, which resulted in a contraction in the international loan portfolios not related to those markets. The net result from financial instruments at fair value through profit or loss came to -21 million euros. After including all trading-relating income – which is recognised in various income items under IFRS – and excluding exceptional items, the underlying trading result stood at 539 million euros, 2% less than in 2009. At 206 million euros, underlying net fee and provision income went up by 12%.
As regards the other income items, the net result from available-for-sale assets came to 7 million euros (significantly less than the year-earlier figure, which was boosted by gains on the sale of a bond portfolio), dividend income totalled 21 million euros and other net income amounted to -15 million euros (considerably lower than in 2009, due in part to the recognition of 175 million euros for irregularities at KBC Lease UK).

Operating expenses at this business unit came to 580 million euros, down 3% year-on-year on an underlying basis. The underlying cost/income ratio ended the year at 37%, compared with 33% in 2009.

Impairment recorded on *loans and receivables* amounted to 789 million euros in 2010, virtually the same as the year-earlier figure. The 2010 figure was the result of an increase in provisioning for the Irish loan portfolio (525 million euros set aside in 2010) and a decrease for the loan portfolios of the branches abroad and for US asset backed securities. The credit cost ratio rose from 119 basis points in 2009 to 138 basis points in 2010 (67 basis points excluding Ireland). At year-end, around 5.2% of the business unit's loan portfolio was non-performing, compared with 3.9% recorded a year earlier. Detailed information on Ireland can be found elsewhere in this section.

At 33 million euros, the remaining impairment was again relatively limited (24 million euros in 2009) and related chiefly to write-downs on goodwill.

The Merchant Banking Business Unit encompasses corporate banking (the services provided to SMEs and larger companies), which accounted for -149 million euros of the business unit's underlying net result in 2010, and market activities (e.g., currency dealing, securities trading and corporate finance), which generated an underlying net result of 281 million euros.

| **Breakdown by activity of the underlying results of the Merchant Banking Business Unit** (in millions of EUR) | **Corporate banking** | | **Market activities** | |
|---|---|---|---|---|
| | **2009** | **2010** | **2009** | **2010** |
| **Result after tax, attributable to equity holders of the parent** | **192** | **-149** | **108** | **281** |
| Banking | 191 | -155 | 108 | 281 |
| Insurance | 1 | 6 | 0 | 0 |
| Risk-weighted assets, group (period-end) (Basel II) | 40 215 | 32 993 | 13 382 | 14 324 |
| Allocated capital (period-end) | 3 217 | 2 639 | 1 071 | 1 146 |
| Return on allocated capital | 6% | -6% | 15% | 26% |
| Cost/income ratio, banking | 31% | 39% | 37% | 35% |

## Facts and figures

| Merchant Banking Business Unit | 2009 | 2010 |
|---|---|---|
| **Network** | | |
| Corporate branches in Belgium, including CBC Banque *succursales* | 26 | 26 |
| Bank branches outside the home markets[1], including representative offices | 32 | 28 |
| **Market share (estimates)** | | |
| Corporate lending (Belgium) | 24% | 25% |
| **Loan portfolio[2]** | | |
| Amount granted (in billions of EUR) | 78.9 | 69.1 |
| Share of the total portfolio | 39% | 36% |

1 For the corporate branches of KBC Bank NV, KBC Bank Deutschland and KBC Bank Ireland.

2 The loan portfolios of companies earmarked for divestment are included in the loan portfolio of the Group Centre.

### Strategy

Under the new strategy, the Merchant Banking Business Unit will concentrate on corporate banking (lending, cash management, payments, trade finance, leasing, etc.) and market activities (treasury services, capital market products, stockbroking, corporate finance, etc.) for customers linked to KBC's home markets in Belgium and Central and Eastern Europe. Activities with other professional or institutional counterparties will depend in future on the degree to which they support the group's core activities.

This focus means that much of the merchant banking activities that are not related to the home markets will be scaled back. The activities to be discontinued or run down represent some 23 billion euros' worth of risk-weighted assets (calculated on the position at year-end 2008).

Various activities were already sold in 2010 (e.g., the Global Convertible Bonds and Asian Equity Derivatives businesses, KBC Peel Hunt and KBC Business Capital). The results of the companies to be divested have been transferred to the results for the Group Centre. More information on the divestments completed in 2010 can be found in the 'Group Centre' section.
A number of activities at foreign branches have also been run down. The loan portfolio of those branches is located primarily in Western Europe (excluding Belgium), the US and Southeast Asia, and a substantial proportion of that relates to purely local foreign corporate clients or niche activities, which have no natural link with KBC's customer base in its core markets. Loans of this kind will be terminated when they mature or, where possible, sold before then. The group had made good progress by year-end 2010 with the run-down of this international loan portfolio, and that has helped reduce the risk-weighted assets of the corporate banking activities by some 7 billion euros in the space of a year.
A number of foreign branches were also closed in 2010. The intention here, too, is to adapt the network of branches abroad in such a way that KBC can provide optimum support to its customers and operations in its home markets.

### Activities

If the higher loan provisions for Ireland and the impact of irregularities at KBC Lease UK are disregarded, the merchant banking business performed relatively well in 2010.

The dealing rooms in Belgium and elsewhere put in a good performance, though they fell short of the exceptional results achieved in 2009. Excluding exceptional items, KBC Securities generated slightly less income on account of lower transaction volumes in Hungary, lower trading results and pressure on margins in general. However, its retail customer base continued to expand in all the core countries where an online trading platform is offered (Bolero in Belgium, Equitas in Hungary and Patria Direct in the Czech Republic). The corporate finance teams turned in very strong performances in Belgium and the Czech Republic, and professional services offered to third parties were further expanded. In Belgium, institutional brokerage continued to strengthen its position and KBC Securities was named 'First Brokerage House for Cash Markets' by Euronext Brussels.

Corporate banking operations in Belgium did equally well, underpinned by higher fee income and cost control. Thanks in part to significantly lower loan losses and despite continuing to be run down, loan portfolios abroad also generated solid results. The situation in Ireland is discussed under a separate heading below.

## Ireland

The international portfolio also includes an Irish loan portfolio of around 17 billion euros at KBC Bank Ireland. Most of this portfolio (approximately 75%) relates to mortgage loans, 13% are SME and business loans and the remainder (11%) are loans related to real estate investment and development. At the end of 2010, around 10% of the total Irish loan portfolio was non-performing. In the year under review, the group set aside 0.5 billion euros, on balance, in additional provisions for this portfolio, which equates to a credit cost ratio of 298 basis points. Consequently, the cover ratio for the Irish portfolio was 42% at year-end 2010 (all provisions relative to the non-performing loan portfolio). The increase in provisioning naturally reflects the difficult economic situation in Ireland.

Although Ireland does not belong to the group's core geographic territory, no decision has been made in the group's strategic plan regarding the activities of KBC Bank Ireland, again because of the difficult economic climate in that country.

# Shared Services & Operations Business Unit

- Continued focus on core markets, in line with the new group strategy
- Constant service improvement through synergies and sharing of best practices
- Optimisation of product offering through agreements between product providers and the distribution network
- Enhanced efficiency through process-improvement initiatives

This business unit provides support to and serves as a product provider for the other business units. It encompasses a number of divisions that provide products and services to the entire group.

The main divisions belonging to this unit in 2010 were Asset Management, Payments, Consumer Finance, Trade Finance, ICT, Leasing and Organisation.

Danny De Raymaeker, CEO of the Shared Services & Operations Business Unit

## Contribution to group results

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

## Facts and figures

| Shared Services & Operations Business Unit | 2009 | 2010 |
|---|---|---|
| **Asset Management** | | |
| Assets managed in Belgium (including Centea, but excluding KBL EPB group companies; in billions of EUR) | 146 | 148 |
| Assets managed in Central and Eastern Europe (in billions of EUR) | 12 | 13 |
| Estimated share of the investment fund market | | |
| Belgium | 39% | 39% |
| Czech Republic | 34% | 32% |
| Slovakia | 13% | 11% |
| Hungary | 20% | 20% |
| Poland | 5% | 5% |
| **Payments** (in millions) | | |
| Number of payment transactions* in Belgium | 514 | 534 |
| Number of payment transactions* in Central and Eastern Europe (Czech Republic, Slovakia, Hungary and Poland) | 522 | 535 |
| **Leasing** | | |
| Capital outstanding under leasing contracts in Belgium (in billions of EUR) | 2.9 | 3.0 |
| Capital outstanding under leasing contracts in Central and Eastern Europe (Czech Republic, Slovakia, Hungary, Poland and Romania; in billions of EUR) | 2.3 | 2.0 |
| Capital outstanding under leasing contracts in the rest of the world (Western Europe excluding Belgium; in billions of EUR) | 1.3 | 0.8 |
| Estimated share of the leasing market | | |
| Belgium (general leasing, car leasing) | 22%, 12% | 21%,12% |
| Czech Republic | 10% | 11% |
| Slovakia | 13% | 16% |
| Hungary | 3% | 4% |
| Poland | 1% | 1% |

* Card and cash transactions, domestic and cross-border transfers, and international cash management. Calculation base has been slightly modified.

The mission of the Shared Services & Operations Business Unit is to provide its internal customers (e.g., the group's distribution channels) with quality service at a competitive price. Consequently, several initiatives are being taken to improve efficiency and reduce costs. To help achieve this goal, the 'Lean' project was launched in 2010 and implemented as a pilot project in a number of divisions. The aim is to roll this project out in all the divisions of the business unit by the end of 2012.

### Payments

As was the case in 2009, further measures were taken in relation to the Single Euro Payments Area (SEPA) with the launch of the SEPA Direct Debit in Belgium and Slovakia. ATMs in Poland were made EMV-smart (Europay, MasterCard, Visa). The Payments Division also began work on the integration of activities in Bulgaria, drawing on best practices from the group's other home markets. The division's integrated and group-wide approach also ensures that the best service possible is provided at all times in all the relevant countries, and that cross-border synergies and collaboration are achieved. Examples in this area include the connection of the Central European group companies to a central SWIFT hub and developments relating to the connection of the Czech Republic and Slovakia to the group platform for cross-border payments. The priority for the Payments Division in the years ahead will be to further consolidate all SEPA payment products on group platforms, to develop a high-performance organisation through efficient process improvement proposals and – in implementation of the new group strategy – to conclude co-operation agreements with the sales network, with a view to offering the right products even more effectively in each market.

## Trade Finance

The first integrated modules of the new group-wide processing platform for trade finance were successfully rolled out in 2010, and plans are in place to connect all trade finance divisions in the Central European home markets in 2011. Customers' pursuit of greater security and their rediscovery of traditional trade finance products (documentary credit) and financing products (forfaiting) meant that the revival of the world economy resulted in a record year in terms of the number of processed trade transactions and volumes. That also naturally reflected the approach adopted by this division, which combines an intense customer focus with rapid and accurate processing of import and export transactions. For its approach to trade finance, KBC was again rewarded with the accolade of 'Best Trade Finance Bank' by *Global Finance* magazine for its operations in Belgium (KBC Bank), the Czech Republic (ČSOB) and Hungary (K&H Bank).

## Asset Management

In 2010, KBC Asset Management focused its investment strategy on the gradual economic recovery in the West and on the strong growth of emerging markets, and devoted particular attention to building safety mechanisms into portfolios. The most popular products were those that monitor the floor (by placing a lower limit under the capital to reduce potential losses). On the institutional market, new mandates were concluded with pension and reserve funds and other mandates renewed by a tender process. KBC Asset Management's institutional index funds are an especially competitive product. In addition, more and more institutional players are demanding the socially responsible screening of their investments, a field to which KBC Asset Management is strongly committed and in which it occupies an important position.

The strategy pursued by KBC Asset Management is wholly aligned with that of the KBC group, which means that the focus is on Belgium and Central Europe. In Belgium, KBC remained far and away the leader for fund sales, with a market share of approximately 39% in 2010. In Central and Eastern Europe, too, the group is in a strong position as regards its asset management activities (see table). In addition to these core markets, KBC Asset Management is present in a number of emerging markets. In this regard, it joined forces with Union Bank of India and opened Union KBC Asset Management in India at the end of March 2010. The presence elsewhere in the world is being scaled back in accordance with the KBC group's refocused strategy, as illustrated by the agreement concluded in June for the sale of KBC Asset Management's British and Irish activities.

## Leasing

The KBC Lease Group provides financial and operating leasing solutions and full-service leasing for cars through a number of channels. As is the case for other group companies, the activities and strategy of the KBC Lease Group were further adjusted in line with and embedded in the new KBC group strategy. This entails a clear refocusing on the group's core customers and core segments in Belgium and in Central and Eastern Europe, and the run-down of activities elsewhere. The fine-tuning of the business model has already generated good results, especially in Belgium, the Czech Republic and also in Slovakia, where the share of the market rose from around 13% to 16%.

Internal audits at KBC Lease UK in the fourth quarter revealed irregularities in certain contracts it had concluded with third parties. The necessary amounts were recognised to cover the maximum potential net cost of these irregularities. KBC has taken certain preventive legal measures that it deems necessary to protect its interests and to recover as much of this amount as possible. It has also submitted an insurance claim aimed at recovering the amount at risk.

## Consumer Finance

The focus in terms of consumer finance is on selling products via the group's banking channels. With this in mind, the intention is to sell Żagiel, the consumer finance specialist in Poland (the business will be continued and developed, with the aim of making it more attractive to potential buyers). The group's new geographical focus has also resulted in a decision to cease consumer finance activities in Romania and only to manage the existing portfolio there.

Despite the after-effects of the crisis, the group's consumer finance operations turned in a good performance in 2010, due in part to reasonable volume growth, combined with effective cost and risk control. An exceptional amount of attention was also devoted – as it was at the business unit's other divisions – to achieving synergies and spreading best practices throughout all markets. One example was the introduction in the Czech Republic of the popular 'credit card with extended warranty' that had been launched in Belgium. Similar launches are also planned in due course in Slovakia, Poland and Hungary.

## Organisation

Organisation, in collaboration with the other group divisions involved, concentrated in 2010 on drawing up and executing the group's new strategy. In practice, this entailed active involvement in the preparation of a new model for the retail and private bancassurance network in Belgium, the definition of a new branch model, and support for the further integration into the group of the Central European entities. As in previous years, the division also played a leading role in improving the service provided to internal and external customers by enhancing processes, strengthening customer focus, supporting synergy projects and establishing a culture of sustainable quality service provision.

## ICT

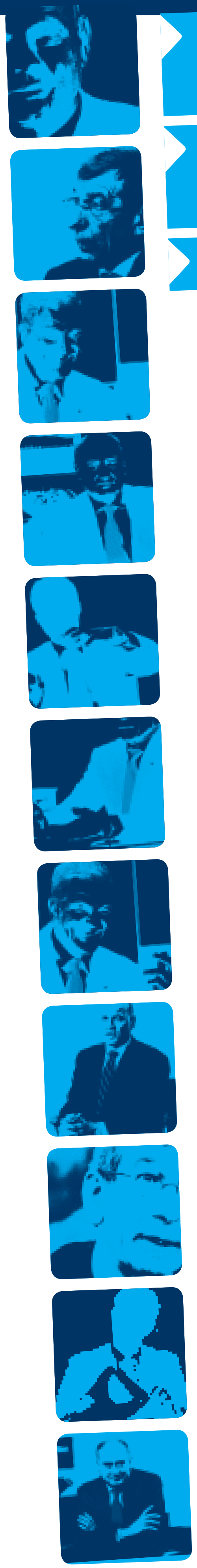
ICT, too, is a key player in the group's new strategy, particularly in terms of its contribution to achieving optimum efficiency. A number of major optimisation projects were launched once again in 2010, including a project to update the banking platforms in the Czech Republic and Poland and the new Synergy Insurance System (for the sale and post-processing of insurance contracts and claims) for insurance agents in Belgium, which will also be introduced in Poland in 2011. In Hungary, the construction of new twin data centres in the Budapest area was completed (with the aim of centralising ICT processing for all the group's Central and Eastern European companies there, rather than at various centres in each country) and the programme to standardise work stations was launched at CEE group companies.

## Research & Development

New products and services are constantly being developed within the group in order to match the range offered as closely as possible with market demand. Most departments have their own product development units, and any products and services developed must be approved by one of the committees established for that purpose. A project has been launched to optimise and harmonise the approval process for new and updated products and services within the group. Products and services that no longer meet current market needs are also regularly examined and adapted or even scrapped, where necessary.

Various examples of new product developments in 2010 are provided in this annual report, such as the new mobile site, new investment funds and investment-type insurance (e.g., KBC Safe4Life), and new processing systems (Synergy Insurance System). New products and services are often developed in tandem with new software. Details of software developed in-house can be found in Note 34 of the 'Consolidated financial statements'.

# Group Centre

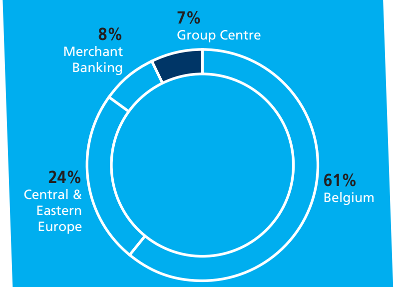


**Net result of 62 million euros in 2010; underlying net figure of 120 million euros**

**Companies earmarked for sale account for 206 million euros of the underlying result in 2010**

**Various divestments already completed in 2010**

Breakdown of underlying net result by business unit (2010)




The Group Centre includes the results of the holding company, KBC Group NV, a small portion (not attributable to the other business units) of the results of the subsidiaries, KBC Bank NV, KBC Global Services NV and KBC Insurance NV, and elimination of intersegment transactions. With effect from this annual report, the Group Centre also contains the results of companies designated for divestment under the strategic plan. The most important of these are Centea, Fidea, Absolut Bank, KBC Banka, NLB Vita and the minority interest in Nova Ljubljanska banka, Żagiel, KBC Financial Products, KBC Peel Hunt, KBC Finance Ireland (global trade and project finance business lines), Antwerp Diamond Bank, KBC Bank Deutschland and KBL EPB (including VITIS Life). Sale agreements were reached or completed for several of these divestments in 2010.

## Contribution to group results

| Group Centre* (in millions of EUR) | IFRS 2009 | IFRS 2010 | Underlying 2009 | Underlying 2010 |
|---|---|---|---|---|
| Net interest income | 348 | 444 | 868 | 668 |
| Earned premiums, insurance (before reinsurance) | 449 | 370 | 458 | 374 |
| Technical charges, insurance (before reinsurance) | -438 | -356 | -462 | -376 |
| Ceded reinsurance result | 6 | 11 | 6 | 11 |
| Dividend income | 39 | 24 | 15 | 14 |
| Net result from financial instruments at fair value through profit or loss | -3 223 | 20 | 257 | 72 |
| Net realised result from available-for-sale assets | 23 | 10 | 80 | 23 |
| Net fee and commission income | -17 | -36 | 419 | 387 |
| Other net income | 113 | 138 | -23 | 15 |
| **Total income** | **-2 700** | **624** | **1 617** | **1 190** |
| Operating expenses | -669 | -620 | -1 117 | -1 022 |
| Impairment | -675 | -257 | -383 | -162 |
| on loans and receivables | -412 | -160 | -367 | -158 |
| on available-for-sale assets | -64 | -1 | -15 | -4 |
| on goodwill | -197 | -52 | 0 | 0 |
| other | -2 | -44 | -2 | 0 |
| Share in results of associated companies | -26 | -64 | -24 | -62 |
| **Result before tax** | **-4 069** | **-317** | **93** | **-56** |
| Income tax expense | 507 | 428 | -35 | -25 |
| Net post-tax result from discontinued operations | 101 | -254 | 0 | 0 |
| **Result after tax** | **-3 461** | **-143** | **58** | **-82** |
| attributable to minority interests | -168 | -205 | -155 | -202 |
| **attributable to equity holders of the parent** | **-3 293** | **62** | **213** | **120** |
| Banking | -3 276 | 367 | 206 | 119 |
| Insurance | -18 | 24 | 28 | 27 |
| Holding-company activities | 1 | -329 | -20 | -26 |
| Risk-weighted assets, group (period-end) (Basel II) | 27 107 | 22 685 | 27 107 | 22 685 |
| Allocated capital (period-end) | 2 255 | 1 894 | 2 255 | 1 894 |

* N.B.: the results of companies scheduled for divestment have been reallocated to the Group Centre and the reference figures for 2009 have been restated accordingly. For information on how the underlying figures are calculated, see the 'Results in 2010' section and the reconciliation table below.

**Result after tax, attributable to equity holders of the parent, reconciliation of IFRS and underlying figures**

| (in millions of EUR)[1] | 2009 | 2010 |
|---|---|---|
| Result after tax, attributable to equity holders of the parent (underlying) | 213 | 120 |
| Changes in fair value of ALM hedging instruments | 4 | -36 |
| Gains/losses relating to CDOs | -1 559 | 171 |
| Fair value of CDO guarantee and commitment fees[2] | -1 164 | -86 |
| Valuation losses on available-for-sale shares | -78 | 0 |
| (Reversal of) impairment relating to troubled banks in the US and Iceland | 5 | 0 |
| Impairment on goodwill and associated companies | -207 | -83 |
| Loss on legacy structured derivatives business (KBC Financial Products) | -1 078 | -260 |
| Changes in fair value of own debt instruments | 44 | 53 |
| Results on divestments | 0 | -255 |
| Other | 34 | 0 |
| Taxes and minority interests relating to the above items | 491 | 437 |
| Result after tax, attributable to equity holders of the parent (IFRS) | -3 293 | 62 |

1 A more detailed explanation can be found in the 'Consolidated financial statements' section, under 'Notes on segment reporting'.

2 For more information, see Note 5 of the 'Consolidated financial statements'.

In 2010, the Group Centre generated a net profit of 62 million euros, compared with a net loss of 3 293 million euros a year earlier. Excluding exceptional items, underlying net profit totalled 120 million euros, compared with 213 million euros in 2009.

The items classified as exceptional are listed in the table and concern primarily CDO-related value adjustments (which were extremely negative in 2009, but positive overall in 2010), fees for the guarantee agreement with the Belgian Federal Government for the remaining CDO exposure (a substantial part of which was recognised upfront in 2009 – see Note 5 of the 'Consolidated financial statements' section), losses on the legacy structured derivatives business of KBC Financial Products, the impact of divestments (in 2010, this was chiefly impairment on goodwill related to the sale agreement for KBL EPB), impairment on goodwill and associated companies (including the related tax impact in each case; also see Note 16 in the 'Consolidated financial statements' section).

Adjusted for these items, the bulk of the Group Centre's underlying net result in 2010 was attributable to the underlying results of companies scheduled for divestment under the strategic plan, including the results of companies that were already divested in 2010, up to the moment of sale. Together, they accounted for an underlying result of 206 million euros, which can be broken down by former business unit as follows:

- 108 million euros for Belgium (Centea and Fidea combined);
- 102 million euros for Central & Eastern Europe, most notable in this figure being the vastly improved results of Absolut Bank (from -107 million euros in 2009 to -5 million euros in 2010, thanks largely to lower loan losses). The results relating to the minority interest in ČSOB that is scheduled to be listed on the stock exchange as part of the strategic plan are also included in the Group Centre;
- 16 million euros for Merchant Banking;
- 74 million euros for European Private Banking;
- -94 million euros (primarily funding costs of goodwill relating to the companies scheduled for divestment).

## Facts and figures

| Group Centre | 2009 | 2010 |
|---|---|---|
| **Breakdown of underlying result after tax, attributable to equity holders of the parent** (in millions of EUR) | | |
| Result of group companies scheduled for divestment under the strategic plan | 284 | 206 |
| Other results | -71 | -86 |
| Total | 213 | 120 |
| **Assets under management** | | |
| Total* (in billions of EUR) | 48 | 50 |
| **Loan portfolio** | | |
| Amount granted (in billions of EUR; including KBL EPB) | 22.3 | 21.9 |
| Share of the total portfolio | 11% | 11% |

* KBL EPB and Centea.

As indicated, the Group Centre's results consist primarily of the results of the main companies scheduled for divestment under the strategic plan. The divestment programme is already under way and a number of companies and activities were already sold in 2010. A brief description of the sales completed in 2010 is set out below. Although a number of companies (e.g., Secura) belong to business units other than the Group Centre, they are also included here for the sake of completeness.

## Sale of KBC Financial Products activities

Various activities at KBC Financial Products were sold in 2010, including the US reverse mortgage portfolio, the Japanese cash equity business (BNP Paribas retained a substantial number of the staff employed in this domain) and the US Life Settlement portfolio (to certain funds managed by Fortress Group companies). Each of these deals had a limited financial impact.
The Global Convertible Bonds and Asian Equity Derivatives businesses were sold to Daiwa Capital Markets for a total consideration of approximately 1.2 billion US dollars, releasing approximately 0.2 billion US dollars in capital for KBC and boosting the group's tier-1 ratio by roughly 10 basis points. In addition, exposure to credit derivatives was reduced sharply in the first half of the year as part of the restructuring of KBC Financial Products. All the transactions listed above were completed before year-end 2010.

## Management buyout for KBC Peel Hunt

At the end of July, KBC and KBC Peel Hunt reached agreement on a management buyout of KBC Peel Hunt for a total consideration of 74 million pounds Sterling. KBC Peel Hunt is a respected player on the UK market in areas including corporate finance advice, research, brokerage and market-making for mid- and small caps. The agreement received the support of KBC Peel Hunt staff and a group of external investors. The deal will have only a small impact on KBC's capital and its income statement. It was completed on 29 November 2010.

## Sale of reinsurance company Secura

An agreement was reached in July with the Australian reinsurer QBE Insurance Group for the sale of Secura, KBC's reinsurance company (sold for 0.3 billion euros). The deal released 0.1 billion euros in capital for KBC and had a positive impact of some 10 basis points on the group's tier-1 ratio. The deal was completed on 2 November 2010.

## Other sales in 2010

An agreement was concluded in the first half of 2010 for the sale of KBC Asset Management's British and Irish activities. The management buyout transaction for the British operations was concluded on 1 June 2010. The Irish activities were sold to RHJ International in a transaction completed on 11 October 2010. The impact of both sales on KBC's results and capital was negligible.

In July, KBC Securities concluded an agreement for a management buyout of its Latvian corporate finance subsidiary, KBC Securities Baltic Investment Company. The deal was completed on 7 July 2010. In September, the group reached an agreement for the sale of KBC Business Capital, its British unit specialising in asset-based lending, to the PNC Financial Services Group. The deal was completed on 22 November 2010. In both instances, the sale had a negligible financial impact for the group.

## Sale of KBL EPB to the Hinduja Group will not go ahead

On 21 May 2010, the KBC group announced that it had reached an agreement with the Hinduja Group for the sale of its private banking subsidiary, KBL European Private Bankers (KBL EPB). As is customary, the Hinduja Group subsequently submitted the deal for approval to the Luxembourg principal regulator (the CSSF) and the regulators in the nine other European countries where KBL EPB is present. Needless to say, KBC was not itself party to that approval process. In the middle of March 2011, the CSSF confirmed that it was stopping its evaluation of the acquisition, after concluding that its decision would have been to object to it. The CSSF reached this decision based on application of the criteria laid down in the law governing the financial sector and after consulting with the other competent authorities. In practice, this means that the sale of KBL EPB to the Hinduja Group will not go ahead. KBC takes note of this decision. In relation to implementing its strategic plan, it will thoroughly assess the various options so that, given current market conditions, and in close consultation with the European Commission, it can take the best decision regarding the future of KBL EPB.

## Sales since the start of 2011

Early in March 2011, KBC reached an agreement with Crédit Agricole for the sale of Centea for a total consideration of 527 million euros. This deal will free up around 0.4 billion euros of capital for KBC, primarily by reducing risk-weighted assets by 4.2 billion euros, which will ultimately boost KBC's tier-1 ratio by around 0.4% (impact calculated at year-end 2010). The gain on this deal is negligible. Crédit Agricole, Centea and Fidea have agreed that, in an initial phase, Fidea will continue to offer its life and non-life insurance products through Centea's agents, as well as through Crédit Agricole's network. This co-operation model will, therefore, open up prospects and growth opportunities for Fidea. Finalisation of the deal depends on the customary approval of the regulator(s).

# Value and risk management

**Extensive information regarding KBC's value and risk management can be found in the *Risk Report* for 2010 at www.kbc.com**

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

The information in this section that forms part of the IFRS financial statements has been audited by the statutory auditor, viz.:
- the entire 'Risk governance' section;
- parts of the 'Credit risk' section, namely the introduction, 'Managing credit risk', the 'Loan and investment portfolio, banking' table (audited parts are indicated in the footnote to the table), the 'Other credit exposure' table, the 'Investment portfolio of KBC group insurance entities' table, 'Overview of exposure to sovereign bonds (banking and insurance portfolios combined)', 'Details relating to the loan portfolio of KBC Bank Ireland', 'Details relating to the loan portfolio of K&H Bank (Hungary)' and the table entitled 'Credit exposure to (re)insurance companies by risk class';
- parts of the 'Market risk in non-trading activities' section, namely the introduction, 'Managing market risk in non-trading activities', 'Interest rate risk' (except for the 'Impact of a parallel 100-basis-point increase in the yield curve for the KBC group' and 'Breakdown of the reserves for non-unit-linked life insurance by guaranteed interest rate, insurance activities' tables) and 'Foreign exchange risk';
- the entire 'Liquidity risk' section;
- the entire 'Market risk in trading activities' section;
- the entire 'Technical insurance risk' section;
- parts of the 'Solvency, economic capital and embedded value' section, namely the introduction, 'Managing solvency', the tables in 'Solvency at group level' and 'Solvency, KBC Bank and KBC Insurance separately' (audited parts are indicated in the footnote to these tables), 'Economic capital' (except for the table) and 'Embedded value in the life insurance business'.

Unless otherwise stated, 2010 data for KBL EPB (including VITIS Life), which has been recognised as a discontinued operation under IFRS 5, have been excluded from the various tables (but are provided separately in a footnote) in order to maintain consistency with the treatment of discontinued operations in the balance sheet and income statement. Please note: it was announced in mid-March 2011 that the sale to the Hinduja Group would not go ahead (see the 'Group Centre' section for more information). As can be seen from the figures relating to KBL EPB in the various footnotes, KBL EPB's impact on the different risk indicators is relatively limited.

## Risk governance

During 2010, KBC's risk management underwent significant changes with regard to governance and structure. The ultimate goal of these changes was to further improve the 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.

The risk governance model is characterised primarily by:
- the Board of Directors (assisted by the Audit, Risk and Compliance Committee) which sets the risk appetite each year;
- an integrated, Executive-Committee-centred architecture that links risk appetite, strategy and performance goal setting via capital allocation to limits and targets. Along with a consequential monitoring process, this creates the parameters for the business to take risks autonomously within the overall strategic choices of the group;
- the Group Risk and Capital Oversight Committee and the Group Risk Management Committee (see below), two risk committees that leverage the time of the Executive Committee;
- a single, independent, group-wide risk function that comprises the Group Chief Risk Officer (Group CRO who sits on the Executive Committee), local CROs, and group and local risk functions;

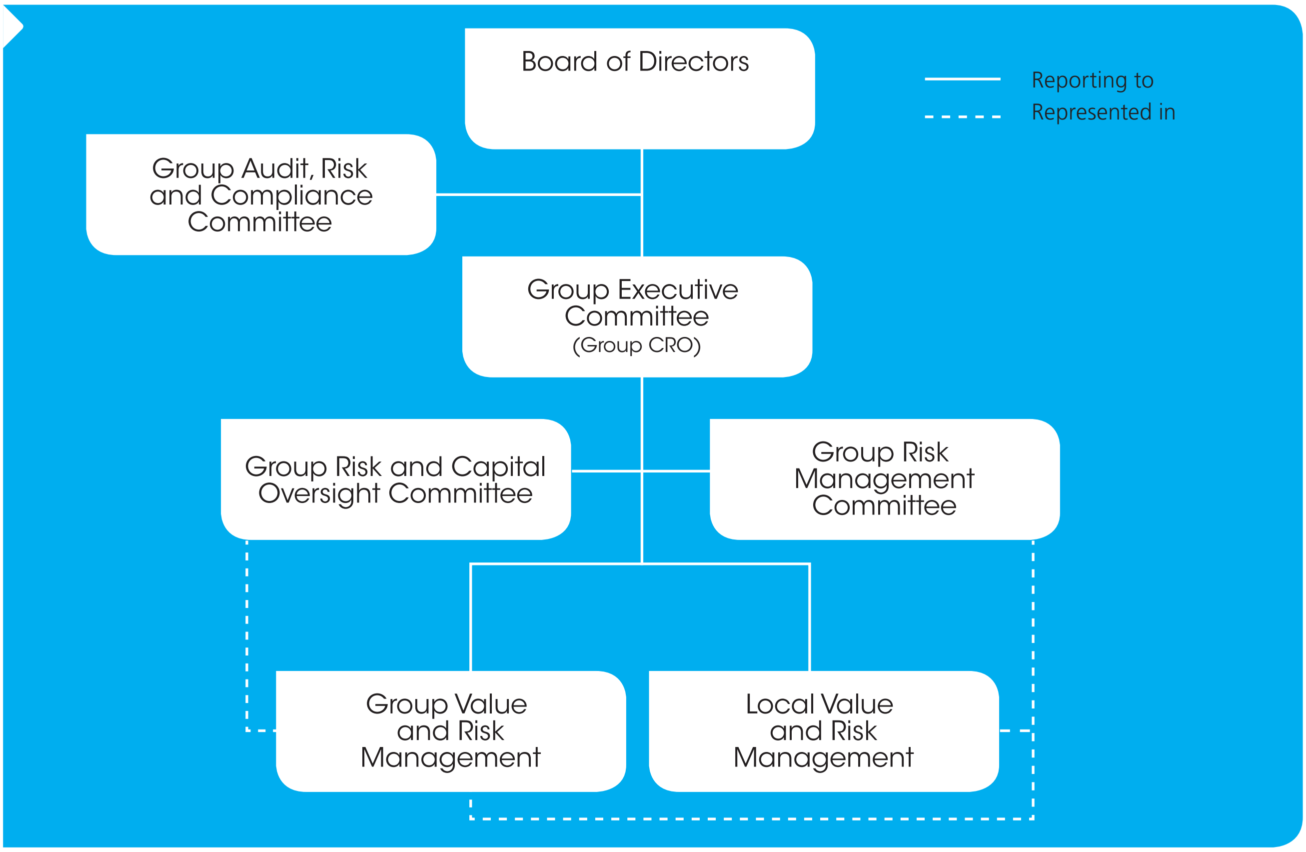
- risk-oriented business people, who have the awareness and skill to make the right risk-return trade-offs and who act as the first line of defence for conducting sound risk management in the group. The Risk and Compliance functions act as the second line of defence, while Internal Audit is the third line.

To achieve the above objectives:

- KBC put forward the *Group Executive* C*ommittee (Group Ex*C*o)* as a single integrating committee for risk and capital management, entrusting it with major tasks such as:
  - making proposals to the Board of Directors about risk and capital strategy, and about risk appetite;
  - agreeing on the risk and capital governance framework to be implemented throughout the group;
  - allocating capital to activities in order to maximise the risk-adjusted return;
  - monitoring the group's major risk exposure to ensure conformity with the risk appetite.
- KBC set up a *Group Risk and Capital Oversight Committee (GRCOC)* which, among other things:
  - monitors the integrated risk profile (combining, for instance, market context, solvency, liquidity, performance) to ensure consistency with risk limits and risk appetite, and identifies hidden risks;
  - if risk exposure exceeds limits, recommends mitigating actions to the Group ExCo to bring the risk exposure back in line;
  - advises the Group ExCo on all decisions or matters that (may) involve material risks and takes autonomous decisions on less material risks.
  - The permanent committee members are the Group CRO and Group Chief Finance Officer (both members of the Group ExCo), the senior general managers of the Group Value and Risk Management Directorate and Group Finance, the Group Treasurer and the general manager of the Group Strategy Unit. The committee also provides a platform for the business entities by inviting the relevant senior business managers to attend meetings dealing with topics in their field of expertise.
- KBC set up a *Group Risk Management Committee (GRMC)* which, among other things:
  - monitors and ensures the adequacy of risk and capital governance, and informs the Group ExCo on gaps and inefficiencies;
  - makes recommendations to the Group ExCo about material changes to the risk and capital governance frameworks, and decides on non-material changes to these frameworks on an autonomous basis;
  - actively promotes risk governance throughout the group (by means of education, communication, etc.);
  - manages and supervises model frameworks and their implementation;
  - The permanent members of this committee are the Group CRO, the senior general manager of the Group Value and Risk Management Directorate and local CROs. Here too, the voice of the business is heard via the local CROs or by inviting the relevant senior managers themselves to provide input on all topics and/or frameworks that affect them.
- KBC installed *Local Chief Risk Officers (LCROs)* throughout the group according to a logical segmentation based on entity and/or business unit. Close collaboration with the business is assured since they take part in the local decision-making process. Independence of the LCROs is achieved through a direct reporting line to the Group CRO. The LCROs have a number of responsibilities, including:
  - assisting the business on a day-to-day basis to identify, quantify and manage risks within their organisation;
  - monitoring the local integrated risk profile and compliance with local limits;
  - assuring a direct flow of information to the group on locally emerging risks;
  - making recommendations and advising the group risk function on *inter alia* frameworks to support a fit at local level.
- KBC abolished its specific risk committees (including the group credit risk committee, group trading risk committee, group ALCO) which were organised as *risk silos*. All responsibilities and open 'ToDos' were transferred to the new committees at group level or moved to the local level (via the LCRO). The process of abolishing the former local risk committees is still ongoing.

The new model has not changed the role of:

- the group risk function (the Group Value and Risk Management Directorate), which among other things monitors risks and capital at an overarching group-wide level, develops risk models (while business models are developed by business), performs independent (thus segregated from the modelling staff) validations of all the risk and business models developed, develops group-wide frameworks and advises/reports on issues handled by the Group ExCo and the risk committees;
- the group's Internal Audit Division. It is responsible for audit planning and thus audits the compliance of the risk management framework with legal and regulatory requirements, the efficiency and the effectiveness of the risk management system and its compliance with the risk management framework, as well as the way in which line mangement handles risks outside this formal framework.



## Credit risk

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

### Managing credit risk

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

**Credit risk management at transactional level**

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

As regards lending to businesses, unless a small amount or a low risk is involved, a proposal submitted by a commercial entity is accompanied by a recommendation made by a loan adviser. In principle, significant decisions are then taken jointly by two or more managers. The level at which decisions should be taken is determined by matrices that take account of such parameters as the group risk total (the total risk run by the entire KBC group vis-à-vis the group the counterparty belongs to), the risk class (determined primarily on the basis of internally developed rating models) and the type of counterparty (financial institutions, sovereign entities, corporate entities, etc.).

Lending to individuals (e.g., mortgages) is subject to a standardised process, during which the output of scoring models plays an important role in the acceptance procedure. Credit to individuals is generally granted in the local currency, except in some Central and Eastern European countries and Russia, where credit in foreign currency is often provided on account of the significant gap between interest rates in the local currency and interest rates in other currencies. In recent years, there has been a growing awareness of the inherent risk stemming from fluctuations in exchange rates, resulting in a very cautious approach towards this particular type of lending.

*Supervision and monitoring*. For most types of credit risk exposure, monitoring is determined primarily by the *risk class*, with a distinction being made based on the Probability of Default (PD) and the Loss Given Default (LGD). The latter reflects the estimated loss that would be incurred if an obligor defaults, the likelihood of which is estimated as the PD.
In order to determine the risk class, KBC has developed various rating models for measuring how creditworthy borrowers are and to estimate the expected loss of various types of transactions. A number of uniform models are used throughout the group (models for governments, banks, large companies, project finance, etc.), while others have been designed for specific geographic markets (SMEs, private individuals, etc.). The same internal rating scale is used throughout the group.

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

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

Credit decisions are also monitored, with a member of a credit committee checking decisions taken at the decision level immediately below to see if they are consistent with the lending policy.

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

In order to avoid a situation where an obligor facing financial difficulties ends up defaulting, a decision can be taken to renegotiate its loans. Renegotiation may involve changing the contractual repayment schedule, lowering or postponing interest or fee payments, or some other appropriate measure. If a renegotiation stems from a deterioration in the obligor's financial situation and the payment terms are altered, a PD class 9 or higher will be assigned. In cases where renegotiation includes a (full or partial) charge-off of the financial asset, a PD class of at least 10 will be assigned. For the retail portfolio, the assigned PD class is determined on the basis of the behavioural score. In such cases, the resulting PD may be lower than 9. After renegotiation, the obligor's situation will be re-assessed one year later (in principle) and the obligor can return to a better class than PD 9 if the assessment turns out to be positive. In this case, the obligor is no longer considered as being in 'renegotiated status'.

At the end of 2009, loans that were renegotiated to avoid impairment accounted for some 2.2% of the total loan portfolio (amount outstanding). This figure had risen to 2.5% by the end of 2010 (see table below for a further breakdown). As regards the Merchant Banking Business Unit, most of the renegotiated exposure is accounted for by KBC Bank Ireland where nearly 9.0% of its total portfolio was renegotiated at the end of 2010 (5.8% at the end of 2009).

| **Renegotiated loans avoiding impairment** (as a % of the total portfolio of renegotiated loans)* | **31-12-2009** | **31-12-2010** |
|---|---|---|
| Belgium Business Unit | 16% | 16% |
| CEE Business Unit | 23% | 20% |
| Czech Republic | 3% | 4% |
| Slovakia | 3% | 2% |
| Hungary | 10% | 10% |
| Poland | 1% | 1% |
| Bulgaria | 7% | 3% |
| Merchant Banking Business Unit | 53% | 61% |
| Group Centre (including planned divestments) | 7% | 3% |
| Total | 100% | 100% |
| In billions of EUR | 3.7 | 4.0 |

* KBL EPB accounts for approximately 0.1% of the total portfolio of renegotiated loans.

**Credit risk management at portfolio level**

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

Whereas some limits are still in notional terms, concepts such as 'expected loss' and 'loss given default' are being used as well. Together with the 'probability of default', these concepts form the building blocks for calculating the regulatory capital requirements for credit risk, as KBC has opted to use the Basel II Internal Rating Based (IRB) Approach.

The switch to the Basel II IRB approach is taking place in stages, with KBC Bank NV and most of its main subsidiaries having already switched over to the IRB Foundation approach in 2007. Of the material group companies, K&H Bank switched to the Basel II standardised approach in 2008 and will adopt the IRB Foundation approach in 2011, while others – such as Kredyt Bank and ČSOB Slovakia – will adopt it at a later date (subject to regulatory approval). The non-material entities of the KBC group adopted the Basel II standardised approach in 2008 and will continue to implement it. Further moves to adopt the IRB Advanced approach are envisaged, starting in 2012.

## Overview of credit risk exposure in the banking activities

Credit risk arises in both the banking and insurance activities of the group. Credit risk related to the insurance activities is described in the next section and exists primarily in the investment portfolio (towards issuers of debt instruments) and towards reinsurance companies. KBC's investments in structured credit products and government bonds are described in separate sections (see below).

As far as the banking activities are concerned, the main source of credit risk is the loan and investment portfolio (see table). This portfolio is the result of what can be considered as pure, traditional lending activities. It includes all (committed and uncommitted) working capital credit lines, investment credit, guarantee credit, credit derivatives (protection sold) and non-government debt securities in the investment books of the group's bank entities. Besides this particular aspect, credit risk arises in other banking activities. Trading activities, for instance, result in exposure to issuer risk, while interprofessional transactions (deposits with professional counterparties and derivatives trading) carry counterparty risk. International trade finance is also a source of credit risk, entailing short-term exposure to financial institutions. Lastly, government bonds in the investment portfolio, mainly held for ALM and liquidity reasons, carry credit risk, as well.

The loan and investment portfolio as defined in this section differs significantly from 'Loans and advances to customers' in the 'Consolidated financial statements' section, Note 18 (this item, for instance, does not include loans and advances to banks, guarantee credit and credit derivatives, the undrawn portion of credit lines or corporate and bank bonds, but does include repurchase transactions with non-banks). The loan and investment portfolio is broken down according to different criteria in the table below.

| Loan and investment portfolio, banking | 31-12-2009 | 31-12-2010[5] |
|---|---|---|
| **Total loan portfolio** (in billions of EUR) | | |
| Amount granted | 201.6 | 192.2 |
| Amount outstanding | 166.5 | 161.3 |
| **Loan portfolio breakdown by business unit** (as a % of the portfolio of credit granted) | | |
| Belgium | 29% | 31% |
| CEE | 21% | 23% |
| Merchant Banking | 39% | 36% |
| Group Centre (including planned divestments) | 11% | 10% |
| Total | 100% | 100% |
| **Loan portfolio breakdown by credit type** (as a % of the portfolio of credit granted) | | |
| Loans and guarantee credit | 94% | 96% |
| Corporate and bank bonds | 6% | 4% |
| Total | 100% | 100% |
| **Loan portfolio breakdown by counterparty sector** (as a % of the portfolio of credit granted)[1] | | |
| Private individuals | 34% | 37% |
| Financial and insurance services | 9% | 7% |
| Governments | 3% | 3% |
| Corporates | 54% | 52% |
| Non-financial services | 10% | 10% |
| Retail and wholesale trade | 8% | 8% |
| Real estate | 7% | 7% |
| Construction | 4% | 5% |
| Electricity | 3% | 2% |
| Food industry | 2% | 2% |
| Automotive | 2% | 2% |
| Agriculture, farming & fishing | 2% | 2% |
| Chemicals | 2% | 2% |
| Other[2] | 14% | 13% |
| Total | 100% | 100% |
| **Loan portfolio breakdown by region** (as a % of the portfolio of credit granted)[1] | | |
| Western Europe | 67% | 68% |
| Central and Eastern Europe (including Russia) | 23% | 24% |
| North America | 6% | 5% |
| Latin America | 1% | 1% |
| Middle East | 0% | 0% |
| Asia | 2% | 2% |
| Africa | 0% | 0% |
| Oceania | 1% | 1% |
| International institutions | 0% | 0% |
| Total | 100% | 100% |
| **Loan portfolio breakdown by risk class** (part of the portfolio, as a % of the portfolio of credit granted)[1, 3] | | |
| PD 1 (lowest risk, default probability ranging from 0.00% up to, but not including, 0.10%) | 23% | 25% |
| PD 2 (0.10% – 0.20%) | 12% | 12% |
| PD 3 (0.20% – 0.40%) | 16% | 18% |
| PD 4 (0.40% – 0.80%) | 16% | 15% |
| PD 5 (0.80% – 1.60%) | 14% | 11% |
| PD 6 (1.60% – 3.20%) | 9% | 8% |
| PD 7 (3.20% – 6.40%) | 4% | 6% |
| PD 8 (6.40% – 12.80%) | 2% | 2% |
| PD 9 (highest risk, ≥ 12.80%) | 3% | 3% |
| Total | 100% | 100% |

| Loan and investment portfolio, banking (continued) | 31-12-2009 | 31-12-2010[5] |
|---|---|---|
| **Impaired loans**[4] (PD 10 + 11 + 12; in millions of EUR or %) | | |
| Impaired loans | 8 982 | 10 950 |
| Specific impairment | 3 884 | 4 696 |
| Portfolio-based impairment | 328 | 352 |
| Credit cost ratio | | |
| Belgium Business Unit | 0.15% | 0.15% |
| CEE Business Unit | 1.70% | 1.22% |
| Czech Republic | 1.12% | 0.75% |
| Slovakia | 1.56% | 0.96% |
| Hungary | 2.01% | 1.98% |
| Poland | 2.59% | 1.45% |
| Bulgaria | 2.22% | 2.00% |
| Merchant Banking Business Unit | 1.19% | 1.38% |
| Group Centre (including planned divestments) | 2.15% | 1.05% |
| Total | 1.11% | 0.91% |
| **Non-performing (NP) loans** (PD 11 + 12; in millions of EUR or %) | | |
| Amount outstanding | 5 595 | 6 551 |
| Specific impairment for non-performing loans | 2 790 | 3 283 |
| Non-performing ratio | | |
| Belgium Business Unit | 1.5% | 1.5% |
| CEE Business Unit | 4.1% | 5.6% |
| Merchant Banking Business Unit | 3.9% | 5.2% |
| Group Centre (including planned divestments) | 5.1% | 5.3% |
| Total | 3.4% | 4.1% |
| **Cover ratio** | | |
| [Specific impairment for non-performing loans]/[outstanding non-performing loans] | | |
| Total | 50% | 50% |
| Total excluding mortgage loans | 60% | 60% |
| [Specific and portfolio-based impairment for performing and non-performing loans]/[outstanding non-performing loans] | | |
| Total | 75% | 77% |
| Total excluding mortgage loans | 90% | 96% |

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

1 Audited figures.

2 Individual sector shares not exceeding 2%.

3 Internal rating scale.

4 Figures differ from those appearing in Note 21 of the 'Consolidated financial statements' section, due to differences in scope.

5 KBL EPB's exposure has been excluded from the 2010 figures. Its portfolio of granted credit amounts to 3.1 billion euros (2.9 billion euros of which is outstanding) and is concentrated mainly in the financial services and private individuals sectors. KBL EPB's non-performing ratio amounts to 4.0% (4.6% excluding mortgage loans), while 93% of its portfolio of non-performing loans is covered by specific impairment.

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

*Short-term commercial transactions.* This activity involves export or import finance and only entails exposure to financial institutions. It includes documentary credit, pre-export and post-import finance and related transactions with a term to maturity of no more than two years. Despite the relatively high proportion of non-investment-grade banks in this exposure (roughly 24%), losses are very low in historical terms, particularly for documentary credit. Risks associated with this activity are managed by setting limits per financial institution and per country or group of countries.

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

*Interprofessional transactions* (deposits with professional counterparties and derivatives trading). These transactions result in counterparty risk. The amounts shown in the table are the group's pre-settlement risks, measured as the sum of the (positive) current replacement value ('mark-to-market' value) of a transaction and the applicable add-on, determined according to the current exposure method under Basel II. Deposits account for slightly more than 20% of the total amount. The bulk of the deposits are due from banks with an investment-grade rating. Risks are curtailed by setting limits (separate limits for both pre-settlement and settlement risk) per counterparty. Close-out netting and collateral techniques are also used. Financial collateral is only taken into account if the assets concerned are considered eligible risk-mitigants for regulatory capital calculations (Basel II). This implies, among other things, that legal comfort must have been obtained regarding the ownership of the collateral for all relevant jurisdictions.

*Government securities in the investment portfolio.* Exposure to governments is measured in terms of nominal or book value and is accounted for mainly by EU states (particularly Belgium). Limiting caps are set by the ExCo for this type of credit exposure, more specifically for so-called non-home country sovereign bond exposure, and these are supplemented by 'warning signals' for the home country sovereign bond exposure (i.e. exposure to Belgium, the Czech Republic, Slovak Republic, Hungary, Poland and Bulgaria). More details on the exposure of the combined banking and insurance activities to government bonds is provided in a separate section below.

| **Other credit exposure** (in billions of EUR) | **31-12-2009** | **31-12-2010**[2] |
|---|---|---|
| Short-term commercial transactions | 2.0 | 2.5 |
| Issuer risk[1] | 0.8 | 0.4 |
| KBC Financial Products | 0.1 | 0.0 |
| Other entities | 0.7 | 0.4 |
| Counterparty risk in interprofessional transactions[3] | 18.6 | 12.7 |
| Government bonds in the investment portfolio | 46.2 | 49.1 |

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

2 KBL EPB's exposure is excluded from the figures for 2010. Its exposure to issuer risk is approximately 0.13 billion euros and its counterparty risk is over 1 billion euros. It also holds about 1.8 billion euros' worth of government bonds in its investment portfolio.

3 After deduction of collateral received and netting benefits.

## Overview of credit risk exposure in the insurance activities

Where the insurance activities are concerned, credit exposure exists primarily in the investment portfolio (towards issuers of debt instruments) and towards reinsurance companies. Guidelines for the purpose of controlling credit risk within the investment portfolio are issued by the GRCOC. There are standards, for instance, that stipulate what percentage of the portfolio has to be invested in securities issued by governments of OECD countries, as well as standards that require issuers to have a certain minimum rating, and so on. The table provides an overview of the total investment portfolio of the group's insurance entities.

**Investment portfolio of KBC group insurance entities** (in millions of EUR, market value)[1]

| Per balance sheet item | 31-12-2009 | 31-12-2010[5] |
|---|---|---|
| Securities | 22 242 | 23 396 |
| Bonds and other fixed-income securities | 20 746 | 21 832 |
| Held to maturity | 3 517 | 3 493 |
| Available for sale | 17 019 | 18 131 |
| At fair value through profit or loss (FIFV & HFT) | 149 | 136 |
| As loans and receivables | 62 | 72 |
| Shares and other variable-yield securities | 1 463 | 1 534 |
| Available for sale | 1 461 | 1 531 |
| At fair value through profit or loss (FIFV & HFT) | 2 | 3 |
| Other | 33 | 30 |
| Loans and advances to customers | 203 | 285 |
| Loans and advances to banks | 2 898 | 3 155 |
| Property and equipment and investment property | 523 | 566 |
| Investments in associated companies | 23 | 18 |
| Other | 103 | 13 |
| Investment contracts, unit-linked[2] | 7 957 | 7 329 |
| Total | 33 949 | 34 761 |
| **Details for bonds and other fixed-income securities** | | |
| By rating[3, 4] | | |
| AA- and higher | 68% | 69% |
| A- and higher | 94% | 95% |
| BBB- and higher | 100% | 100% |
| By sector[3] | | |
| Governments | 62% | 66% |
| Financial | 20% | 18% |
| Other | 18% | 16% |
| Total | 100% | 100% |
| By currency[3] | | |
| Euro | 92% | 92% |
| Other European currencies | 8% | 8% |
| US dollar | 0% | 0% |
| Total | 100% | 100% |
| By remaining tenor[3] | | |
| Not more than 1 year | 4% | 7% |
| Between 1 and 3 years | 19% | 22% |
| Between 3 and 5 years | 24% | 20% |
| Between 5 and 10 years | 34% | 34% |
| More than 10 years | 18% | 16% |
| Total | 100% | 100% |

1 The total carrying value amounted to 34 408 million euros at December 2010 and to 33 598 million euros at December 2009.

2 Representing the assets side of unit-linked (class 23) products and completely balanced on the liabilities side. No credit risk involved for KBC Insurance.

3 Excluding investments for unit-linked life insurance. In certain cases, based on extrapolations and estimates.

4 External rating scale.

5 Excluding VITIS Life. At 31 December 2010, VITIS Life's investment portfolio amounted to 2.3 billion euros.

KBC is also exposed to a credit risk in respect of (re)insurance companies, since they could default on their commitments under (re)insurance contracts concluded with KBC. This particular type of credit risk is measured by means of a nominal approach (the maximum loss) and expected loss, among other techniques. Name concentration limits apply. PD – and by extension – expected loss is calculated using internal or external ratings. The exposure at default is determined by adding up the net loss reserves and the premiums, and the loss given default percentage is fixed at 50%.

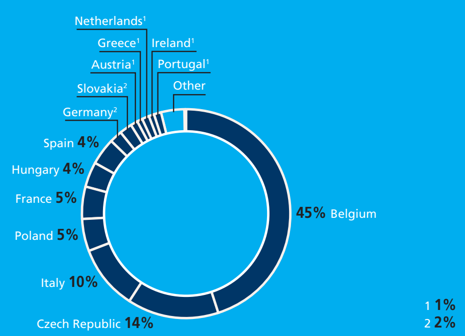
| **Credit exposure to (re)insurance companies by risk class** | **EAD** | **EAD** | **EL** | **EL** |
|---|---|---|---|---|
| Exposure at Default (EAD) and Expected Loss (EL)* (in millions of EUR) | **2009** | **2010** | **2009** | **2010** |
| AAA up to and including A- | 353 | 423 | 0.07 | 0.07 |
| BBB+ up to and including BB- | 111 | 137 | 0.16 | 0.13 |
| Below BB- | 0 | 0 | 0.00 | 0.00 |
| Unrated | 16 | 15 | 0.35 | 0.34 |
| **Total** | **479** | **576** | **0.59** | **0.54** |

* EAD: audited figures; EL: unaudited figures.

## Overview of exposure to sovereign bonds (banking and insurance portfolios combined)

The group holds around 60 billion euros' worth of investments in government bonds ('available-for-sale', 'held-to-maturity' and 'designated at fair value through profit or loss', but excluding the trading book), primarily as a result of the significant excess liquidity position and the reinvestment of insurance reserves into fixed instruments. A breakdown per country is provided for the situation at year-end 2010 in the following graph and table (the figures in the graph do not include KBL EPB and VITIS Life, which together account for approximately 3.5% of the total).

**Portfolio of sovereign bonds (31 December 2010)**
**(excluding the trading book)**




The table below provides details of exposure to the government bonds of a number of Southern European countries and Ireland at year-end 2010.

| **Sovereign bond exposure in selected European countries, 31-12-2010** (in billions of EUR, carrying amounts)[1] | | | **Total** | **Banking and insurance book** | | |
|---|---|---|---|---|---|---|
| | **Banking and insurance book[2]** | **Trading book** | **Total** | **Amounts maturing in 2011** | **Amounts maturing in 2012** | **Amounts maturing after 2012** |
| Greece | 0.6 | 0.0 | 0.6 | 0.1 | 0.1 | 0.4 |
| Portugal | 0.3 | 0.0 | 0.3 | 0.0 | 0.1 | 0.2 |
| Spain | 2.2 | 0.1 | 2.3 | 0.1 | 0.5 | 1.6 |
| Italy | 6.4 | 0.2 | 6.6 | 0.9 | 0.4 | 5.1 |
| Ireland | 0.5 | 0.0 | 0.5 | 0.0 | 0.0 | 0.5 |

1 Including KBL EPB and VITIS Life.
2 Bonds classified as 'available-for-sale', 'held-to-maturity' and 'designated at fair value through profit or loss'.

The turbulence on the market for sovereign bonds has not had any relevant impact on KBC's liquidity position and strategy. All sovereign bonds remain eligible as collateral at the European Central Bank. No impairment charges were recorded for these bonds. For full-year 2010, KBC recognised a total of -303 million euros (before tax) in fair value changes in profit and loss for sovereign bonds classified as 'designated at fair value through profit or loss' (-200 million euros of which related to Italy and -98 million euros to Greece; impact includes the fair value change of related ALM derivatives), and also recorded a trading result of -31 million euros. KBC booked a total net loss of 43 million euros on sales of available-for-sale sovereign bonds.

## Details relating to the loan portfolio of KBC Bank Ireland

Due to the difficult situation on the Irish market, specific information on the loan portfolio of KBC Bank Ireland is provided below.

| **KBC Bank Ireland – loan portfolio**[1] | **31-12-2009** | **31-12-2010** |
|---|---|---|
| Total portfolio (outstanding, in billions of EUR) | 18 | 17 |
| Breakdown by loan type | | |
| Home loans | 74% | 76% |
| SME & corporate loans | 15% | 13% |
| Real estate investment and real estate development | 11% | 11% |
| Breakdown by risk class | | |
| Low risk (PD 1-4) | 44% | 38% |
| Medium Risk (PD 5-7) | 38% | 35% |
| High Risk (PD 8-9) | 11% | 13% |
| Impaired, still performing (PD 10) | 1% | 3% |
| Impaired, non-performing (PD 11+12) | 6% | 10% |
| Credit cost ratio[2] | 0.96% | 2.98% |
| Cover ratio [total impairment]/[outstanding non-performing loans] | 20% | 42% |
| Renegotiated distressed loans[3, 4] | 6% | 9% |

1 For a definition, see 'Overview of credit risk exposure in the banking activities'.

2 Unaudited.

3 Special attention has also been given to renegotiated distressed loans, i.e. credit that has avoided impairment status by having its terms renegotiated. The table shows that this part of the portfolio is growing, due mainly to the economic situation in Ireland (e.g., high levels of unemployment).

4 Besides distressed loan renegotiations, it has been a traditional commercial feature at KBC Homeloans (as is generally the case in the Irish and UK mortgage markets) that customers may be offered the possibility of paying interest only for a limited period of time.

## Details relating to the loan portfolio of K&H Bank (Hungary)

| **K&H Bank – loan portfolio**[1] | **31-12-2009** | **31-12-2010** |
|---|---|---|
| Total portfolio (outstanding, in billions of EUR) | 7 | 7 |
| Breakdown by loan type | | |
| Retail loans | 47% | 53% |
| FX mortgage loans | 32% | 35% |
| SME & corporate loans | 53% | 47% |
| Breakdown by risk class | | |
| Low risk (PD 1-4) | 58% | 52% |
| Medium Risk (PD 5-7) | 24% | 25% |
| High Risk (PD 8-9) | 10% | 9% |
| Impaired, still performing (PD 10) | 3% | 3% |
| Impaired, non-performing (PD 11+12) | 5% | 8% |
| Unrated | 0% | 3% |
| Credit cost ratio[2] | 2.01% | 1.98% |
| Cover ratio [total impairments]/[outstanding non-performing loans] | 80% | 71% |
| Renegotiated distressed loans | 5% | 6% |

1 For a definition, see 'Overview of credit risk exposure in the banking activities'.

2 Unaudited.

## Overview of structured credit exposure (banking and insurance portfolios combined)

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

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

| **Structured credit exposure (CDOs and other ABS)*, 31-12-2010** (in billions of EUR, pre-tax) | **Hedged CDO-linked exposure (insured by credit insurers)** | **Unhedged CDO exposure** | **Other ABS** |
|---|---|---|---|
| Total nominal amount | 14.9 | 7.7 | 4.7 |
| Initial write-downs on equity and junior CDO pieces | – | -0.6 | – |
| Cumulative value adjustments | -1.2 | -4.2 | -1.0 |

* Including KBL EPB.

Between the beginning of 2010 and 7 January 2011, the unhedged CDO positions held by KBC have incurred *effective* losses totalling 1.1 billion euros, caused by *settled credit events* in the lower tranches of the CDO structure. These have had no further impact on the income statement, because complete value markdowns for these CDO tranches had already been absorbed in the past.

The total nominal amount outstanding in the unhedged portfolio dropped by 2.2 billion euros, due to the 'Aldersgate' CDO reaching maturity. This had no significant impact on the income statement.

More information on the valuation of CDOs can be found in Note 26 of the 'Consolidated financial statements'.

**Hedged CDO exposure**

As stated above, KBC bought credit protection for a large part of the (super senior) CDOs it originated. A relatively limited portion of this insurance was bought from Channel and the bulk from MBIA, a US monoline insurer. In February 2009, MBIA announced a restructuring plan, which included a spin-off of valuable assets, provoking a steep decline in its creditworthiness. The increase in the market value of the underlying swap, combined with the higher counterparty risk, resulted in significant additional negative value adjustments at KBC. The remaining risk related to MBIA's insurance coverage is to a large extent mitigated as it is included in the scope of the Guarantee Agreement that was agreed with the Belgian State on 14 May 2009 (see the 'Additional information' section for more details).

| **Hedged CDO-linked exposure[1] (insurance for CDO-linked risks received from credit insurers), 31-12-2010** (in billions of EUR ) | |
|---|---|
| Total insured amount (notional amount of super senior swaps) | |
| - MBIA | 14.4 |
| - Channel | 0.4 |
| Impact of settled credit events[2] | -0.3 |
| Details for MBIA insurance coverage | |
| - Total insured amount (notional amount of the super senior swap) | 14.7 |
| - Fair value of insurance coverage received (modelled replacement value, after taking the Guarantee Agreement[3] into account) | 1.7 |
| - Credit value adjustment for counterparty risk, MBIA | -1.2 |
| (as a % of fair value of insurance coverage received)[4] | 70% |

1 Including KBL EPB.
2 Up to 7 January 2011.
3 The amount insured by MBIA is included in the Guarantee Agreement with the Belgian State.
4 Taking into account translation differences accrued over time.

**Unhedged CDO exposure and other ABS**

This heading relates to CDOs which KBC bought for investment purposes and which are not 'insured' by credit protection from MBIA or other external credit insurers ('Unhedged CDO exposure' in the table below) and other ABS in portfolio ('Other ABS' in the table). As regards the CDOs, KBC has already made significant negative value adjustments to date. It should be noted that their remaining risk is mitigated, as the unhedged super senior CDO tranches are included under the Guarantee Agreement concluded with the Belgian State (see the 'Additional information' section for more details).

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

Until 2008, value adjustments to other ABS were largely accounted for via shareholders' equity. At the end of 2008, KBC reclassied most of the ABS portfolio as 'loans and receivables'. Since then, they have been included in the scope of the impairment procedure for the loan portfolio (such impairments have an impact on the income statement).

| **Unhedged CDO exposure and other ABS[1], 31-12-2010** (in billions of EUR) | **Unhedged CDO exposure** | **Other ABS** |
|---|---|---|
| Total nominal amount | 7.7 | 4.7 |
| Initial write-downs on equity and junior CDO pieces | -0.6 | – |
| Impact of settled credit events[2] | -0.7 | – |
| Total nominal amount, net of provisions for equity and junior pieces and net of settled credit events | 6.4 | 4.7 |
| - Super senior tranches (included under Guarantee Agreement with Belgian State) | 3.6 | – |
| - Non-super senior tranches | 2.8 | – |
| Cumulative value adjustments | -4.2 | -1.0 |

1 Including KBL EPB.

2 Until 7 January 2011 (excluding the effect of the provision for equity and junior pieces).

**Details of the underlying assets of the CDOs and ABS**

Details of the underlying assets of the CDOs and ABS can be found in the *Risk Report* (available at www.kbc.com), where the nominal value of the hedged CDO exposure, the unhedged CDO exposure (net of initial write-downs of junior and equity CDO pieces) and the ABS in portfolio are broken down according to the nature and rating of the underlying assets.

## Market risk in non-trading activities

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

'Structural exposure' encompasses all exposure inherent in the commercial activity of KBC or the long-term positions held by the group (banking and insurance). Trading activities are consequently not included. Structural exposure can also be described as a combination of:

- mismatches in the banking activities linked to the branch network's acquisition of working funds and the use of those funds (via lending, among other things);
- mismatches in the insurance activities between liabilities in the non-life and life businesses and the cover for these liabilities present in the investment portfolios held for this purpose;
- the risks associated with holding an investment portfolio for the purpose of reinvesting shareholders' equity;
- the structural currency exposure stemming from the activities abroad (investments in foreign currency, results posted at branches or subsidiaries abroad, exchange risk linked to the currency mismatch between the insurer's liabilities and its investments).

### Managing market risk in non-trading activities

A team in the Group Value and Risk Management Directorate provides support to the GRCOC and helps to develop ALM. Similar teams exist at the different business units. Risk management responsibilities for the life insurance business are also included in the scope of ALM.

The ALM strategy is co-ordinated by the newly created Group Treasury function and implemented locally by front-office units. In the past this was done by a central investment function.

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

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

| KBC group non-trading market risk, by risk category (VAR 99%, 1-year time horizon, marginal contribution of various risk types to VAR) (in billions of EUR)[1] | 31-12-2009 | 31-12-2010[3] |
|---|---|---|
| Interest rate risk | 0.85 | 0.90 |
| Equity risk | 0.84 | 0.57 |
| Real estate risk | 0.14 | 0.10 |
| Other risks[2] | 0.08 | 0.11 |
| Total diversified VAR (group) | 1.91 | 1.68 |

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

2 Foreign exchange risk and inflation risk.

3 Excluding KBL EPB and VITIS Life. The impact of both entities on the group's ALM VAR is 90 million euros due to their equity portfolios.

## Interest rate risk

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

The group-wide sensitivity to interest rate movements is reported on a regular basis and includes both the banking and insurance activities. The table illustrates the impact of a 100-basis-point increase in the yield curve, given the positions at the reporting date.

| Impact of a parallel 100-basis-point increase in the yield curve for the KBC group[1] | Impact on net profit (IFRS)[3] | | Impact on value[2, 3] | |
|---|---|---|---|---|
| (in millions of EUR) | 2009 | 2010 | 2009 | 2010 |
| Insurance | -8 | -5 | -130 | -67 |
| Banking | -110 | -56 | -506 | -504 |
| Total | -118 | -61 | -635 | -572 |

1 Excluding a number of small group companies.

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

3 Excluding KBL EPB and VITIS Life. A 100-basis-point increase in the yield curve would have a very limited impact on the net profit of KBL EPB and VITIS Life (-0.65 million euros). The impact on the market value of KBL EPB and VITIS Life would be a negative 23 million euros.

### Banking activities

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

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

The table shows how the bank's exposure to interest rate risk developed over the course of 2009 and 2010.

**BPV of the ALM book, banking activities***

| (in millions of EUR) | |
|---|---|
| Average, 1Q 2009 | -89 |
| Average, 2Q 2009 | -94 |
| Average, 3Q 2009 | -85 |
| Average, 4Q 2009 | -67 |
| 31-12-2009 | -62 |
| Maximum in 2009 | -98 |
| Minimum in 2009 | -62 |
| Average, 1Q 2010 | -63 |
| Average, 2Q 2010 | -68 |
| Average, 3Q 2010 | -69 |
| Average, 4Q 2010 | -62 |
| 31-12-2010 | -55 |
| Maximum in 2010 | -69 |
| Minimum in 2010 | -55 |

* KBL EPB is excluded from the 2010 figures. Including KBL EPB would lead to an overall BPV for the banking activities of -57 million euros at year-end 2010.

In line with the Basel II guidelines, a 2% stress test is carried out at regular intervals. It sets off the total interest rate risk in the banking book (given a 2% parallel shift in interest rates) against total capital and reserves. For the banking book at KBC group level (excluding KBL EPB), this risk came to 4.48% of total capital and reserves, at year-end 2010 (well below the 20% threshold, where a bank is considered an 'outlier bank' and which can lead to a higher regulatory capital charge).

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

**Interest sensitivity gap of the ALM book (including derivatives), banking activities[1, 2]**

| (in millions of EUR) | **≤ 1 month** | **1–3 months** | **3–12 months** | **1–5 years** | **5–10 years** | **> 10 years** | **Non-interest-bearing** | **Total** |
|---|---|---|---|---|---|---|---|---|
| 31-12-2009 | 1 363 | 7 884 | -3 629 | 1 590 | 5 874 | 3 275 | -16 358 | 0 |
| 31-12-2010 | -5 116 | -558 | 626 | 1 513 | 5 226 | 3 852 | -5 542 | 0 |

1 Excluding a number of small group companies.
2 KBL EPB is excluded from the 2010 figures. However, these figures are provided separately below:

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | -140 | 55 | 88 | 528 | 140 | 18 | -689 | 0 |

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

## Insurance activities

Where the group's insurance activities are concerned, the fixed-income investments for the non-life reserves are invested with the aim of matching the projected pay-out patterns for claims, based on extensive actuarial analysis.

The non-unit-linked life activities (class 21) combine a guaranteed interest rate with a discretionary participation feature (DPF) fixed by the insurer. The main risks to which the insurer is exposed as a result of such activities are a low-interest-rate risk (the risk that return on investments will drop below the guaranteed level) and a risk that the investment return will not be sufficient to give customers a competitive profit-sharing rate. The risk of low interest rates is managed via a cashflow-matching policy, which is applied to that portion of the life insurance portfolios covered by fixed-income securities. The lapse risk (risk of changing policy surrender distributions) and the expected profit-sharing policies are managed with a mixed investment portfolio of fixed-income investments and equities.

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

The table summarises the exposure to interest rate risk in KBC's life insurance activities. The life insurance assets and liabilities relating to business offering guaranteed rates are grouped according to the expected timing of cashflows.

**Expected cashflows (not discounted), life insurance activities[1]**

| (in millions of EUR) | 0–5 years | 5–10 years | 10–15 years | 15–20 years | > 20 years | Total |
|---|---|---|---|---|---|---|
| **31-12-2009** | | | | | | |
| Fixed-income assets backing liabilities, guaranteed component | 11 447 | 7 154 | 2 313 | 1 605 | 1 243 | 23 763 |
| Liabilities, guaranteed component | 9 229 | 4 982 | 1 876 | 1 549 | 2 306 | 19 942 |
| Difference in expected cashflows | 2 218 | 2 172 | 437 | 57 | -1 063 | 3 821 |
| Mean duration of assets | | | | | | 5.38 years |
| Mean duration of liabilities | | | | | | 5.94 years |
| **31-12-2010[2]** | | | | | | |
| Fixed-income assets backing liabilities, guaranteed component | 12 353 | 7 245 | 2 250 | 1 504 | 1 074 | 24 425 |
| Liabilities, guaranteed component | 9 814 | 6 287 | 2 140 | 1 723 | 2 560 | 22 524 |
| Difference in expected cashflows | 2 539 | 958 | 109 | -219 | -1 487 | 1 901 |
| Mean duration of assets | | | | | | 5.40 years |
| Mean duration of liabilities | | | | | | 6.36 years |

1 Excluding a number of small group companies.

2 Excluding VITIS Life. This entity has 573 million euros in fixed-income assets backing 508 million euros' worth of guaranteed liabilities.

As mentioned above, the main interest rate risk for the insurer is a downside one. KBC adheres to a policy that takes into account the possible negative consequences of a sustained decline in interest rates, and has built up sizeable supplementary reserves, primarily for products that are most susceptible to interest rate risk. For instance, in Belgium (which accounts for the bulk of the life insurance reserves), technical provisions for products with a guaranteed rate of interest of 4.75% are calculated at a discount rate of 4%. In addition, supplementary provisions have been accumulated under a 'flashing lights' system since 2000. This system requires KBC Insurance and Fidea to set aside extra provisions if the guaranteed interest rate on a contract exceeds the 'flashing light' threshold by more than 0.1% (this threshold is equal to 80% of the average interest rate over the past five years on ten-year government bonds). By the end of 2010, KBC had obtained an exemption of 80% for the further build-up of this reserve after having proven that the current available reserves are sufficient to cover the potential loss of economic value due to a decrease in interest rates.

| **Breakdown of the reserves for non-unit-linked life insurance by guaranteed interest rate, insurance activities[1]** | **31-12-2009** | **31-12-2010[3]** |
|---|---|---|
| 5.00% and higher[2] | 3% | 3% |
| More than 4.25% up to and including 4.99% | 12% | 11% |
| More than 3.50% up to and including 4.25% | 17% | 7% |
| More than 3.00% up to and including 3.50% | 31% | 33% |
| More than 2.50% up to and including 3.00% | 25% | 22% |
| 2.50% and lower | 9% | 19% |
| 0.00% | 4% | 5% |
| Total | 100% | 100% |

1 Excluding a number of small group companies.

2 Contracts in Central and Eastern Europe.

3 Excluding VITIS Life. This entity accounts for 2.5% of total nominal exposure (68% of which is in the 'more than 2.50% up to and including 3.00%' category).

The various group companies conduct 'Liability Adequacy Tests' (LAT) that meet local and IFRS requirements. Calculations are made using prospective methods (cashflow projections that take account of lapse rates and a discount rate that is set for each insurance entity based on local macroeconomic conditions and regulations), and extra market-value margins are built in to deal with the factor of uncertainty in a number of parameters. Since no deficiencies were recorded by year-end 2010, there was no need for a deficiency reserve to be set aside within the KBC group.

## Equity risk

The equity risk profile depends largely on the core activity (banking or insurance) of the group company. Insurance companies traditionally keep relatively large equity portfolios, since equity can be used as a hedge for the discretionary participation feature (DPF) of insurance liabilities (especially profit-sharing in the Belgian market). Apart from the insurance entities, smaller equity portfolios are also held by other group entities (e.g., KBC Bank, KBL EPB, KBC Asset Management and KBC Private Equity).

Accounting techniques and the impairment procedure for equity are described in Note 1b of the 'Consolidated financial statements'. Each quarter, an impairment committee meets to determine whether impairment charges need to be recognised, with the decision it takes being based on a set of coherent indicators.

Equity risk is monitored using a VAR technique (99% one-sided confidence interval, one-year time horizon), with a limit being set for the total equity exposure of the group's ALM activities. Please note that the equity positions of the banking entities are also incorporated into the Basel II pillar 1 calculation for credit risk.

The tables below present more information on total non-trading equity exposures at KBC. All minority shareholdings are treated as equity exposures (e.g., the participation in Nova Ljubljanska banka). The first table breaks down the total equity exposure into listed and unlisted components, while the second provides an overview of concentration according to sector.

The table provides an overview of the total equity portfolio of the KBC group.

| **Equity portfolio of the KBC group**[1] | **Banking activities** | | **Insurance activities** | | **Group** | |
|---|---|---|---|---|---|---|
| (in billions of EUR) | **31-12-2009** | **31-12-2010**[2] | **31-12-2009** | **31-12-2010**[2] | **31-12-2009** | **31-12-2010**[2] |
| Total equity exposure | 1.3 | 1.1 | 1.3 | 1.4 | 2.6 | 2.6 |
| of which unlisted | 0.6 | 0.5 | 0.1 | 0.1 | 0.7 | 0.6 |

1 Excluding a number of small group companies.

2 Excluding KBL EPB and VITIS Life . KBL EPB has an equity portfolio of 0.28 billion euros, 52% of which is invested in unlisted equities. The entire portfolio of VITIS Life (45 million euros) is invested in listed equities.

The table provides an overview of the total equity portfolio of the KBC group, broken down by sector.

| **Equity portfolio of the KBC group**[1, 2] | **Banking activities** | | **Insurance activities** | | **Group** | |
|---|---|---|---|---|---|---|
| (breakdown by sector, in %) | **31-12-2009** | **31-12-2010**[3] | **31-12-2009** | **31-12-2010**[3] | **31-12-2009** | **31-12-2010**[3] |
| Financial | 17% | 46% | 26% | 21% | 23% | 32% |
| Consumer non-cyclical | 22% | 15% | 17% | 8% | 19% | 11% |
| Communication | 4% | 2% | 6% | 6% | 5% | 4% |
| Energy | 8% | 5% | 9% | 8% | 9% | 7% |
| Industrial | 8% | 5% | 8% | 10% | 8% | 8% |
| Utilities | 4% | 4% | 5% | 5% | 5% | 4% |
| Consumer cyclical | 8% | 7% | 8% | 20% | 8% | 15% |
| Basic materials | 5% | 8% | 8% | 9% | 7% | 8% |
| Other and not specified | 24% | 8% | 12% | 13% | 17% | 11% |

1 Excluding a number of small group companies.

2 A number of unlisted participations (the most material one being Nova Ljubljanska banka) were included in the scope of reporting since 2010, which accounts for the significant year-on-year increase for the 'Financial' sector (under 'Banking activities').

3 Excluding KBL EPB and VITIS Life.

The table provides an overview of the sensitivity of income and economic value to fluctuations in the equity markets. The figures include the sensitivity of unlisted equity in the different portfolios.

| **Impact of a 12.5% drop in equity prices**[1] | **Impact on net profit (IFRS)** | | **Impact on value** | |
|---|---|---|---|---|
| (in millions of EUR) | **2009** | **2010**[2] | **2009** | **2010**[2] |
| Insurance activities | -3 | -13 | -120 | -100 |
| Banking activities | -29 | -27 | -165 | -142 |
| Total | -33 | -40 | -285 | -242 |

1 Excluding a number of small group companies.

2 Excluding KBL EPB and VITIS Life. A 12.5% drop in equity prices would lead to an economic loss of 35 million euros and 5.6 million euros for KBL EPB and VITIS Life, respectively. According to KBC's impairment rules, approximately 1 million euros of these losses would appear in the income statement.

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

| Non-trading equity exposure[1] | | 31-12-2009 | | 31-12-2010[3] |
|---|---|---|---|---|
| (in millions of EUR) | Net realised gains (in income statement) | Net unrealised gains on year-end exposure (in equity) | Net realised gains (in income statement) | Net unrealised gains on year-end exposure (in equity) |
| KBC group[2] | 95 | 387 | 64 | 377 |
| Banking entities | 34 | 121 | 21 | 91 |
| Insurance entities | 58 | 293 | 45 | 338 |

1 Excluding a number of small group companies.

2 The total figure includes gains from some equity positions directly attributable to the KBC group. Gains from joint participations involving the banking and insurance entities of the KBC group have been eliminated, since these participations are consolidated at group level.

3 KBL EPB and VITIS Life have been excluded from the KBC group figure. For these entities, net realised gains amount to 9 million euros (recognised in the income statement) and the losses on year-end exposure come to 98 million euros (recognised in equity).

## Real estate risk

A limited real estate investment portfolio is held by the group's real estate businesses with a view to realising capital gains over the long term. KBC Insurance also holds a diversified real estate portfolio, which is held as an investment for non-life reserves and long-term life activities. The real estate exposure is viewed as a long-term hedge against inflation risks and as a way of optimising the risk/return profile of these portfolios.

The table provides an overview of the sensitivity of economic value to fluctuations in the property markets.

| Impact of a 12.5% drop in real estate prices[1] | Impact on value | |
|---|---|---|
| (in millions of EUR) | 2009 | 2010[2] |
| Bank portfolios | -93 | -80 |
| Insurance portfolios | -21 | -30 |
| Total | **-114** | **-110** |

1 Excluding a number of small group companies.

2 Excluding KBL EPB (VITIS Life does not carry any material real estate risk).

## Foreign exchange risk

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

## Liquidity risk

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

The principal objective of KBC's liquidity management is to be able to fund the group and to enable the core business activities of the group to continue to generate revenue, even under adverse circumstances. Since the financial crisis, there has been a greater focus on liquidity risk management throughout the industry, and this has been intensified by the minimum liquidity standards defined by the Basel Committee. At industry level, increased demand for long-term wholesale or retail funding is expected to create upward pressure on financial institutions' funding costs.

KBC is preparing for the Basel III era by gradually incorporating Basel III concepts into its liquidity and funding framework, as well as into its financial planning. Awareness of liquidity risk throughout the organisation is ensured not only through limit setting, but also through incorporating liquidity costs into the group's funds transfer pricing mechanism.

### Managing liquidity risk

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

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

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

- *Structural liquidity risk*. The group's funding structure is managed so as to maintain substantial diversification, to minimise funding concentrations in time buckets, and to limit the level of reliance on wholesale funding. Therefore, the forecasted structure of the balance sheet is reviewed regularly and the appropriate funding strategies and options developed and implemented. Measures comparable to the Basel III concepts have been monitored since the end of 2009.
  The table below illustrates structural liquidity risk by grouping the assets and liabilities according to the remaining term to maturity (contractual maturity date). The difference between the cash inflows and outflows is referred to as the 'net liquidity gap'. At year-end 2010, KBC had attracted 44 billion euros' worth of funding from the professional market. Netted with interbank lending, funding attracted through the professional market fell to 18 billion euros.

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

## Structural liquidity risk data

**Liquidity risk at year-end (excluding intercompany deals)[1]**

| (in billions of EUR) | <= 1 month | 1-3 months | 3-12 months | 1-5 years | 5-10 years | > 10 years | not defined | Total |
|---|---|---|---|---|---|---|---|---|
| **31-12-2009** | | | | | | | | |
| Total inflows | 55 | 13 | 23 | 70 | 42 | 40 | 45 | 288 |
| Total outflows[2] | 69 | 22 | 23 | 29 | 7 | 3 | 136 | 288 |
| Professional funding | 34 | 9 | 13 | 1 | 0 | 1 | 0 | 59 |
| Customer funding | 22 | 7 | 7 | 6 | 1 | 1 | 91 | 135 |
| Debt certificates | 9 | 6 | 3 | 21 | 6 | 1 | 0 | 46 |
| Other[3] | 4 | 0 | 0 | 0 | 0 | 0 | 45 | 49 |
| Liquidity gap (excl. undrawn commitments) | -14 | -8 | -1 | 41 | 35 | 37 | -91 | 0 |
| Undrawn commitments | – | – | – | – | – | – | -34 | – |
| Financial guarantees | – | – | – | – | – | – | -17 | – |
| Net liquidity gap (incl. undrawn commitments) | -14 | -8 | -1 | 41 | 35 | 37 | -142 | -51 |
| **31-12-2010[4]** | | | | | | | | |
| Total inflows | 49 | 12 | 23 | 64 | 44 | 46 | 37 | 276 |
| Total outflows[2] | 65 | 16 | 14 | 31 | 6 | 2 | 141 | 276 |
| Professional funding | 36 | 5 | 1 | 1 | 0 | 0 | 0 | 44 |
| Customer funding | 17 | 8 | 8 | 13 | 3 | 2 | 99 | 149 |
| Debt certificates | 8 | 4 | 5 | 17 | 3 | 0 | 0 | 36 |
| Other[3] | 4 | 0 | 0 | 0 | 0 | 0 | 43 | 47 |
| Liquidity gap (excl. undrawn commitments) | -16 | -4 | 9 | 34 | 38 | 44 | -105 | 0 |
| Undrawn commitments | – | – | – | – | – | – | -34 | – |
| Financial guarantees | – | – | – | – | – | – | -12 | – |
| Net liquidity gap (incl. undrawn commitments) | -16 | -4 | 9 | 34 | 38 | 44 | -151 | -46 |

1 Cashflows exclude interest rate flows consistent with internal and regulatory liquidity reporting. No inflows/outflows are reported that arise from margin calls posted/received for MtM positions in derivatives. The aim of the table is to present contractually determined flows, while potential flows arising from margin calls depend on future MtM trends.
2 'Professional funding' includes all deposits from credit institutions and investment firms, as well as all repos.
3 MtM derivatives are reported in the 'not defined' bucket.
4 Excluding KBL EPB. Because of its private banking activities, KBL EPB attracts high volumes of short-term customer deposits and grants low volumes of customer loans (an LTD of 17%).

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

## Market risk in trading activities

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

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

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

KBC continued to divest trading activities in its specialised subsidiaries in 2010 (viz. KBC Financial Products and KBC Peel Hunt). KBC Peel Hunt was sold through a management buy-out, while the following KBC Financial Products business lines were sold during the year: Insurance Derivatives, Japanese Cash Equity, Convertible Bonds, Asian Equity Derivatives and US Reverse Mortgages. The exotic equity derivatives business has been almost completely hedged away or allowed to mature. KBC Financial Products has continued to wind down its remaining business lines, including the fund derivatives and credit derivatives businesses.

## Managing market risk

The principal tool for measuring and monitoring market risk exposures in the trading book is the Historical Value-at-Risk (HVAR) method. VAR is defined as an estimate of the amount of economic value that might be lost on a given portfolio due to market risk over a defined holding period, with a given confidence level. The measurement takes account of the market risk of the current portfolio. KBC uses the historical simulation method, observing the relevant Basel II standards (99% one-sided confidence interval, ten-day holding period, historical data going back at least 250 working days). KBC uses 500 working days of historical data. The HVAR method does not rely on assumptions regarding the distribution of price fluctuations or correlations, but is based on patterns of experience over the previous two years.

Risk concentrations are monitored via a series of secondary limits, the most important being a three-dimensional scenario limit (based on movements in spot prices, volatilities and credit spreads). Other secondary limits include equity concentration limits, FX concentration limits and basis-point-value limits for interest rate risk. In addition, risks inherent in options (the so-called 'greeks') or the specific risk associated with a particular issuer or country are also subject to concentration limits. Complex and/or illiquid instruments, which are not included in HVAR calculations, are subject to nominal or scenario limits.

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

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

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

## Risk analysis and quantification

An overall VAR is calculated for each specialised subsidiary and for all trading entities worldwide. The VAR for the latter (see 'KBC Bank' in the table) includes both the linear and non-linear exposure of the traditional dealing rooms. KBC Financial Products' VAR is also shown in the table. At the end of 2010, the VAR for KBC Securities amounted to 0.3 million euros (not shown in the table). The calculation is based on a one-day holding period.

The HVAR for KBC Financial Products comprises all trading business lines. Business lines that are of a more illiquid character and that have more of a credit nature, such as fund derivatives, fall outside the scope of HVAR. The fund derivatives business is considered to be a legacy activity (i.e. no new trading activity is carried out) and is monitored on the basis of Key Performance Indicators relating to, for example, strike and redemption trends.

Both KBC Bank and KBC Financial Products have been authorised by the Belgian regulator to use their respective VAR models to calculate regulatory capital requirements for part of their trading activities. ČSOB (Czech Republic) has also received approval from the local regulator to use its VAR model for capital requirement purposes.

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

An overview of the derivative products is given under Note 29 in the 'Consolidated financial statements' section.

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

| (in millions of EUR) | KBC Bank[1, 2] | KBC Financial Products[3] |
|---|---|---|
| Average, 1Q 2009 | 10 | 14 |
| Average, 2Q 2009 | 8 | 15 |
| Average, 3Q 2009 | 6 | 9 |
| Average, 4Q 2009 | 6 | 10 |
| 31-12-2009 | 5 | 11 |
| Maximum in 2009 | 13 | 21 |
| Minimum in 2009 | 5 | 6 |
| Average, 1Q 2010 | 6 | 9 |
| Average, 2Q 2010 | 8 | 9 |
| Average, 3Q 2010 | 6 | 8 |
| Average, 4Q 2010 | 5 | 8 |
| 31-12-2010 | 4 | 7 |
| Maximum in 2010 | 15 | 13 |
| Minimum in 2010 | 4 | 6 |

1 Excluding 'specific interest rate risk' (measured using other techniques) and 'swap basis risk'.
2 Integrated HVAR (KBL EPB included in 2009, but excluded in 2010). As KBL EPB is active mainly in client facilitation services, and not in proprietary trading, it makes only a slightly contribution to the HVAR for KBC Bank.
3 Excluding the Avebury CDO and Fund Derivatives business line.

## Technical insurance risk

Technical insurance risks stem from uncertainty regarding how often insured losses will occur and how extensive they will be. All these risks are kept under control through appropriate acceptance, pricing, claims reserving, reinsurance and claims control policies of line management and through independent insurance risk management.

### Managing technical insurance risk

The management of insurance risk is founded on the principle that primary responsibility for risk control lies with line management, and that the entities responsible for value and risk management should operate independently of line management. The mission of the Insurance Risk Centre of Excellence in the Group Value and Risk Management Directorate is to develop a group-wide framework for managing insurance risks. The insurance companies have local value and risk management entities that report to their local Chief Risk Officer. At group level, the Insurance Risk Centre of Excellence is responsible for providing support for local implementation and organisation processes and for the functional direction of the insurance risk management process of these subsidiary entities. Since risk management responsibilities overlap to a considerable extent with the assignments given by legislators or regulators to actuaries, whether in their capacity as certifying actuary, appointed actuary or otherwise, these actuaries are generally (but not always) employed in the (local) risk management units.

### Risk modelling

KBC develops models gradually, from the bottom up, for all material group-wide insurance liabilities, i.e. (i) future claims that will occur over a predefined time horizon, as well as the claims settlement pattern, (ii) the future settlement of claims (whether already reported to the insurer or not) that have occurred in the past but have not yet been fully settled, and (iii) the impact of the reinsurance programme on these claims. These models are used to steer the group's insurance entities towards creating more shareholder value, by means of applications to calculate economic capital, support decisions on reinsurance, calculate the *ex post* profitability of specific sub-portfolios and set off economic capital requirements against the relevant return in pricing insurance policies.

### Stress testing

The sensitivity of the actual technical insurance results to extreme events is tested, for instance, under the International Monetary Fund's 'Financial Sector Assessment Program' or the National Bank of Belgium's uniform stress tests for insurance companies. Scenarios are used to estimate, for example, the impact, on a gross and net of reinsurance basis, of claims that are twice as large as the ones generated by the most significant natural disaster of the last 20 years (the Daria wind storm of 1990), of a non-life loss ratio equalling 150% of the worst loss ratio of the past 10 years, of upward and downward shocks of 20% to the lapse rates of life contracts, etc.

KBC's internal natural catastrophe models are able to estimate the anticipated claim costs, should natural catastrophes that have been observed in the past occur again today. Moreover, they can determine the expected impact on bottom-line economic profit of natural catastrophe events, which are expected to occur on average only once within a given time frame (e.g., 100 or 250 years).

The potential impact of stressed scenarios relating to terrorist attacks and pandemics are calculated and reported on an annual basis.

For the life insurance business, a sensitivity analysis is typically performed within the framework of the annual calculation of the embedded value. The results for three types of sensitivity to insurance risk are reported, viz. 'mortality rate: plus and minus 5%', 'lapses: plus and minus 10%', 'expenses: plus and minus 10%'.

## Reinsurance

The insurance portfolios are protected against the impact of serious claims or the accumulation of losses (due, for instance, to a concentration of insured risks) by means of reinsurance. These reinsurance programmes are divided up into three main groups: property insurance, liability insurance and personal insurance, which are re-evaluated and renegotiated every year.

Most of the reinsurance contracts are concluded on a non-proportional basis, which provides cover against the impact of serious claims or loss events. The independent insurance risk management function is also responsible for advising on the restructuring of the reinsurance programmes, especially with a view to creating shareholder value. This approach has resulted in optimising the retention of the KBC group particularly in respect of its exposure to natural catastrophe risk.

## Technical provisions and loss triangles, non-life

As part of its mission to independently monitor insurance risks, the Group Value and Risk Management Directorate regularly carries out in-depth studies. They confirm that there is a high degree of probability that the technical provisions at subsidiary level are adequate. These liability adequacy tests are performed per business line at subsidiary level and the overall adequacy is assessed at subsidiary level for all business lines combined.

The table shows claims settlement figures in the non-life business over the past few years and includes KBC Insurance NV, Fidea, ČSOB Pojišťovna (Czech Republic), ČSOB Poisťovňa (Slovak Republic, from financial year 2008), DZI Insurance (from financial year 2008), K&H Insurance, Secura (up to and including financial year 2009), Assurisk (from financial year 2005) and WARTA (from financial year 2004). All provisions for claims to be paid at the close of 2010 have been included. The claims-settlement figures incorporate all amounts that can be allocated to individual claims, including the Incurred But Not Reported (IBNR) and Incurred But Not Enough Reserved (IBNER) provisions, and the external handling expenses for settling claims, but do not include internal claims settlement expenses and provisions for amounts expected to be recovered. The figures included are before reinsurance and have not been adjusted to eliminate intercompany amounts.

The first row in the table shows the total claims burden (claims paid plus provisions) for the claims that occurred during a particular year, as estimated at the end of the year of occurrence. The following rows indicate the situation at the end of the subsequent calendar years. The amounts were restated to reflect exchange rates at year-end 2010.

**Loss triangles, KBC Insurance**

| (in millions of EUR) | Year of occurrence 2001 | Year of occurrence 2002 | Year of occurrence 2003 | Year of occurrence 2004[1] | Year of occurrence 2005[2] | Year of occurrence 2006 | Year of occurrence 2007 | Year of occurrence 2008[3] | Year of occurrence 2009 | Year of occurrence 2010 |
|---|---|---|---|---|---|---|---|---|---|---|
| Estimate at the end of the year of occurrence | 816 | 933 | 774 | 1 080 | 1 110 | 1 194 | 1 267 | 1 400 | 1 480 | 1 477 |
| 1 year later | 759 | 820 | 796 | 982 | 1 014 | 1 083 | 1 174 | 1 345 | 1 185 | – |
| 2 years later | 709 | 830 | 763 | 938 | 978 | 1 055 | 1 132 | 1 180 | – | – |
| 3 years later | 729 | 824 | 743 | 924 | 977 | 1 041 | 1 000 | – | – | – |
| 4 years later | 721 | 814 | 727 | 915 | 958 | 906 | – | – | – | – |
| 5 years later | 709 | 799 | 699 | 910 | 871 | – | – | – | – | – |
| 6 years later | 715 | 793 | 691 | 851 | – | – | – | – | – | – |
| 7 years later | 711 | 787 | 652 | – | – | – | – | – | – | – |
| 8 years later | 713 | 755 | – | – | – | – | – | – | – | – |
| 9 years later | 674 | – | – | – | – | – | – | – | – | – |
| Current estimate | 674 | 755 | 652 | 851 | 871 | 906 | 1 000 | 1 180 | 1 185 | 1 477 |
| Cumulative payments | -590 | -667 | -565 | -735 | -729 | -747 | -791 | -912 | -801 | -626 |
| Current provisions | 84 | 88 | 86 | 116 | 142 | 160 | 208 | 268 | 384 | 851 |

1 From the 2004 financial year, WARTA's figures have been included. If this company had not been taken into account, the following amounts would have been arrived at for financial year 2004 (amount and year of occurrence): 695 for 2001; 780 for 2002; and 690 for 2003.

2 From the 2005 financial year, Assurisk's figures have been included. If these figures had not been taken into account, the following amounts would have been arrived at for financial year 2005 (amount and year of occurrence): 715 for 2001; 816 for 2002; 761 for 2003; and 953 for 2004.

3 From the 2008 financial year, the figures for ČSOB Poist'ovňa (Slovak Republic) and DZI Insurance (Bulgaria) have been included. If these figures had not been taken into account, the following amounts would have been arrived at for financial year 2008 (amount and year of occurrence): 710 for 2001; 791 for 2002; 696 for 2003; 912 for 2004; 960 for 2005; 1 039 for 2006 and 1 132 for 2007.

Specific information on the insurance activities of the group can be found under Notes 9, 10, 11 and 35 in the 'Consolidated financial statements' section. A breakdown by business unit of earned premiums and technical charges is provided in the notes dealing with segment reporting.

## Operational and other non-financial risks

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

Information on legal disputes can be found in Note 36 of the 'Consolidated financial statements' section.

### Managing operational risk

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

The development and implementation of this framework is supported by an extensive operational risk governance model. Covering all entities of the group, the framework was redesigned in 2010 and will gradually be implemented in 2011-2012.

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

The Group Risk Management Committee (GRMC) advises the Group Executive Committee on the group-wide framework for managing operational risks, and the Group Risk and Capital Oversight Committee (GRCOC) oversees the main operational risks.
Besides these group committees, there are a variety of risk committees at business-unit level and at various group companies. They keep close track of the practical implementation of the operational risk management framework and also take concrete measures either directly or via line management. All departments that are involved in one way or another in managing operational risks can gain access to the risk committees whenever they feel it is necessary.

The Group Value and Risk Management Directorate is primarily responsible for defining the operational risk management framework for the entire group. This framework is submitted to the GRMC and the Group Executive Committee for approval. The directorate is also responsible for overseeing the practical implementation by line management of this framework. In addition, it supervises the quality of the risk management process, analyses the main risk data and reports to the GRCOC.
The Group Value and Risk Management Directorate creates an environment where risk specialists (in various areas, including information risk management, business continuity and disaster recovery, compliance, anti-fraud, legal and tax matters) can work together (setting priorities, using the same language and tools, uniform reporting, etc.). It is assisted by the local value and risk management units, which are likewise independent of the business.

## The building blocks for managing operational risks

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

- *The Loss Event Database*. All operational losses of 1 000 euros or more have been recorded in a central database since 2004. This database includes all legal claims filed against group companies. Consolidated loss reports are regularly submitted to the GRCOC, the Executive Committee and the Audit, Risk and Compliance Committee.
- *Risk Scans (bottom-up and top-down)*. These *self-assessments* focus on actual (= residual) key operational risks at critical points in the process/organisation that are not properly mitigated, and on new or emerging operational risks that are relevant at (sub)group level
- *Group Key Controls*. Around 25 Group Standards have been developed into Group Key Controls to ensure that key operational risks are managed uniformly throughout the group. Each group entity has to translate these key controls into specific procedures that are adapted to the local situation. The various risk committees monitor the proper implementation of the controls and may allow exceptions to be made (subject to the observance of a strict waiver procedure). Adherence to Group Key Controls is subject to reviews by Group Value and Risk Mangement and Internal Audit.
- *Case-Study Assessments*. These are used to test the effectiveness of the protection afforded by existing controls against major operational risks that have actually occurred elsewhere in the financial sector. One such assessment was used to test the internal controls for preventing and identifying rogue trading practices.
- *Key Risk Indicators*. These help monitor the exposure to certain operational risks and track the existence and effectiveness of the internal controls.

## Operational risk and regulatory capital requirements

KBC uses the Standard Approach to calculate operational risk capital under Basel II. Operational risk capital for KBC Bank at the consolidated level totalled 860 million euros at the end of 2010 (this figure excludes KBL EPB, which contributes approximately 72 million euros to the total operational risk capital of the KBC group).

## Other non-financial risks

**Reputation risk**

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

The pro-active and re-active management of reputation risk is the responsibilty of the business, supported by many specialist units (e.g., the Press Office, Investor Relations). A dedicated knowledge centre for reputation risk management is being established to further develop the current framework for managing this type of risk across the group.

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

**Business Risk**

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

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

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

## Solvency, economic capital and embedded value

Solvency risk is the risk that the capital base of the group, the bank or the insurer might fall below an acceptable level. In practice, this entails checking solvency against the minimum regulatory and in-house solvency ratios. Solvency, or 'capital adequacy', is approached from both a regulatory and an internal (economic) perspective.

### Managing solvency

KBC reports its solvency at group, banking and insurance level, calculating it on the basis of IFRS figures and the relevant guidelines issued by the Belgian regulator.

For group solvency, the so-called 'building block' method is used. This entails comparing group regulatory capital (i.e. parent shareholders' equity less intangible assets and a portion of the revaluation reserve for available-for-sale assets, plus subordinated debt, etc.) with the sum of the separate minimum regulatory solvency requirements for KBC Bank, KBL EPB and the holding company (after deduction of intercompany transactions between these entities) and KBC Insurance. The total risk-weighted volume of insurance companies is calculated as the required solvency margin under Solvency I divided by 8%.

| In-house solvency target at group level (Basel II) – 2010 | Target |
|---|---|
| Tier-1 ratio | 10% |
| Core tier-1 ratio | 8% |

Regulatory minimum solvency targets were amply exceeded in 2010, not only at year-end, but also throughout the entire year.

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

### Capital-strengthening measures with the Belgian State and Flemish Regional Government

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

## Solvency at group level

| **Solvency at group level (consolidated, including KBL EPB, Basel II)** (in millions of EUR) | **31-12-2009** | **31-12-2010** |
|---|---|---|
| **Total regulatory capital, after profit appropriation** | **20 414** | **21 726** |
| **Tier-1 capital**[1] | **15 426** | **16 656** |
| Parent shareholders' equity | 9 662 | 11 147 |
| Non-voting core-capital securities | 7 000 | 7 000 |
| Intangible fixed assets (-) | -398 | -429 |
| Goodwill on consolidation (-) | -2 918 | -2 517 |
| Innovative hybrid tier-1 instruments | 554 | 598 |
| Non-innovative hybrid tier-1 instruments | 1 642 | 1 689 |
| Minority interests | 159 | 161 |
| Equity guarantee (Belgian State) | 601 | 446 |
| Revaluation reserve, available-for-sale assets (-) | -457 | -66 |
| Hedging reserve, cashflow hedges (-) | 374 | 443 |
| Valuation differences in financial liabilities at fair value – own credit risk (-) | -151 | -190 |
| Minority interests in available-for-sale reserve and hedging reserve, cashflow hedges (-) | -1 | -3 |
| Equalisation reserves (-) | -131 | -128 |
| Dividend payout (-)[2] | 0 | -854 |
| IRB provision shortfall (50%) (-)[3] | -77 | 0 |
| Limitation of deferred tax assets | 0 | -243 |
| Items to be deducted (-)[4] | -433 | -397 |
| **Tier-2 and tier-3 capital** | **4 988** | **5 069** |
| Perpetuals (including hybrid tier-1 instruments not used in tier-1 capital) | 321 | 30 |
| Revaluation reserve, available-for-sale shares (at 90%) | 348 | 392 |
| Minority interests in revaluation reserve, available-for-sale shares (at 90%) | 0 | 0 |
| IRB provision shortfall (50%) (-)[3] | -77 | 0 |
| IRB provision excess (+)[3] | 0 | 132 |
| Subordinated liabilities | 4 685 | 4 730 |
| Tier-3 capital | 145 | 182 |
| Items to be deducted (-)[4] | -433 | -397 |
| **Total weighted risks** | **143 359** | **132 034** |
| Banking | 128 303 | 116 129 |
| Insurance[5] | 15 022 | 15 676 |
| Holding-company activities | 86 | 264 |
| Elimination of intercompany transactions between banking and holding-company activities | -52 | -34 |
| **Solvency ratios** | | |
| Tier-1 ratio | 10.8% | 12.6% |
| Core tier-1 ratio | 9.2% | 10.9% |
| CAD ratio | 14.2% | 16.5% |

1 Audited figures (except for 'IRB provision shortfall').
2 Includes the dividend on ordinary shares and the coupon on non-voting core-capital securities sold to the Belgian State and Flemish Region.
3 Excess/shortfall is defined as the (positive/negative) difference between the actual loan loss impairment recognised and the 'expected loss' calculation.
4 Items to be deducted, which are split 50/50 over tier-1 and tier-2 capital, include mainly participations in and subordinated claims against financial institutions in which KBC has between a 10% and 50% share (primarily Nova Ljubljanska banka).
5 Weighted risks for insurance are calculated by multiplying capital under Solvency I by a factor 12.5 (8% rule similar to the relationship between RWA and capital for banking).

On 31 December 2010, new rules entered into effect with respect to the characteristics and proportions of hybrid instruments that can be included in pillar I tier-I capital ('CRD II'). The instruments issued by KBC are not yet fully compliant with these new requirements. However, the European Directive and the Belgian regulation allow for a transition period, during which instruments that are no longer compliant can still be included in tier-I capital. During the first ten years, there will be no additional cap on these grandfathered instruments.

## Solvency, KBC Bank and KBC Insurance separately

The table below shows the tier-1 and CAD ratios calculated under Basel II for KBC Bank, as well as the solvency ratio of KBC Insurance. More information on the solvency of KBC Bank and KBC Insurance can be found in their consolidated financial statements and in KBC's *Risk Report*, which is available at www.kbc.com (the risk report has not been audited by the statutory auditor).

| **Solvency, KBC Bank and KBC Insurance separately** (in millions of EUR) | **31-12-2009** | **31-12-2010** |
|---|---|---|
| **KBC Bank (consolidated, Basel II)** | | |
| Total regulatory capital, after profit appropriation | 17 761 | 18 552 |
| Tier-1 capital[1] | 13 440 | 13 809 |
| Tier-2 and tier-3 capital | 4 320 | 4 743 |
| Total weighted risks | 123 074 | 111 711 |
| of which credit risk | 107 133 | 97 683 |
| of which market risk[2] | 5 062 | 3 279 |
| of which operational risk | 10 879 | 10 749 |
| Tier-1 ratio | 10.9% | 12.4% |
| of which core tier-1 ratio | 9.0% | 10.5% |
| CAD ratio | 14.4% | 16.6% |
| **KBC Insurance (consolidated, Solvency I)** | | |
| Available capital[1] | 3 130 | 2 712 |
| Required solvency margin | 1 202 | 1 254 |
| Solvency ratio (%) | 260% | 216% |
| Solvency surplus | 1 928 | 1 458 |

1 Audited figures.

2 Counterparty risk was retroactively shifted from market risk to credit risk.

## European stress tests

The results of the EU stress tests were published on 23 July 2010. These tests were co-ordinated by the Committee of European Banking Supervisors (CEBS), in co-operation with the European Central Bank, the CBFA (Belgian supervisory authority) and the National Bank of Belgium. As regards KBC, the stress test focused on KBC Bank at the consolidated level. The exercise was conducted using the scenarios, methodology and key assumptions provided by CEBS (see the aggregate report published at www.eba.europa.eu).

As a result of the assumed shocks under the adverse scenario, the estimated consolidated tier-1 capital ratio would drop to 9.8% in 2011 compared with 10.9% at the end of 2009. KBC is satisfied that the outcome of the stress test proves that, even under these stress scenarios, the bank adequately meets the legal and market requirements in terms of solvency. More information in this regard is provided in the press release of 23 July 2010, which is available at www.kbc.com. The European Banking Authority (EBA), the newly established European authority that officially took over the tasks of CEBS on 1 January 2011, has planned to conduct new stress tests in 2011.

## Basel III

The so-called Basel III agreement, which introduces new, more stringent capital requirements for financial institutions, was published on 16 December 2010. Under this agreement, the legal minimum tier-1 ratio, which stood at 4% under Basel II, will be increased to 4.5% in 2013, and gradually increase to 6% in 2015 (with a common equity ratio of 4.5%). On top of this, a so-called 'conservation buffer' (0% in 2013, gradually rising to 2.5% in 2019), a 'countercyclical buffer' (of between 0% and 2.5%, to be determined by the national regulatory authority) and an extra charge for global systemic banks will be applied. Certain elements used in the calculation of regulatory capital will be gradually phased out or changed. The capital injections received from the government (for KBC, the 7 billion euros' worth of core capital securities sold to the Belgian State and Flemish Regional Government in 2008 and 2009) will be classified as additional tier-1 capital and will be grandfathered until 2018.

As regards the current Basel III proposals, KBC will – based on estimates and barring any unforeseen circumstances – be compliant with the new capital and liquidity standards currently being contemplated.

## Economic capital

An economic capital model is used to measure the overall risk KBC is exposed to through its various activities, taking the different risk factors into consideration. The estimates generated by this model are reported on a quarterly basis to the GRCOC, the Group Executive Committee, the Audit, Risk and Compliance Committee and the Board of Directors.

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

As mentioned previously, economic capital is used as a major building block for ICAAP (Basel II, pillar 2). In addition, it provides essential input for internal valuation models, such as the Market Consistent Embedded Value model (see below).

The breakdown of KBC's economic capital per risk type is provided in the table. The noticeable movement in the distribution of economic capital across the different risk types is only partly related to changes in risk exposures. For the most part, the differences arise from changes being made to the economic capital model. Indeed, the model – which is the result of an internal assessment – is reviewed on a regular basis.

| **Economic capital distribution, KBC group[1]** | **2009** | **2010[2]** |
|---|---|---|
| Credit risk | 64% | 69% |
| Non-trading market risk | 14% | 12% |
| Trading market risk | 3% | 3% |
| Business risk | 8% | 6% |
| Operational risk | 6% | 5% |
| Insurance risk | 3% | 3% |
| Funding cost risk | 2% | 2% |
| **Total** | **100%** | **100%** |

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

2 Excluding KBL EPB and VITIS Life, whose combined contribution to KBC's economic capital was around 4%.

## Embedded value in the life insurance business

The value of the life insurance portfolio is expressed by embedded value. This is the sum of the Adjusted Net Asset Value, or ANAV, of KBC Insurance and the present value of all future cash flows coming in from the existing portfolio (Value of Business in Force or VBI), account taken of the risk-based capital required for this activity. Any form of goodwill – or value of future business – is not taken into account.

KBC applies the 'Market-Consistent Embedded Value' technique, which results in a valuation of the insurance portfolio that is consistent with the market and takes into account such factors as the cost of the embedded options provided to the customer. This calculation method is also being used to analyse the added value of new contracts (Value of New Business or VNB) and to check the profitability of products under development (Profit Testing).

Detailed embedded value information will be published at www.kbc.com.

# Corporate social responsibility

**Extensive information on Corporate Social Responsibility is provided in our CSR Report for 2010**

## Corporate social responsibility in our group

Corporate social responsibility (CSR) is a long-term process which requires ongoing adaptation of and improvement in the way a company conducts its business, not only for the purpose of making a financial profit, but also in response to the increasing demands for transparency and accountability placed on the company by its stakeholders (employees, customers, shareholders, suppliers, etc.) and by society as a whole.

KBC's vision on CSR is embedded in its mission statement, and more specific commitments are set out in its *Principles for Socially Responsible Business*.

For a number of years now, the group has also been publishing an annual *Corporate Social Responsibility Report*, which deals with its vision and achievements in this area. This report provides group-wide information on CSR, including quantitative data on KBC staff and the group's ecological footprint. It is compiled in accordance with the reporting requirements set out in the Global Reporting Initiative *G3 Guidelines* and the United Nations *Global Compact* principles, and is available at www.kbc.com.

## Examples of initiatives on the CSR front in 2010

As in previous years, KBC embarked on various new initiatives in the field of CSR in 2010, more details of which appear in our CSR Report. A few examples of the initiatives taken and the awards received for environmental and community involvement are listed below.

- Following on from its success in 2009, KBC was again awarded the prestigious Solidaritest® Champions label. Solidaritest® is an annual survey into the efforts that Belgian companies actually make in the field of social solidarity. In KBC's case, it relates to a number of areas, including its active involvement in the *Levenslijn* campaign for young victims of traffic accidents, its work with *De Sleutel* – a drug prevention centre – and with *Solidariteitsplan,* which provides support to employees participating in local social projects.
- In Belgium, KBC's renewable energy team achieved good market penetration in respect of financing renewable energy projects, including biogas installations and solar panels for industrial projects. A special renewable energy team has been collecting information and providing support to the network and decision-makers since 2007. It has 20 members active in different areas within KBC.

A large number of KBC employees in Belgium donate blood on a regular basis as part of the *Bloed geven doet leven* (Give blood, give life) campaign. KBC also organises annual blood collection drives in its administrative buildings in Brussels and Leuven, which attract hundreds of donors. In recognition of this effort, the Red Cross has awarded KBC the 'Company with a heart' logo.

- KBC pursues a restrictive policy with regard to companies manufacturing controversial weapons. In the autumn of 2010, KBC Asset Management acted on a proposal made by the External Advisory Board for Sustainability Analysis and duly compiled a new extensive black list of such companies. The list contains 49 companies involved in the development, testing, storage or manufacture of (essential components of) controversial weapons systems. All of these companies are excluded from KBC investment funds. The list has been drawn up partly on the basis of information provided by Ethix SRI Advisors, an SRI consultancy.
- For some years now, ČSOB has been running volunteer days for its staff in the Czech Republic, giving them the opportunity to carry out voluntary work for non-profit organisations. In the summer of 2010, they lost no time in joining the wave of solidarity that swept the country in response to the extensive damage caused by floods. ČSOB's employees were given the chance to help with the clean-up operation.
- In September, CIBANK – in co-operation with MasterCard – launched a charity drive in Bulgaria to collect funds for children with serious kidney disorders. The proceeds are being used to purchase modern equipment for the Clinic of Nephrology and Haemodialysis at the University Children's Hospital.

- In June, KBC joined forces with the educational publisher Van In and launched two new financial education packages in Belgium to replace previous educational brochures. The first package is designed for pupils in years five and six at Dutch-speaking primary schools, and the second for pupils in years one and two at Dutch-speaking secondary schools. Both packages are called *Een bank vooruit! Je klare kijk op geld (en verzekeringen)* (Top of the Class in Banking and Insurance) and meet the ever-growing need of schools for teaching material on financial topics.
- In Hungary, K&H has provided its support to paediatric wards and hospitals for many years as part of the K&H Medi-Magic Programme. During a month-long campaign in 2010, 22 K&H branches throughout the country collected more than 5 000 books and toys and distributed them to children in various paediatric hospitals.
- To move towards a greener vehicle fleet, KBC Autolease participated in the 'Cleaner Car Contracts' programme, which was established by a group of six international environmental organisations, including the *Bond Beter Leefmilieu* in Belgium. KBC Autolease has accepted the 'Gold Fleet' challenge to reduce the average $CO_2$ emissions of newly ordered lease cars to a maximum of 120 g/km by 2012.

| **Environmental efficiency data for the KBC group in Belgium** (per FTE)* | **2009** | **2010** |
|---|---|---|
| **Energy consumption** (in GJ) | | |
| Electricity | 24.8 | 24.3 |
| Provided by renewable energy sources | 100% | 100% |
| Fossil fuels (gas and heating oil) | 14.5 | 15.0 |
| **Distances travelled** (in km) | | |
| Commuter travel | 10 427 | 9 542 |
| Business travel | 7 202 | 5 294 |
| **Paper and water consumption, waste** | | |
| Paper (in tonnes) | 0.17 | 0.17 |
| Water (in m³) | 12.9 | 9.3 |
| Waste (in tonnes) | 0.23 | 0.23 |
| **Greenhouse gas emissions** (in tonnes) | 2.2 | 2.2 |

* Based on available data for Belgium (roughly 16 300 FTEs in 2010); methodological information is given in the group's CSR Report.

## Our employees

At KBC, our employees are crucial to our group's success. We therefore wish to offer them every opportunity to develop both professionally and personally.

Employee satisfaction is important for attracting and keeping motivated staff. In an external survey organised by the Vlerick Leuven Gent Management School and the Great Place to Work® Institute in 2010, KBC was again recognised as one of the 10 'Best Employers in Belgium'. KBC also regularly conducts employee satisfaction surveys of its own and uses the findings to take selective measures.

Through continual assessment and by adjusting its remuneration policy to take account of the latest labour-market trends, KBC aims to increase its employees' potential for development and to pay them a salary that is commensurate with their performance. It also devotes attention to updating the job classification system, to the career growth path of new junior managers, and to alternative remuneration schemes such as the 'cafeteria plan', where staff can opt for a salary-only package or a salary package plus benefits they choose themselves. Sensitive to its employees' mobility problems, the group runs projects for staff to work locally or from home, organises free shuttle buses between railway stations and head office buildings, facilitates carpooling, cycling and the use of public transport, and is making the vehicle fleet more environmentally friendly.

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

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

KBC works very closely with the employee organisations, holding talks with the works council and its committees, and consulting with the health and safety committees and union representatives. Representatives from its establishments in Central and Eastern Europe also participate in the European Works Council. At the end of November 2010, a new Collective Labour Agreement (CLA) was concluded with the social partners for the variable pay for financial years 2011 and 2012. This CLA builds on previously agreed basic principles such as income security, sustainability and transparency.

The following table provides an overview of the total workforce and a breakdown into various categories. In 2010, the total number of employees in the group fell to just over 50 000 FTEs (excluding KBL EPB), or around 53 000 FTEs (including KBL EPB), due in part to the strategic refocus on selling or scaling down certain subsidiaries and activities.

Additional information on staff expenses, employee stock options and the average number of persons employed can be found in Notes 12 and 13 of the 'Consolidated financial statements' section.

| **Number of staff, KBC group (end of 2010)** | **31-12-2009** | **31-12-2010** |
|---|---|---|
| **In FTEs*** | **54 185** | **50 494 (excl. KBL EPB)<br>52 949 (incl. KBL EPB)** |
| In % (based on figures excluding KBL EPB) | | |
| Belgium | 33% | 35% |
| Central & Eastern Europe and Russia | 58% | 61% |
| Rest of the world | 9% | 4% |
| Belgium Business Unit | 21% | 23% |
| Central & Eastern Europe Business Unit | 41% | 43% |
| Merchant Banking Business Unit | 7% | 6% |
| Shared Services & Operations Business Unit | 16% | 17% |
| Group Centre (including scheduled divestments) | 15% | 11% |
| Men | 41% | 40% |
| Women | 59% | 60% |
| Full-time | 85% | 84% |
| Part-time | 15% | 16% |
| Average age (in years) | 39 | 40 |
| Average seniority (in years) | 10.4 | 11.5 |

* Some figures for 2009 have been restated to take account of a change in methodology. The figures do not include the distribution network of the insurance companies.

# Corporate governance statement

**More information on corporate governance at KBC can be found in its *Corporate Governance Charter* at www.kbc.com**

## Corporate governance at our group and the applicable code

KBC Group NV has adopted the 2009 version of the Belgian Corporate Governance Code (the 'Code') as its benchmark. This code can be viewed on the website of the Corporate Governance Committee (www.corporategovernancecommittee.be). The Code seeks to ensure transparency in corporate governance by requiring every listed company to disclose information in two separate documents: the *Corporate Governance Charter* (the 'Charter') and the *Corporate Governance Statement* (the 'Statement').

The Charter sets out the main aspects of a company's corporate governance, such as its governance structure, the internal regulations of the Board of Directors, its committees, and the Executive Committee, together with other important topics. KBC Group NV publishes its Charter on www.kbc.com.

The Statement is published in the annual report and contains more factual information regarding the company's corporate governance, including the composition and activities of the Board of Directors, any relevant events during the year under review, the reasons for any non-compliance with the Code, the remuneration report, and a description of the main features of the internal control and risk management systems.

On 23 April 2010, the Act on the reinforcement of corporate governance in listed companies and autonomous public undertakings (…) of 6 April 2010 (the 'Act') was published. In application of European regulations, listed companies are required under this act to include a corporate governance statement in their annual reports. This statement must contain a minimum amount of information.

All points that must be disclosed under the Code and the Act are covered below, as are a number of other disclosures required by law. Unless otherwise indicated, the period dealt with in this Statement runs from 1 January 2010 to 31 December 2010.

## Composition of the Board of Directors and its committees

The table on the next page shows the members of the Board of Directors (the Board) and its committees on 31 December 2010. A list of the external offices held by all members of the Board of Directors is provided, as stipulated by the Belgian supervisory authority, at www.kbc.com. A brief CV for each director can also be found on this site.

## Composition of the Board of Directors on 31 December 2010

| Name | Primary responsibility | Period served on the Board in 2010 | End, current term of office | Board meetings attended | Non-executive directors | Core shareholders' representatives | Independent directors | Government-appointed directors | Members of the Executive Committee | Audit, Risk and Compliance Committee | Nomination Committee | Remuneration Committee |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Number of meetings in 2010:** | | | | 13 | | | | | | 8 | 4 | 6 |
| Jan Huyghebaert | Chairman of the Board of Directors | Full year | 2012 | 13 | ■ | | | | | | 4* | |
| Philippe Vlerick | Deputy Chairman of the Board of Directors CEO, Vlerick Group | Full year | 2013 | 11 | ■ | ■ | | | | | 3 | |
| Jan Vanhevel | President of the Executive Committee and Executive Director | Full year | 2014 | 13 | | | | | ■ * | | 4 | |
| Paul Borghgraef | Director of various companies | Full year | 2013 | 13 | ■ | ■ | | | | | | |
| Alain Bostoen | Managing Director, Christeyns NV | 8 months | 2014 | 10 | ■ | ■ | | | | | | |
| Jo Cornu | Director of various companies | Full year | 2012 | 12 | ■ | | ■ | | | | 2 | 6* |
| Marc De Ceuster | Professor, Accounting and Finance Department, Universiteit Antwerpen | Full year | 2014 | 12 | ■ | | | ■ | | 7 | | |
| Franky Depickere | Managing Director, Cera Beheersmaatschappij NV and Almancora Beheersmaatschappij NV, Chairman of the Day-to-Day Management Committee, Cera CVBA | Full year | 2011 | 13 | ■ | ■ | | | | 8* | 4 | 4 |
| Luc Discry | Managing Director, Cera Beheersmaatschappij NV and Almancora Beheersmaatschappij NV, member of the Day-to-Day Management Committee, Cera CVBA | 4 months | Co-opted until 2011 AGM | 3 | ■ | ■ | | | | | | |
| Frank Donck | Managing Director, 3D NV | Full year | 2011 | 13 | ■ | ■ | | | | | | |
| Jean-Pierre Hansen | Member of the Executive Committee of GDF Suez | 8 months | 2014 | 9 | ■ | | | ■ | | | | |
| Dirk Heremans | Professor Emeritus at the Faculty of Business and Economics, Katholieke Universiteit Leuven (KUL) | Full year | 2013 | 13 | ■ | | ■ | | | 8 | | |
| Lode Morlion | Mayor of Lo-Reninge and Chairman of the Board of Directors of Cera Beheersmaatschappij NV | Full year | 2012 | 13 | ■ | ■ | | | | | | |
| Philippe Naert | Director of various companies | Full year | 2013 | 13 | ■ | | ■ | | | 7 | | 5 |
| Luc Philips | Executive Director | 8 months | 2014 | 9 | | | | | ■ | | | |
| Theodoros Roussis | CEO, Ravago Plastics NV | Full year | 2012 | 12 | ■ | ■ | | | | 7 | | |
| Hendrik Soete | CEO, Aveve Group, and Director, MRBB CVBA | Full year | 2013 | 12 | ■ | ■ | | | | | | |
| Eric Stroobants | Honorary Secretary-General of the Flemish Regional Government, holder of various offices | Full year | 2014 | 11 | ■ | | | ■ | | | | 5 |
| Alain Tytgadt | Managing Director, Metalunion CVBA | Full year | 2013 | 12 | ■ | ■ | | | | | | |
| Ghislaine Van Kerckhove | Lawyer and Deputy Chairperson of the Board of Directors of Cera Beheersmaatschappij NV | Full year | 2012 | 12 | ■ | ■ | | | | | | |
| Charles Van Wymeersch | Full professor at the Facultés Universitaires Notre-Dame de la Paix (Namur) and the Louvain School of Management | Full year | 2013 | 10 | ■ | ■ | | | | | | |
| Piet Vanthemsche | Chairman of the Boerenbond and MRBB CVBA | 8 months | 2014 | 7 | ■ | ■ | | | | | 1 | |
| Marc Wittemans | Managing Director, MRBB CVBA | Full year | 2014 | 13 | ■ | ■ | | | | 7 | | |

Auditor: Ernst & Young Bedrijfsrevisoren BCVBA, represented by Pierre Vanderbeek and/or Peter Telders.

Secretary to the Board of Directors: Tom Debacker.

* Chairman of the committee.

In 2010, the following changes occurred in the composition of the Board of Directors:

At the general meeting of 29 April 2010:
- Having reached the age limit, Paul Bostoen and Luc Debaillie relinquished their seats on the Board when their terms of office came to an end at this meeting. On the same date, Noël Devisch also stepped down from the Board for personal reasons, while Chris Defrancq retired as Executive Director.
- Jean-Pierre Hansen and Eric Stroobants (representatives of the Belgian Federal Government) and Professor Marc De Ceuster (representative of the Flemish Regional Government) were appointed as directors for a period of four years.
- On the advice of the Nomination Committee, Jan Vanhevel – who had been co-opted as director to succeed André Bergen with effect on 1 September 2009 – was duly appointed to this position for a period of four years. He holds the title of executive director.
- On the advice of the Nomination Committee, Germain Vantieghem and Marc Wittemans were re-appointed as directors for a further period of four years.
- On the advice of the Nomination Committee, Alain Bostoen, Piet Vanthemsche and Luc Philips were appointed as directors for a period of four years. Luc Philips holds the title of executive director.
- Jo Cornu was confirmed as independent director within the meaning of and in line with the criteria set out in Article 526*ter* of the Belgian Companies Code and in the Corporate Governance Code.

Brief CVs for the new executive directors were published in last year's annual report.

The following events took place later in the financial year:
- Germain Vantieghem retired on 13 August 2010 and was succeeded by Luc Discry, who was appointed to the Board by co-option on 23 September 2010.
- Etienne Verwilghen, Executive Director and CEO of the European Private Banking Business Unit, stepped down from the Board and took retirement on 15 November 2010.

At the General Meeting of 28 April 2011:
- Luc Philips will relinquish his seat on the Board.
- On the advice of the Nomination Committee, the Board of Directors will propose to the General Meeting that:
  - Luc Discry be duly appointed as director for a period of four years;
  - Franky Depickere and Frank Donck, whose terms of office end at the General Meeting, be re-appointed as directors for a further period of four years;
  - Thomas Leysen, John Hollows and Luc Popelier be appointed as directors for a period of four years.

Brief CVs for the new executive directors are given below:
- Luc Discry
  Born in Wilrijk, in 1951.
  Master's Degree in Commercial Engineering (Rijksuniversitair Centrum Antwerpen, 1974); company auditor (1982); auditor recognised by the Belgian Banking, Finance and Insurance Commission (CBFA) for banks (1984), investment funds (1984) and insurance companies (1986).
  Luc Discry started his career as a supervisor at Ernst & Young (1975-1981), before becoming a partner at Hendrickx, Van Woensel & Co (1981-1997), and then a partner at PricewaterhouseCoopers (1997-2009), where he was appointed lead partner in the Financial Services department (2001-2010). Under the supervision of the CBFA and the Belgian Insurance Supervisory Authority, he has performed audits at many financial institutions and listed companies. He was also auditor for various national and international groups, SMEs, pension funds, etc. Since August 2010, he has been a managing director of Cera Beheersmaatschappij NV and Almancora Beheersmaatschappij NV, and a member of the Day-to-Day Management Committee of Cera CVBA.
- Thomas Leysen
  Born in Wilrijk, in 1960.
  Master's Degree in Law (KU Leuven, 1983).
  Thomas Leysen was CEO of the Transcor Group (1983-1988). After joining Umicore, he took a seat on the Executive Committee (1993-1998) and went on to become Executive Vice President (1998-2000), CEO (2000-2008) and finally Chairman (2008 to date). He was a member of the Board of Directors of the KBC Bank and Insurance Holding Company NV (1997-2002). He is Chairman of the Board of Directors of Corelio and a member of the Boards of Directors of CMB, UCB and Etex Group. He also sits on the Supervisory Board of Bank Metzler in Frankfurt. He is Chairman of the Federation of Enterprises in Belgium (until March 2011), President of the Belgium-Japan Association, a member of the Trilateral Commission and a member of the European Round Table of Industrialists.

- John Hollows and Luc Popelier
  Brief CVs for both gentlemen were published in last year's annual report.

The agenda for the General Meeting is available at www.kbc.com.

The following events took place within the committees of the Board of Directors:
- Following his appointment to the position of director at the General Meeting of 29 April 2010, Marc De Ceuster (representative of the Flemish Regional Government) took a permanent seat on the Audit, Risk and Compliance Committee, where he had previously been sitting as an observer.
- After being appointed to succeed Noël Devisch as director at the same General Meeting – and on the advice of the Nomination Committee – Piet Vanthemsche was appointed to the Nomination Committee by the Board of Directors on 23 September 2010. On 28 January 2011 and again on the advice of the Nomination Committee, the Board appointed Jean-Pierre Hansen (director and representative of the Belgian Federal Government) to the Nomination Committee.
- Following his appointment to the position of director at the aforementioned General Meeting, Eric Stroobants (representative of the Belgian Federal Government) took a permanent seat on the Remuneration Committee, where he had previously been sitting as an observer.
- On 25 March 2010 and following the advice of the Nomination Committee, the Board of Directors approved a change in the composition of the Remuneration Committee. Accordingly, Franky Depickere took the place of Jan Huyghebaert who resigned from that committee. On 28 February 2011 and following the advice of the Nomination Committee, Dirk Heremans (independent director) was also appointed to the Remuneration Committee.

## Composition of the Executive Committee

The table shows the members of the Executive Committee on 31 December 2010. For more information on the members of the Executive Committee, see the 'Structure and management' section or click 'Corporate Governance' at www.kbc.com.

| Name | Period on the Executive Committee in 2010 |
|---|---|
| **Members of the Executive Committee on 31 December 2010** | |
| Jan Vanhevel (President) | Full year |
| Danny De Raymaeker | Full year |
| John Hollows | Full year |
| Luc Philips | Full year |
| Luc Popelier | Full year |
| Johan Thijs | Full year |
| Marko Voljč | As from end-April 2010 |
| **Members of the Executive Committee who left in 2010** | |
| Chris Defrancq | Until end-April 2010 |
| Etienne Verwilghen | Until 15 November 2010 |

In 2010, the following changes occurred in the composition of the Executive Committee:

- On the advice of the Nomination Committee, John Hollows – who had been CEO of the Central & Eastern Europe Business Unit – was appointed Group Chief Risk Officer (CRO) on 29 April 2010, replacing Chris Defrancq who retired. Marko Voljč succeeded John Hollows as CEO of the Central & Eastern Europe Business Unit, again on the advice of this committee. Brief CVs for Messrs Hollows and Voljč appeared in the annual report for 2009.
- Etienne Verwilghen, CEO of the European Private Banking Business Unit, stepped down from his positions as member of the Executive Committee and director of KBC Group NV, and retired on 15 November 2010.

After stepping down as a director at the General Meeting of 28 April 2011, Luc Philips – Group CFO – will also resign from the Executive Committee. On the advice of the Nomination Committee, he will be replaced by Luc Popelier as Group CFO. Likewise on the advice of the Nomination Committee, Luc Gijsens will assume Mr Popelier's former position as CEO of the Merchant Banking Business Unit (a brief CV for Mr Gijsens is given below).

Luc Gijsens
Born in Leuven, in 1953.
Master's Degree in Law (KU Leuven, 1976).
Joined the company in 1977.
Since joining the company, Luc Gijsens has held a variety of positions over of the years. In 1981, he took up the post of representative at Kredietbank Hong Kong, before taking charge of Kredietbank's Bahrain branch in 1984. He became Agency Manager of Kredietbank Los Angeles in 1986 and then General Manager of Kredietbank's Antwerpen Corporate Office in 1994. In 2000, he was appointed Senior General Manager of KBC Bank's Investment Banking Directorate, before going on to become Senior General Manager of the Corporate and Institutional Banking Directorate in 2001, Senior General Manager of the Corporate Banking Directorate in 2006 and Senior General Manager of the Corporate Services Directorate in 2009. He has been a member of the Management Committee of the Merchant Banking Business Unit since 2006. He also chairs the Boards of the Antwerp Diamond Bank, KBC Real Estate, KBC Finance Ireland and KBC Commercial Finance.

## Report on the activities of the Board of Directors

The Board of Directors met 13 times in 2010. The meetings were always attended by virtually all members (see table). Besides carrying out the activities required under the Companies Code, reviewing the quarterly results and the activities of the Audit, Risk and Compliance, Nomination and Remuneration Committees, the Board also dealt with the following matters in 2010:

- Strategy 2014;
- the status regarding implementation of the European restructuring plan;
- the integration of KBC Financial Products;
- the sale of the Global Convertible Bonds and Asian Equity Derivatives businesses;
- economic capital at 31 March 2010;
- Basel III;
- the market consistent embedded value of the life insurance business for financial year 2009;
- the strategy for asset management;
- changes in regulatory capital requirements;
- updating the *Corporate Governance Charter*;
- updating the *Group Memorandum on Internal Governance*;
- updating the *Audit Charter*;
- the annual assessment of the *Incompatibility Code*;
- the annual assessment of the *Group Memorandum on Internal Governance*;
- reviewing the decision taken by the Committee of Independent Directors, indicating that it is not necessary to apply the complete procedure required by Article 524q of the Belgian Companies Code to transactions carried out between KBC Bank and KBC Insurance under certain projects;
- the report by senior management regarding the assessment of the internal control system;
- the new risk management principles;
- the *Integrated Group Risk Report*;
- the *Value and Risk Management Annual Report;*
- the *Business Continuity Management Annual Report*;
- stress testing;
- lending in Belgium;
- the sale of KBL EPB;
- relinquishment of office as director;
- reappointment of the auditor.

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

## Report on the activities of the committees of the Board of Directors

### Audit, Risk and Compliance Committee (ARC Committee)

The ARC Committee met eight times in the presence of the President of the Executive Committee, the Group Chief Risk Officer, the internal auditor and the compliance officer. The meetings were also attended by the representatives of the auditors.

The report of the internal auditor, the report of the compliance officer and the report of the risk function were fixed agenda items.

The periodic reports from the risk function primarily covered the changes and methodological developments regarding value and capital management, as well as the ALM, liquidity, market, credit, operational and insurance risks of the group. In this regard, particular attention was devoted to scaling down the activities of KBC Financial Products.

The internal auditor's report provided an overview of recent audit reports, including the most important audit reports for the underlying group entities. The ARC Committee also reviewed the implementation of the 2010 audit plan, and approved the 2011 audit plan. Furthermore, it was regularly informed of the progress made with regard to the implementation of audit recommendations.

On 10 February 2010, the ARC Committee reviewed the consolidated and non-consolidated financial statements for the year ended 31 December 2009, and approved the press release. The representatives of the auditor explained the key audit findings. On 11 May, 4 August and 9 November 2010, they explained their key findings following their review of the accounts for the quarters ending 31 March, 30 June and 30 September, respectively. The ARC Committee also approved the respective press releases.

During the course of the year, the ARC Committee discussed several special reports concerning the statement of effective management with regard to the assessment of internal control systems, the annual report on value and risk management, the new risk organisation (HARBOUR), the annual report on business continuity management, the ICAAP programme, setting of risk appetite, 2010 CEBS stress tests, the annual report on special investigations, and MiFID.

### Nomination Committee

The Nomination Committee met four times in 2010 and dealt with the following matters:

- succession within the Executive Committee;
- the composition of the Remuneration Committee;
- appointments and re-appointments to the Board of Directors and various committees;
- reviewing appointments of senior general managers.

### Remuneration Committee

The Remuneration Committee met six times in 2010 to discuss the following matters:

- the remuneration package for members of the Executive Committee;
- the fixed remuneration paid to directors;
- the remuneration paid to the members and chairman of the Audit, Risk and Compliance Committee;
- the activities of the Board of Directors and the Remuneration Committee under the changed regulations;
- exceptions to remuneration policy;
- the operation of the Remuneration Committee;
- the pension scheme for members of the Executive Committee;
- a comparative study of the remuneration paid to key management;
- the remuneration paid to the Chairman of the Board of Directors;
- the CEBS guidelines on remuneration and their implementation.

For a more general description of the activities of the Board of Directors and its committees, see sections 5 and 6 of the *Corporate Governance Charter* of KBC Group NV, which can be viewed at www.kbc.com.

## Report on the activities of the Executive Committee

The Executive Committee met 56 times in 2010, discussing numerous topics and taking 357 formal decisions. The main matters discussed concerned:

- supervising the activities of the business units;
- monitoring the results and credit charges;
- appraisal of senior management;
- the appointment of senior managers;
- ICT budgets;
- financial planning;
- irregularities at KBC Lease UK;
- KBC Bank Ireland;
- implementation of the Harbour project (risk management);
- the strategy at Kredyt Bank;
- the strategy at Absolut Bank;
- the various divestment dossiers;
- the establishment of a Group Treasury function;
- monitoring the liquidity position;
- NLB;
- following up the workforce;
- following up the situation at KBC Financial Products;
- Strategy 2014;
- the remuneration policy and its implementation;
- implementation of the CEBS guidelines on remuneration;
- exposure to various governments;
- the strategy for supplementary pensions.

The Executive Committee also held two multi-day meetings to examine a number of important matters in greater depth, including the policy on succession at senior management level and within the Executive Committee itself, strategy and its implementation, and the committee's own activities.

For a more general description of the activities of the Executive Committee, see section 7 of the *Corporate Governance Charter* of KBC Group NV, which can be viewed at www.kbc.com.

## Audit, Risk and Compliance Committee: application of Article 96 §1 9° of the Companies Code

Two independent directors sit on the Audit, Risk and Compliance Committee of KBC Group NV, viz.:

- Dirk Heremans, who holds a Ph.D in Law, a Master's Degree in Notarial Law and a Master's Degree in Economics from the Katholieke Universiteit Leuven. He also has a Post-Graduate Degree in Etudes supérieures sciences économiques (advanced economics) from the Université de Paris (Sorbonne) and a M.A., C. Phil. and Ph.D. in Economics from the University of California (U.C.L.A.). He is Professor Emeritus at the Faculty of Business and Economics at the Katholieke Universiteit Leuven. In the past, he has been an adviser to the Cabinets of the Minister of Economic Affairs and of the Minister of Finance, as well as an expert for the European Commission. He is an honorary Board member of the former Belgian Banking and Finance Commission. He has been an independent director of KBC Group NV since 2005.

- Philippe Naert, who holds a Master's Degree in Electrical Engineering from the Katholieke Universiteit Leuven, a Post-Graduate Diploma in Management Science from the University of Manchester (UK) and a Ph.D. in Business Administration from Cornell University (US). Besides having been director of The Intercollegiate Centre for Management Science and of the European Institute for Advanced Studies in Management, he was dean of INSEAD, of the Universiteit van Nyenrode and of the TiasNimbas Business School of the Universiteit van Tilburg and the Technische Universiteit Eindhoven. He has also worked as a consultant for numerous companies. He has been an independent director of KBC Group NV since 2005.

At the General Meeting of 2009, both directors were re-appointed as independent directors for a further period of four years, within the meaning of and in line with the criteria set out in Article 526*ter* of the Companies Code and in the Corporate Governance Code.

On the basis of the preceding information, it can be concluded that both of these directors – as members of the Audit, Risk and Compliance Committee of KBC Group NV – meet the criteria set out in Article 96 §1 9° of the Companies Code relating to independence and to expertise in the area of accounting and auditing.

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

The Board of Directors of KBC Group NV drew up regulations governing transactions and other contractual ties between the company (including its affiliated companies) and its directors, not covered by the conflict of interest rule set out in Articles 523 or 524*ter* of the Companies Code. These regulations have been incorporated into the *Corporate Governance Charter* of KBC Group NV (see www. kbc. com). During 2010, they were observed for certain transactions relating to the divestment of KBL European Private Bankers. The recent developments surrounding KBL EPB are discussed in the 'Group Centre' section.

## Measures regarding insider dealing and market manipulation

In accordance with Directive 2003/6/EC on insider dealing and market manipulation (market abuse), and following publication of the Royal Decree of 24 August 2005 to amend, with respect to the provisions regarding market manipulation, the Act of 2 August 2002 on the supervision of the financial sector and financial services, the Board of Directors of KBC Group NV drew up a dealing code which, among other things, requires a list of key employees to be drawn up, annual blocking periods to be set, and transactions by persons with managerial responsibility and with persons connected with them to be reported to the Belgian Banking, Finance and Insurance Commission (CBFA). The principles of this code have been appended to the *Corporate Governance Charter* of KBC Group NV. The code entered into effect on 10 May 2006.

## Principal features of the appraisal process for the Board of Directors, its committees and its individual members

With a view to constantly improving its own effectiveness, the Board of Directors – led by its Chairman and assisted by the Nomination Committee – evaluates, at least every two years, the composition of the Board, the selection, appointment and training of its members, practical operations (such as setting the agenda, holding meetings), reporting to the Board, the type of culture within the Board, its task package, remuneration, the working relationship with the Executive Committee and the shareholders, the Board's committees, as well as the Board's involvement in a number of specific areas.

On the initiative of the Chairman of the Board, any director who is nominated for re-appointment is subject to an appraisal that focuses on the individual's commitment and effectiveness within the Board (including active attendance at Board meetings and training sessions, and critical contributions). Under the leadership of the Deputy Chairman or a director designated by the members, an individual appraisal is also carried out – in the Chairman's absence – of his leadership qualities, co-ordination skills, initiative, and communication skills. Non-executive directors meet once a year in the absence of the executive directors to appraise how they interact with them.

Each Board committee carries out an annual evaluation of its own composition and workings, before reporting its findings and, where necessary, making proposals to the Board of Directors. It also provides an opportunity for, *inter alia*, an analysis to be performed on the skills and experience required by the committee for its specific area of responsibility.

When their terms of office as a director are renewed, the chairmen of the committees are subject to an individual appraisal by the other committee members, who focus primarily on their co-ordination skills, specialised knowledge, insight and communication skills.

On renewal of their terms of office, the President of the Executive Committee and the other executive directors are evaluated under the leadership of the Chairman of the Board of Directors (see above).

# Remuneration report for the 2010 financial year

## Procedures for developing the remuneration policy and for determining the remuneration granted to individual directors and members of the Executive Committee

**General**

The remuneration policy pursued by KBC for its Board of Directors and Executive Committee is based on prevailing legislation, the Corporate Governance Code and market data. It is monitored and regularly checked by the Board's Remuneration Committee – with the assistance of specialist members of staff – to see whether it complies with changes in the law, the aforementioned code, and prevailing market practices and trends. The Chairman of the Remuneration Committee informs the Board of Directors of the committee's activities and advises it of any changes to the remuneration policy and its practical implementation. However, the Board of Directors may also act on its own initiative, or on a proposal from the Executive Committee, and instruct the Remuneration Committee to examine potential changes to the remuneration policy and to advise it accordingly. If required by law, the Board will submit any policy changes to the General Meeting for approval.

**Board of Directors**

Each year, on the advice of the Remuneration Committee, the Board of Directors sets aside a certain amount of net profit that is based on the established remuneration policy and that lies within the limit laid down in the Articles of Association. That amount (the fixed remuneration) is submitted to the General Meeting and, once approved, distributed among the members of the Board of Directors, with account being taken of the number of months in which they performed their offices.

**Executive Committee**

Each year, on the basis of advice obtained from the Remuneration Committee and taking account of the established remuneration policy, the Board of Directors determines the remuneration to be granted to members of the Executive Committee, and assesses this amount at regular intervals. The amount in question is split into a fixed component and a profit and performance-related component.

## Declaration regarding the remuneration policy used for members of the Board of Directors and the Executive Committee during the financial year dealt with in the annual report

The Remuneration Committee declares the following:

**Principles of the remuneration policy with due account being taken of the relationship between remuneration and performance**

The basic principle applying to non-executive directors, executive directors and other members of the Executive Committee is that they are entitled to a fair remuneration that is commensurate with the contribution they have made to the policy and growth of the group.

The following applies to non-executive directors:

- The remuneration awarded to non-executive directors consists solely of an annual fixed component (non-performance-related) and a fee per meeting attended. As mentioned above, fixed remuneration is deducted from the net profit for that year, whereas attendance fees are charged as expenses to that year. On the proposal of the Board of Directors, this fixed remuneration is approved each year by the General Meeting within the limits specified by law, the Articles of Association and the KBC group remuneration policy that has been set by the Remuneration Committee.
- In light of the considerable time he devotes to the ongoing supervision of KBC group affairs, the Chairman of the Board of Directors of KBC Group NV receives a different remuneration package. He is paid a higher fixed emolument, which is set separately each year by the Remuneration Committee and approved by the Board of Directors.
- The directors sitting on the ARC Committee of KBC Group NV received additional remuneration (attendance fees) for the work they performed in that regard. The chairman of this committee likewise receives an extra fixed emolument. Directors sitting on either the Nomination Committee or the Remuneration Committee did not receive additional remuneration for the work they performed in that regard.
- KBC Group NV does not grant loans or guarantees to directors. Such loans or guarantees may, however, be granted by KBC Group NV banking subsidiaries pursuant to Article 28 of the Banking Act, meaning that loans may be granted at terms applying to customers.

The following applies to executive directors and other members of the Executive Committee:
- The Board of Directors determines the remuneration awarded to executive directors and the other members of the Executive Committee on the basis of the advice provided by both the Remuneration Committee and the President of the Executive Committee.
- In accordance with the KBC group's new remuneration policy (which entered into force in 2010), individual remuneration paid to Executive Committee members comprised:
  - a fixed monthly emolument;
  - a variable annual emolument (the amount of which depends on the consolidated profit of KBC Group NV);
  - a variable annual emolument based on work performed (assessed on the basis of pre-agreed criteria);
  - any emolument for offices performed on behalf of KBC Group NV (exceptional).
- The total amount of the remuneration calculated in this way for the President of the Executive Committee of KBC Group NV may not exceed the remuneration paid to other members of the Executive Committee by more than 25%.
- Members also benefitted from a retirement and survivor's pension scheme, which comprises a supplementary retirement pension or – if the insured dies while still in employment and leaves a spouse – a survivor's pension, and also provides cover in the event of disability.

**Relative importance of the different components of remuneration**

The members of the Executive Committee received only a fixed emolument in 2010, since no variable component was paid for the 2009 financial year on account of the negative result recorded by the group in that year. For the 2010 financial year, however, results-based and performance-related variable remuneration will be paid (in 2011). The Board of Directors took account primarily of the Remuneration Committee's prior assessment of implementation of the recovery plan approved by the European Commission when reaching its decision to pay this remuneration. Although the exact payment terms (cash and/or equity-related instruments and timing) were not clear at the time this report was prepared, no more than 50% of this remuneration will be paid in 2011 and payment will be spread over a period of at least three years.

**Information regarding the remuneration policy for the next two financial years**

On the advice of the Remuneration Committee, the Board of Directors approved the updated KBC group remuneration policy at the end of 2009. The policy contained a number of group-wide principles relating primarily to the variable remuneration component. The main principles stipulate that:
- variable remuneration must always comprise a profit-related component (at least 10% of which is based on the results of the KBC group) and a performance-related component;
- at least 50% of the profit-related variable remuneration may not be awarded straightaway and payment is to be spread over a three-year period;
- no advance payments may be made in relation to the variable component and clawback/holdback provisions are put in place;
- the ratio of fixed to variable remuneration components be set at a maximum one to one for the vast majority of the group;
- variable remuneration be capped at 750 000 euros.

A number of new laws and regulations have subsequently been promulgated in relation to remuneration policy (including the Act concerning the reinforcement of corporate governance among listed companies, CBFA Circular 2009_34 containing recommendations on sound remuneration policies for financial institutions, CEBS guidelines on remuneration, and CBFA Circular 2011_05 on sound remuneration policies). Even though the remuneration policy approved at the end of 2009 largely meets these new criteria, some aspects still have to be refined mainly in relation to governance and the remuneration of key identified staff (i.e. top management). A number of proposals have already been drawn up in this regard and submitted to the CBFA for final approval.

## Individual remuneration awarded to non-executive directors of KBC Group NV

Given the negative result posted by KBC for 2009 and the fact that, as a direct consequence, no dividend was paid for that year, neither KBC Group NV nor any other KBC group company in Belgium or abroad in which certain non-executive directors of KBC Group NV held office during 2009, paid a fixed remuneration to these directors for the 2009 financial year during the course of 2010. However, the directors in question were paid attendance fees in proportion to the number of meetings they attended of the Board of Directors of KBC Group NV and, where relevant, of the other companies of the KBC group in Belgium or abroad.

| **Remuneration per individual director** (on a consolidated basis, in EUR) | **Fixed remuneration (paid in 2010 for FY 2010)** | **Remuneration for ARC Committee members (paid in 2010 for FY 2009)** | **Attendance fee (paid in 2010 for FY 2009)** |
|---|---|---|---|
| Huyghebaert Jan[1] | 455 000 | 0 | 95 000 |
| Borghgraef Paul | 0 | 0 | 41 250 |
| Bostoen Paul | 0 | 0 | 35 000 |
| Cornu Jo | 0 | 0 | 35 000 |
| Debaillie Luc | 0 | 0 | 37 500 |
| Depickere Franky | 0 | 46 000 | 116 250 |
| Devisch Noël | 0 | 0 | 55 000 |
| Discry Luc | 0 | 0 | 0 |
| Donck Frank | 0 | 0 | 41 250 |
| Géradin Jean-Marie[2] | 0 | 0 | 7 500 |
| Heremans Dirk | 0 | 18 000 | 35 000 |
| Leysen Christian[2] | 0 | 0 | 10 000 |
| Morlion Lode | 0 | 0 | 35 000 |
| Naert Philippe | 0 | 16 000 | 32 500 |
| Roussis Theodoros | 0 | 12 000 | 22 500 |
| Soete Hendrik | 0 | 0 | 35 000 |
| Tytgadt Alain | 0 | 0 | 35 000 |
| Van Kerckhove Ghislaine | 0 | 0 | 32 500 |
| Van Waeyenberge Jozef[2] | 0 | 0 | 10 000 |
| Van Wymeersch Charles | 0 | 0 | 31 250 |
| Vantieghem Germain | 0 | 0 | 70 000 |
| Vlerick Philippe | 0 | 0 | 117 500 |
| Wittemans Marc | 0 | 32 000 | 62 500 |
| De Ceuster Marc | 0 | 2 000 | 12 500 |
| Stroobants Eric | 0 | 0 | 12 500 |
| Wunsch Pierre | 0 | 0 | 30 000 |
| Bostoen Alain | 0 | 0 | 2 500 |
| Vanthemse Piet | 0 | 0 | 0 |
| Hansen Jean-Pierre | 0 | 0 | 0 |

1 Chairman of the Board of Directors.

2 Non-executive director until after the AGM of 30 April 2009.

## Information regarding the amount of remuneration received by members of the Executive Committee of KBC Group NV who are also members of the Board of Directors

The members of the Executive Committee who also sit on the Board as executive directors did not receive either a fixed remuneration or any attendance fees.

## Evaluation criteria used for paying variable remuneration, based on the performance of the KBC group and/or person(s) involved

For members of the Executive Committee, results-based variable remuneration is set as a percentage of the net result recorded by KBC Group NV (at the consolidated level), while performance-related variable remuneration is set as a percentage of the fixed remuneration component (between 0% and 30%), after the work they have performed has been evaluated on the basis of several pre-agreed criteria.

## Remuneration paid to the President and the other members of the Executive Committee of KBC Group NV

The Executive Committee of KBC Group NV is a collective body, whose president is the first among equals and not a Chief Executive Officer (CEO) who is the sole executive and accountable representative of the company. Nevertheless, in implementation of the provisions of the Corporate Governance Code and as will be required by the Act concerning the reinforcement of corporate governance among listed companies, the individual remuneration paid to the President of the Executive Committee is shown in the table.

The aggregate remuneration paid by KBC Group NV and its direct and indirect subsidiaries to members of the Executive Committee of KBC Group NV other than the President of the committee for the 2010 financial year is also shown in the table. In this regard, account needs to be taken of the fact that a number of changes were made to the composition of the Executive Committee during the course of 2010, some of which had an impact on the total amount of remuneration. Consequently, the following was included in the total amounts:

- the remuneration received by Chris Defrancq until he retired;
- the remuneration received by Marko Voljč after he took his seat on the Executive Committee;
- the remuneration received by Etienne Verwilghen until he retired;
- the remuneration received by Danny De Raymaeker, Luc Philips, Luc Popelier, Johan Thijs and John Hollows for 2010 as a whole.

| **Remuneration paid to the Executive Committee of KBC Group NV in 2010** (in EUR) | **Jan Vanhevel (full financial year)** | **Other members of the Executive Committee (combined)** |
|---|---|---|
| Basic remuneration (fixed) | 712 500 | 3 653 233 |
| Profit-related remuneration for financial year 2010[1] (variable) | 372 059 | 1 810 687 |
| Performance-related remuneration for financial year 2010[1] (variable) | 106 875 | 550 367 |
| Supplementary pension scheme[2] (contributions paid) | 8 718 | 2 245 784 |
| Additional defined-contribution pension plan[3] (contribution transferred to pension fund) for 2010 | 46 507 | 46 507 |

1 Gross amounts awarded for financial year 2010. Half of the variable remuneration will be paid in 2011, with the remainder spread over the next three years. Half of each payment will be made in cash, the other half in equity-related instruments.

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

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

Besides the above remuneration, members of the Executive Committee also received a representation allowance of 400 euros per month and a number of benefits in kind, the main ones being a company car (personal use of which is charged on the basis of a fixed 7 500 kilometres per year), mobile phone, hospitalisation insurance and personal assistance insurance.

## Shares, stock options and other rights to acquire KBC Group NV shares that were allocated, exercised or that have lapsed during the financial year, on an individual basis

No shares, stock options or other rights to acquire KBC Group NV shares were allocated or exercised in 2010, nor did any lapse.

## Provisions concerning individual severance payments for executive directors and members of the Executive Committee of KBC Group NV

Under the conditions stipulated by the Belgian Federal Government and Flemish Regional Government following the transactions to strengthen core capital in 2008 and 2009, severance payments for executive directors and members of the Executive Committee have been limited to 12 months' fixed remuneration since the end of October 2008.

## Main features of the internal control and risk management systems

In application of the provisions of the Belgian Companies Code and the Belgian Corporate Governance Code, the main features of the internal control and risk management systems at KBC are set out below. Part 1 contains a general description of the internal control and risk management systems, while Part 2 deals specifically with the internal control measures applying to the financial reporting process.

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

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

The strategy and organisational structure of the KBC group are dealt with in the 'Strategy and company profile' and 'Structure and management' sections of this annual report. KBC aims to be an efficient bancassurer and asset manager that shows a strong affinity for its customers and careful consideration for its employees. It focuses on private individuals, the self-employed, members of the liberal professions, small and medium-sized enterprises and mid-cap customers in selected European countries, while seeking to achieve a sound level of profitability through efficiency, customer focus, employee satisfaction and sound risk management. KBC also seeks to identify with the various communities in which it operates by using local trade names, employing local management and pursuing socially responsible business practices in line with the standards of the countries concerned.

The KBC group has a dual governance structure based on the Belgian model:

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

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

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

KBC wishes its activities to contribute towards economic, social and environmental advancement in its areas of operation. Accordingly, it conducts its activities in compliance with both the letter and the spirit of prevailing laws and regulations, whilst also taking account of changing societal norms. KBC gives priority to the needs and interests of its customers, its shareholders, its staff and the broader community in which it operates. In its relationship with them, KBC imposes rules on itself concerning fairness and reasonableness, openness and transparency, discretion and respect for privacy. These principles are set out in the integrity policy, as well as in specific codes, instructions and codes of conduct. The main guidelines and policy memos on socially responsible business practices can be found at www.kbc.com/csr.

The most important among the guidelines relating to the integrity policy are:

- The *Code of Conduct for KBC Group Employees,* a generalised document based on a set of group values that outlines how all members of staff should conduct themselves. As such, it forms the basis for developing specialised codes of conduct for specific target groups and for drawing up policy guidelines at group level.
- Special group-wide compliance rules drawn up with regard to:
  - combating money laundering and the funding of terrorism;
  - preventing fiscal irregularities including special mechanisms for tax evasion;
  - protecting the investor and preventing conflicts of interest (MiFID);
  - preventing market abuse and insider trading;
  - protecting privacy, confidentiality of information and the professional duty of discretion.
- Ethics and combating fraud:
  - The ethical behaviour of employees is inextricably linked to the code of conduct and various other policy guidelines already referred to in this section.
  - Various departments such as Compliance, Inspection, Internal Audit – but also KBC's business side – engage in the prevention and detection of fraud. It is the business side that deals primarily with external product-related fraud. Checks and investigations are carried out by departments not related to the business side when it comes to fraud or ethical offences committed by employees.

For complex fraud cases and/or incidents with an impact at group level, investigations are conducted and/or co-ordinated by Group Compliance in its capacity as the group competence centre for fraud.
- The *Policy for the Protection of Whistleblowers at KBC Group* ensures that employees who act in good faith to report fraud and gross malpractice are protected.

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

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

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

3.2 As independent control functions, Value and Risk Management and Compliance constitute the second line of defence.
Independent of the business side and following advanced industry standards, Value and Risk Management is tasked with drawing up a group-wide framework for value, risk and capital management, monitoring implementation of the framework, and assisting line management in the use of value, risk and capital management instruments and techniques. More information on value and risk management can be found in the relevant section of this report.

KBC has installed Local Chief Risk Officers (LCROs) at various levels within the organisation. They work closely with the business operations since they participate in the local decision-making process. They also report to the Group CRO, which guarantees their independence.

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

3.3 As independent third line of defence, Internal Audit provides support to the Executive Committee and ARC Committee in monitoring the effectiveness and efficiency of the internal control and risk management system.
Internal Audit checks whether the risks faced by the KBC group are managed adequately and, where necessary, whether they are being restricted or eliminated. It is responsible for ensuring that business processes and collaboration throughout the organisation occur in an efficient and effective manner and for guaranteeing continuity of operations. Internal Audit's scope covers all legal entities, activities and departments, including the various control functions, within the KBC group.

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

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

**4 KBC's Audit, Risk and Compliance Committee (ARC Committee) plays a central role in monitoring the internal control and risk management systems**
Each year, the Executive Committee evaluates the adaptability of the internal control and risk management system and reports its findings to the ARC Committee.

The ARC Committee supervises, on behalf of the Board, the integrity and effectiveness of the internal control measures and the risk management in place – as set up under the Executive Committee – paying special attention to correct financial reporting. The committee also follows the procedures set up by the company to comply with the law and other regulations. The role, composition, activities and qualifications of its members are laid down in the ARC Committee charter, the last one of which was approved by the Board of Directors of KBC Group NV on 23 September 2010. More information on the ARC Committee is provided elsewhere in this section of the annual report.

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

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

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

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

Pursuant to the Act of 15 May 2007 (amending the Act of 22 March 1993), the Executive Committee of KBC Group NV evaluated the internal control system for the financial reporting process and prepared a report on its findings.

The existence of monitored Group Standard Accounting Controls is one of the mainstays in the internal control of the corporate accounting process. These controls set the rules for managing the main operational risks attached to the corporate accounting process and involve the establishment and maintenance of accounting process architecture, the establishment and maintenance of accounting policies and accounting presentations, compliance with authorisation rules and the separation of responsibilities when transactions are registered in the accounts, and the establishment of appropriate first- and second-line account management.

An ongoing project to embed group-wide a formal risk matrix (Key Risks ⟷ Key Risk Drivers ⟷ Key Risk Controls ⟷ Key Risk Indicators), which will be assessed each year, will encourage KBC companies to effectively and continuously manage the end-to-end risks in their financial reporting process. The annual assessment of the internal control system will be based on this risk matrix and how it changes over time.

The group-wide roll-out of 'fast close' procedures, the monitoring of intercompany transactions within the group, and permanent monitoring of a number of indicators relating to risk, performance and quality (Key Risk Indicators and Key Performance Indicators) have all helped raise the quality of the financial reporting process. Establishing and following up self-assessments also helps ensure that there is a continuous concern to improve the internal control system.

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

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

## Non-compliance with the Code

As mentioned at the start of this section, the corporate governance statement included in the annual report must also indicate whether any provisions of the Code have not been complied with and state the reasons for non-compliance (see the 'comply-or-explain' principle). This information is provided below.

Provision 2.1. of the Belgian Corporate Governance Code (the Code) stipulates that one of the factors for deciding the composition of the Board of Directors should be gender diversity.
At present, one woman and twenty-two men sit on the Board of Directors of KBC Group NV, a situation that has developed over many years. Committed to the principles of gender diversity, the Board will endeavour to achieve a greater representation of women among its ranks.

Provision 5.2./1 of Appendix C to the Code stipulates that the Board of Directors should set up an audit committee composed exclusively of non-executive directors. Provision 5.2./4 of the same appendix additionally specifies that at least a majority of its members should be independent. Provision 5.3./1 of Appendix D to the Code stipulates that the Board of Directors should set up a nomination committee composed of a majority of independent non-executive directors. Provision 5.4./1 of Appendix E to the Code specifies that at least a majority of the members on a remuneration committee should be independent.

At year-end 2010, the Audit, Risk and Compliance Committee of KBC Group NV was composed of six non-executive directors, two of whom were independent and one appointed by the government. Independent directors are, therefore, in the minority on this committee. On 31 December 2010, the Nomination Committee of KBC Group NV was composed of five non-executive directors – one of whom was independent – and one executive director. Independent directors are, therefore, in the minority on this committee. On 28 January 2011, the Board of Directors appointed Jean-Pierre Hansen (representative of the Belgian Federal Government) as member of the committee.

When selecting the members of the Audit, Risk and Compliance Committee and the Nomination Committee, as is also the case with the Board of Directors, account is taken of the specific shareholder structure of KBC Group NV and, in particular, of the presence of Cera, KBC Ancora, MRBB and the other core shareholders. In this way, a balance is maintained that is beneficial to the stability and continuity of the group.

On 31 December 2010, the Remuneration Committee was made up of four non-executive directors – two of whom were independent – and a director appointed by the government. On 28 February 2011, the Board of Directors also appointed Professor Dirk Heremans (independent director of KBC Group NV) to the committee, within the framework of the statutory requirements and the provisions of the Code.

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

During the meeting of the Board of Directors held on 24 June 2010, a conflict of interest procedure was observed in accordance with Article 523 of the Companies Code, following the discussion of liability of – among others – a number of members of the Board of Directors of KBC Group NV who also hold office on the Board of Directors of KBL European Private Bankers SA and on a 'Special Committee' within this Board. The following is an unofficial translation, provided solely by way of information, of the original Dutch minutes of the Board meeting that dealt with this agenda item.

### Introduction

*The Board of Directors refers to the share transfer agreement of 20 May 2010 between KBC Group NV (the Seller) and Hinduja Luxembourg Holding SA (the Buyer) for the sale of all the shares held by KBC Group NV in KBL European Private Bankers SA (the* ***Share Transfer Agreement****, the* ***Transaction****).*

*Within the framework of the Transaction, the following directors of KBL European Private Bankers SA will step down from their office after the Transaction has been completed:*

*Philippe Vlerick*
*Franky Depickere*
*Marc Wittemans*
*Marie-Christine Santens*
*Diego du Monceau*
*Luc Philips*
*Edmond Müller*
*Jan Huyghebaert*

*(these persons will hereinafter be referred to collectively as the* ***Directors*** *and individually as a* ***Director****).*

*Until the Transaction is completed, the Directors are to retain their positions and in this capacity remain involved in a number of transactions set out in the Share Transfer Agreement. Some of the transactions relate to the disposal of specific assets and to a proposal for payment of an interim dividend. In this regard, Jan Maarten de Jong, Luc Philips and Franky Depickere are the members of a 'Special Committee' that has been established within the Board of Directors of KBL European Private Bankers SA to deal with the disposal transactions and a number of other matters. The Share Transfer Agreement stipulates that, at the next relevant annual general meeting of shareholders held by KBL European Private Bankers SA, the Buyer grants discharge to these Directors in respect of the performance of their office until the Transaction is completed. The Hinduja Group has also undertaken in the Share Transfer Agreement not to instigate any legal proceedings against any of the aforementioned Directors.*

### Proposed motion

*The Board of Directors proposes that a vote be taken to approve a motion in which KBC Group NV:*

(i) *irrevocably undertakes not to instigate any legal proceedings against any of the Directors of KBL European Private Bankers SA and/ or Jan Maarten de Jong in their capacity as director or – if applicable – as a member of the 'Special Committee' as regards the performance of the Transaction; and*

*(ii) agrees to hold these Directors of KBL European Private Bankers SA and Jan Maarten de Jong harmless against any claims based on their liability in that capacity and in that regard.*

## Conflict of interest

*The Board of Directors will apply the procedure in the manner set out in Article 523 of the Belgian Companies Code before starting deliberations and voting on the proposed motion.*

***A. Declaration of and reason for a conflict of interest***

*The following directors have notified the Board of Directors of a potential conflict of interest – as defined under Article 523 of the Belgian Companies Code – regarding the proposed motion (as they would benefit from it):*

*Philippe Vlerick*
*Franky Depickere*
*Luc Philips*
*Jan Huyghebaert*
*Marc Wittemans*

*These directors will not participate in deliberations or take decisions on the proposed motion. The statutory auditor of the company has been informed of this conflict of interest.*

***B. Reason***

*The company has a clear interest in successfully completing the Transaction. For that to happen, decisions have to be taken by the Board of Directors of KBL European Private Bankers SA in the manner set out in the Share Transfer Agreement. In this respect, it would be justified for the company to hold the Directors of KBL European Private Bankers SA and Jan Maarten de Jong harmless and not to instigate legal proceedings against them. With mergers and acquisitions in general, it is not unusual to ensure that the directors of a company being acquired can no longer be held liable after the acquisition has been completed, and that any liability relating to business operations is arranged in the contractual relationship between buyer and seller before the deal is completed.*

***C. Financial consequences***

*It is difficult to put the financial consequences into absolute figures, but they could reach the proportion of a liability claim (plus a number of indirect expenses, such as defence costs). It can reasonably be assumed that any financial consequence will be less significant than the financial benefits to the company successfully completing the Transaction.*

***D. Interests of the company***

*In light of the above, the proposed motion is in the interests of the company.*

## Motion

*The Board (excluding the directors who have declared that they have a conflict of interest) unanimously approves the following motion:*
*The company:*

*(i) irrevocably undertakes not to instigate any legal proceedings against any of the Directors of KBL European Private Bankers SA and/or Jan Maarten de Jong (all parties in their capacity as director of KBL European Private Bankers SA or – if applicable – as a member of the 'Special Committee') as regards the performance of the Transaction;*
*(ii) agrees to hold these Directors and Jan Maarten de Jong harmless against any liability they might incur in that capacity and in that regard, and*
*(iii) the waiver and hold harmless provisions specified under (i) and (ii) exclude criminal liability and supplement any right of recourse that the Directors or Jan Maarten de Jong may obtain from another party (e.g., insurance).*

## Auditor

At the General Meeting of KBC Group NV of 29 April 2010, the mandate granted to Ernst & Young Bedrijfsrevisoren BCVBA – represented by Pierre Vanderbeek and/or Peter Telders – was renewed for a period of three years.
Details of the auditor's remuneration are provided in Note 43 of the 'Consolidated financial statements' section (consolidated figures for the entire group) and in Note 7 of the 'Company annual accounts' section (for KBC Group NV alone).

## Shareholder structure on 31 December 2010 based on notifications received under the Act of 2 May 2007 concerning the disclosure of significant participations in issuers whose shares are admitted to trading on a regulated market and containing miscellaneous provisions.

Article 10bis of the *Articles of Association* of KBC Group NV stipulates the threshold at which individuals must disclose their shareholdings (the *Articles of Association* can be viewed at www.kbc.com). KBC publishes these notifications on its website (www.kbc.com/investor relations). The table provides an overview of the shareholder structure at year-end 2010, based on all the notifications received by 31 December 2010. The 'Company annual accounts' section also contains an overview of notifications received. Please note that the number of shares stated in the notifications may differ from the current number in possession, as a change in the number of shares held does not always give rise to a new notification.

**Shareholder structure on 31-12-2010 (based on the most recent notifications received pursuant to the Act of 2 May 2007)**

| | Notification relating to: | Address | Number of KBC shares (as a % of the sum of the outstanding number of shares at the time of disclosure) |
|---|---|---|---|
| KBC Ancora Comm.VA[1] | 1 September 2008 | Philipssite 5, box 10, 3001 Leuven, Belgium | 82 216 380 (23.15%) |
| Cera CVBA[1] | 1 September 2008 | Philipssite 5, box 10, 3001 Leuven, Belgium | 25 903 183 (7.29%) |
| MRBB CVBA[1] | 1 September 2008 | Diestsevest 40, 3000 Leuven, Belgium | 42 562 675 (11.99%) |
| Other core shareholders | 1 September 2008 | C/o Ph. Vlerick, Ronsevaalstraat 2, 8510 Bellegem, Belgium | 39 867 989 (11.23%) |
| KBC group companies | 1 September 2008 | Havenlaan 2, 1080 Brussels, Belgium | 18 240 777 (5.14%) |
| BlackRock Inc.[2] | 15 September 2010 | 33 King William Street, EC4R 9AS London, United Kingdom | 11 047 165 (3.09%) |

1 Of these shares, the following quantities were contributed by the entities and individuals acting in concert: 32 634 899 by KBC Ancora Comm.VA, 10 080 938 by Cera CVBA, 26 436 213 by MRBB CVBA and all 39 867 989 by other core shareholders. These shares were the subject of a separate notification.

2 After year-end 2010, a new notification was received from BlackRock Inc. regarding the situation on 2 March 2011 (decrease to 2.99% of total voting rights).

# Disclosure under Article 34 of the Belgian Royal Decree of 14 November 2007 concerning the obligations of issuers of financial instruments admitted to trading on a regulated market

## 1 Capital structure on 31 December 2010

The share capital was fully paid up and was represented by 357 938 193 shares of no nominal value. More information on the group's capital can be found in the 'Company annual accounts' section.

## 2 Restrictions on transferring securities as laid down by law or the Articles of Association

Each year, KBC Group NV carries out a capital increase reserved for its employees and the employees of certain of its Belgian subsidiaries. If the issue price of the new shares is less than the reference price stated in the issue terms, these new shares may not be transferred by the employee for two years, starting from the payment date, unless he or she dies. At year-end 2010, a total of 165 303 shares were blocked in this regard, all of which will be released before the end of 2011.
The options on KBC Group NV shares held by employees of the various KBC group companies and allocated to them under stock option plans set up at different points in time, may not be transferred *inter vivos*. For an overview of the number of stock options for staff, see Note 12 in the 'Consolidated financial statements' section.

## 3 Holders of any securities with special control rights

None.

## 4 Systems of control of any employee share scheme where the control rights are not exercised directly by the employees

None.

## 5 Restrictions on exercising voting rights as laid down by law or the Articles of Association

The voting rights attached to the shares held by KBC Group NV and its direct and indirect subsidiaries have been suspended. At 31 December 2010, these rights were suspended for 18 171 795 shares, i.e. 5.077% of the number of shares in circulation at that time.

## 6 Shareholder agreements known to KBC Group NV that could restrict the transfer of securities and/or the exercise of voting rights

A group of legal entities and individuals act in concert and constitute the core shareholders of KBC Group NV. As indicated in their disclosure, the number of voting rights held by these entities and individuals on 1 September 2008 was:

- KBC Ancora Comm.VA: 32 634 899;
- Cera CVBA: 10 080 938;
- MRBB CVBA: 26 436 213;
- Other core shareholders: 39 867 989.

That is a total of 109 020 039 shares carrying voting rights, or 30.70% of the total number of such shares (including those suspended: see above) on 1 September 2008 (355 122 707 shares in total). That is 30.46% compared with the total number of shares carrying voting rights on 31 December 2010 (357 938 193). A shareholder agreement was concluded between these parties in order to support and co-ordinate the general policy of KBC Group NV and to supervise its implementation. The agreement provides for a contractual shareholder syndicate. The shareholder agreement includes stipulations on the transfer of securities and the exercise of voting rights within the shareholder syndicate.

When KBC Group NV issued 3.5 billion euros' worth of core-capital securities to the Federal Holding and Investment Company in mid-December 2008 in an operation to bolster the group's core capital, the core shareholders of KBC Group NV entered into a number of commitments, including the following one. They formally undertook not to offer their shares if a voluntary or mandatory public takeover bid were to be made for all of KBC's shares nor, as the case may be, to sell a quantity of KBC shares that could trigger a mandatory bid, nor to transfer their shares prior to the start of, during or after a public takeover bid to (a) (future) bidder(s) or related party nor grant any right to that end, without obtaining a formal commitment on the part of the (future) bidder(s) that, when the bid is closed, it (they) would compel KBC to redeem all outstanding core-capital securities (subject to the approval of the CBFA) or it (they) would buy all outstanding core-capital securities itself (themselves), in both cases at a price equal to 44.25 euros per security. The core shareholders gave the same undertaking when KBC Group NV issued 3.5 billion euros' worth of securities in a second operation that was subscribed by the Flemish Region in mid-July 2009.

## 7 Rules governing the appointment and replacement of board members and the amendment of the Articles of Association of KBC Group NV

Please see the existing rules in the *Corporate Governance Charter* and in the Articles of Association of KBC Group NV, which can be viewed under 'Corporate Governance' at www.kbc.com. For the amendment of the Articles of Association, see the relevant articles in the Belgian Companies Code.

## 8 Powers of the Board of Directors with regard to the issue and repurchase of treasury shares

The General Meeting authorised the Board of Directors until 21 May 2014 to increase, in one or more steps, the share capital by a total amount of 900 million euros, in cash or in kind, by issuing shares or convertible bonds (whether subordinated or otherwise) or warrants that may or may not be linked to bonds (whether subordinated or otherwise). Under this authorisation, the Board can suspend or restrict pre-emptive rights, subject to the limits laid down by law and the Articles of Association. The Board can exercise this authorisation, pursuant to the conditions and within the limits laid down in the Companies Code, even after the date of receipt of notification from the CBFA that it has been apprised of a public takeover bid for the company's shares. This special authorisation is valid until 29 April 2012. On 31 December 2010, the amount by which capital may be increased came to 899 354 909 euros. Consequently, when account is taken of the accounting par value of the share on 31 December 2010, a maximum of 258 435 318 new shares can still be issued, i.e. 72.2% of the number of shares in circulation at that time.

On 9 November 2010, the Board of Directors decided to use its authorisation to increase capital by issuing shares without pre-emptive rights to employees at a price of 33.10 euros per share and with a limit of 21 shares per employee. On 23 December 2010, the issued share capital was increased by 69 837 euros (represented by 20 068 new shares).

The authorisation granted by the General Meeting to the Boards of Directors of KBC Group NV and its direct subsidiaries to acquire and take in pledge KBC Group NV treasury shares (subject to certain conditions), lapsed on 23 October 2009 and was not renewed. However, the Boards of Directors of KBC Group NV and its direct subsidiaries have been authorised until 27 May 2013 to purchase or sell KBC Group NV shares, whenever their purchase or sale is necessary to prevent KBC Group NV from suffering serious imminent disadvantage.

Lastly, the General Meeting authorised the aforementioned Boards of Directors to sell their KBC Group NV shares on or off the exchange. In the latter case, the price may not be lower than that prevailing on the exchange at the time of sale, less 5%. On 31 December 2010, KBC Group NV and its direct subsidiaries held a total of 18 168 752 KBC Group NV shares (i.e. 5.076% of the number of shares in circulation at that time) primarily for the purpose of the buyback programme approved by the General Meeting and for hedging KBC's employee stock option plans.

## 9 Significant agreements to which KBC Group NV is a party and which take effect, alter or terminate upon a change of control of KBC Group NV following a public takeover bid

None.

## 10 Agreements between KBC and its directors or employees providing for compensation if the directors resign or are made redundant without valid reason, or if employees are made redundant, following a public takeover bid

None.

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

Within the framework of this law, KBC Group NV received a number of updated disclosures in 2010. This information has been incorporated into the table of disclosures received. The entities and individuals referred to below act in concert. However, the quantities of shares stated are not necessarily all contributed by these entities and individuals acting in this way: some quantities may also include free shares.

**A Disclosures by**
**a legal entities;**
**b individuals holding 3% or more of securities carrying voting rights;[1]**
**c legal entities with control over the legal entities referred to under a.;**
**d individuals who, via control over the legal entities referred to under a., indirectly hold 3% or more of securities carrying voting rights.[1]**

| Shareholder | Shareholding (quantity) | %[2] | Controlling individual/ entity | Shareholder | Shareholding (quantity) | %[2] | Controlling individual/ entity |
|---|---|---|---|---|---|---|---|
| KBC Ancora Comm.VA | 82 216 380[3] | 22.97% | Cera CVBA | Algimo NV | 320 816[3] | 0.09% | Individual(s) |
| MRBB | 46 289 864[3] | 12.93% | HBB vzw | Rodep Comm.VA | 303 000[3] | 0.08% | Individual(s) |
| Cera CVBA | 26 127 166[3] | 7.30% | – | SAK Berkenstede | 268 970[3] | 0.08% | – |
| SAK AGEV | 12 604 695[3] | 3.52% | – | Robor NV | 238 988[3] | 0.07% | Individual(s) |
| Plastiche NV | 2 989 482[3] | 0.84% | Individual(s) | Efiga Invest sprl | 233 806[3] | 0.07% | Moulins de Kleinbettingen SA |
| 3D NV | 2 323 085[3] | 0.65% | SAK Iberanfra | La Pérégrina | 220 588[4] | 0.06% | ING Trust |
| Setas SA | 1 626 401[3] | 0.45% | SAK Setas | Promark International NV | 189 008[3] | 0.05% | Individual(s) |
| SAK Pula | 1 434 250[3] | 0.40% | – | Hermes Invest NV | 180 225[3] | 0.05% | – |
| Vrij en Vrank CVBA | 1 335 258[3] | 0.37% | SAK Prof. Vlerick | SAK Hermes Controle en Beheersmij | 148 527[3] | 0.04% | – |
| Basil Finance SA | 1 260 000[3] | 0.35% | – | Lineago Trust | 148 400[3] | 0.04% | – |
| De Berk BVBA | 1 138 208[3] | 0.32% | Individual(s) | Tradisud NV | 146 500[4] | 0.04% | – |
| De Lelie GCV | 1 000 000[3] | 0.28% | – | SAK Iberanfra | 121 273[3] | 0.03% | – |
| Rainyve SA | 941 958[3] | 0.26% | – | Cobeton NV | 115 839[3] | 0.03% | SAK Hermes Controle en Beheers-maatschappij |
| Stichting Amici Almae Matris | 912 731[3] | 0.26% | – | I.B.P. Ravago Pensioen-fonds | 115 833[3] | 0.03% | – |
| Van Holsbeeck nv | 770 837[3] | 0.22% | Individual(s) | Inkao-Invest bvba | 113 679[3] | 0.03% | Robor NV |
| Ceco c.v.a. | 568 849[3] | 0.16% | Individual(s) | Meralpa NV | 98 577[4] | 0.03% | – |
| Nascar Finance SA | 560 000[3] | 0.16% | – | Edilu NV | 70 000[4] | 0.02% | – |
| Partapar SA | 559 818[3] | 0.16% | Individual(s) | Wilig NV | 42 472[4] | 0.01% | – |
| Cordalia SA | 425 250[3] | 0.12% | Individual(s) | Mercurius Invest NV | 40 230[3] | 0.01% | – |
| Mapicius SA | 425 250[3] | 0.12% | Individual(s) | Bevek Vlam 21 | 39 006[4] | 0.01% | ABN Amro |
| Cecan Invest NV | 397 563[3] | 0.11% | SAK Prof. Vlerick | Filax Stichting | 38 529[3] | 0.01% | Individual(s) |
| Plastiche Holding Sarl | 375 000[3] | 0.10% | – | Lycol NV | 31 939[4] | 0.01% | – |
| Mercator NV | 366 427[3] | 0.10% | Bâloise-holding | Van Vuchelen en Co CVA | 27 785[4] | 0.01% | – |
| VIM CVBA | 361 562[3] | 0.10% | Individual(s) | Asphalia NV | 14 241[3] | 0.00% | Individual(s) |
| Sereno SA | 333 408[3] | 0.09% | Individual(s) | Kristo Van Holsbeeck bvba | 6 950[3] | 0.00% | Individual(s) |
| Colver NV | 322 099[4] | 0.09% | – | Christeyns NV | 3 271[3] | 0.00% | – |

**B Disclosures by individuals holding less than 3% of securities carrying voting rights (the identity of the individuals concerned does not have to be disclosed)[5]**

| Shareholding (quantity) | %[2] | Shareholding (quantity) | %[2] | Shareholding (quantity) | %[2] | Shareholding (quantity) | %[2] |
|---|---|---|---|---|---|---|---|
| 330 803[3] | 0.09% | 48 800[3] | 0.01% | 15 132[3] | 0.00% | 4 549[4] | 0.00% |
| 274 839[3] | 0.08% | 48 141[3] | 0.01% | 15 132[3] | 0.00% | 3 759[4] | 0.00% |
| 235 000[3] | 0.07% | 46 441[3] | 0.01% | 15 000[3] | 0.00% | 3 375[4] | 0.00% |
| 141 466[3] | 0.04% | 46 200[3] | 0.01% | 15 000[3] | 0.00% | 3 375[4] | 0.00% |
| 107 500[3] | 0.03% | 45 441[3] | 0.01% | 15 000[3] | 0.00% | 3 375[4] | 0.00% |
| 96 903[3] | 0.03% | 43 200[3] | 0.01% | 14 522[3] | 0.00% | 3 375[4] | 0.00% |
| 96 903[3] | 0.03% | 39 264[4] | 0.01% | 13 905[4] | 0.00% | 3 375[4] | 0.00% |
| 96 903[3] | 0.03% | 33 069[4] | 0.01% | 13 905[4] | 0.00% | 3 240[4] | 0.00% |
| 84 078[3] | 0.02% | 32 994[3] | 0.01% | 12 539[4] | 0.00% | 2 800[3] | 0.00% |
| 82 263[3] | 0.02% | 32 994[3] | 0.01% | 11 042[4] | 0.00% | 2 295[4] | 0.00% |
| 75 000[3] | 0.02% | 32 978[3] | 0.01% | 11 039[4] | 0.00% | 2 025[3] | 0.00% |
| 69 500[3] | 0.02% | 32 978[3] | 0.01% | 10 992[4] | 0.00% | 1 350[4] | 0.00% |
| 67 500[3] | 0.02% | 25 500[4] | 0.01% | 9 761[4] | 0.00% | 1 269[4] | 0.00% |
| 67 500[3] | 0.02% | 24 725[4] | 0.01% | 8 850[4] | 0.00% | 1 000[3] | 0.00% |
| 63 599[4] | 0.02% | 22 611[4] | 0.01% | 8 556[4] | 0.00% | 877[4] | 0.00% |
| 64 550[3] | 0.02% | 22 343[4] | 0.01% | 8 484[4] | 0.00% | 774[4] | 0.00% |
| 57 841[3] | 0.02% | 22 343[4] | 0.01% | 8 316[4] | 0.00% | 513[4] | 0.00% |
| 56 950[3] | 0.02% | 22 342[4] | 0.01% | 8 212[4] | 0.00% | 500[3] | 0.00% |
| 55 406[4] | 0.02% | 21 897[3] | 0.01% | 8 212[4] | 0.00% | 324[4] | 0.00% |
| 54 986[4] | 0.02% | 20 007[4] | 0.01% | 7 884[3] | 0.00% | 243[4] | 0.00% |
| 52 499[3] | 0.01% | 19 546[4] | 0.01% | 6 993[4] | 0.00% | 228[4] | 0.00% |
| 52 000[3] | 0.01% | 16 733[4] | 0.00% | 6 540[4] | 0.00% | 27[3] | 0.00% |
| 49 600[3] | 0.01% | 16 000[3] | 0.00% | 4 590[4] | 0.00% | 24[3] | 0.00% |

1 No such disclosures were received.

2 Total outstanding number of shares on 30 June and 1 September 2010: 357 918 125.

3 Situation as at 30 June 2010.

4 Situation as at 1 September 2010.

5 Some of these shareholdings have been reported as being in bare ownership without voting rights and some as being held in usufruct with voting rights.

# 2 Consolidated financial statements

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*TRANSLATION*

# Statutory auditor's report to the general meeting of shareholders of KBC Group nv on the consolidated financial statements for the year ended 31 December 2010

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

## Unqualified opinion on the consolidated financial statements

We have audited the consolidated financial statements of KBC Group nv and its subsidiaries (collectively referred to as 'the Group') for the year ended 31 December 2010, prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium. These consolidated financial statements comprise the consolidated balance sheet as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated cashflow statement and the consolidated statement of changes in equity for the year then ended, as well as the summary of significant accounting policies and other explanatory notes. The consolidated balance sheet shows total assets of € 320.823 million and the consolidated statement of income shows a profit for the year, share of the Group, of € 1.860 million.

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

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

*Responsibility of the statutory auditor*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the legal requirements and the auditing standards applicable in Belgium, as issued by the Institute of Registered Auditors (*Institut des Réviseurs d'Entreprises/Instituut van de Bedrijfsrevisoren*). Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. In accordance with these standards, we have performed procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we have considered internal control relevant to the

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

Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. We have evaluated the appropriateness of accounting policies used, the reasonableness of significant accounting estimates made by the Group and the presentation of the consolidated financial statements, taken as a whole. Finally, we have obtained from the board of directors and the Group's officials the explanations and information necessary for executing our audit procedures.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Opinion*

In our opinion, the consolidated financial statements for the year ended 31 December 2010 give a true and fair view of the Group's financial position as at 31 December 2010 and of the results of its operations and its cashflows in accordance with IFRS as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium.

**Additional comments**

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

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

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

Brussels, 24 March 2011

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

Pierre Vanderbeek
Partner
*11PVDB0065*

Peter Telders
Partner

2

# Consolidated income statement

| (in millions of EUR) | Note | 2009 | 2010 |
|---|---|---|---|
| Net interest income | 3 | 5 817 | 6 245 |
| Interest income | 3 | 11 687 | 10 542 |
| Interest expense | 3 | -5 871 | -4 297 |
| Earned premiums, insurance (before reinsurance) | 9 | 4 848 | 4 616 |
| Non-life | 11 | 1 925 | 1 916 |
| Life | 10 | 2 923 | 2 700 |
| Technical charges, insurance (before reinsurance) | 9 | -4 412 | -4 261 |
| Non-life | 9 | -1 244 | -1 249 |
| Life | 9 | -3 168 | -3 012 |
| Ceded reinsurance result | 9 | -63 | -8 |
| Dividend income | 4 | 139 | 97 |
| Net result from financial instruments at fair value through profit or loss | 5 | -3 485 | -77 |
| Net realised result from available-for-sale assets | 6 | 224 | 90 |
| Net fee and commission income | 7 | 1 132 | 1 224 |
| Fee and commission income | 7 | 2 059 | 2 156 |
| Fee and commission expense | 7 | -927 | -932 |
| Other net income | 8 | 427 | 452 |
| **TOTAL INCOME** | | **4 625** | **8 378** |
| Operating expenses | 12 | -4 779 | -4 436 |
| Staff expenses | 12 | -2 589 | -2 529 |
| General administrative expenses | 12 | -1 814 | -1 546 |
| Depreciation and amortisation of fixed assets | 12 | -376 | -361 |
| Impairment | 14 | -2 725 | -1 656 |
| on loans and receivables | 14 | -1 901 | -1 483 |
| on available-for-sale assets | 14 | -326 | -31 |
| on goodwill | 14 | -483 | -88 |
| other | 14 | -14 | -54 |
| Share in results of associated companies | 15 | -25 | -63 |
| **RESULT BEFORE TAX** | | **-2 904** | **2 224** |
| Income tax expense | 16 | 256 | -82 |
| Net post-tax result from discontinued operations | 46 | 101 | -254 |
| **RESULT AFTER TAX** | | **-2 547** | **1 888** |
| attributable to minority interests | | -82 | 28 |
| *of which relating to discontinued operations* | | *0* | *0* |
| **attributable to equity holders of the parent** | | **-2 466** | **1 860** |
| *of which relating to discontinued operations* | | *101* | *-254* |
| Earnings per share (in EUR) | | | |
| Basic | 17 | -7.26 | 3.72 |
| Diluted | 17 | -7.26 | 3.72 |

- The group unveiled an updated strategic plan at the end of 2009, which the European Commission used to decide whether KBC would be able to repurchase the securities sold to government within a reasonable timeframe. The European Commission approved the plan at the end of November 2009. The group's new strategy is dealt with in more detail in the 'Strategy and company profile' section (which has not been reviewed by the statutory auditor).
- Under this plan, KBC concluded a number of agreements, including one in May 2010 to sell KBL EPB (which encompasses the activities of the former European Private Banking Business Unit, including VITIS Life). This qualifies as a discontinued operation. As a consequence of this and in accordance with IFRS 5, the results of KBL EPB have no longer been recorded under various headings in the income statement, but have been grouped together instead under 'Net post-tax result from discontinued operations'. All the reference figures have been restated. All the information required under IFRS 5 can be found in Note 46. It was announced in mid-March 2011 that the sale of KBL EPB to the Hinduja Group will not go ahead (for more information, see Note 48).
- For other changes in the presentation of the income statement, see Note 1a.
- It will be proposed that a gross dividend of 0.75 euros per share entitled to dividend be paid for the 2010 financial year, subject to the approval of the General Meeting. The total dividend to be paid will accordingly amount to 258 million euros. Payment of a coupon on the core-capital securities sold to the Belgian Federal and Flemish Regional governments (see 'Additional information') is related to payment of a dividend on ordinary shares. Consequently, a total coupon of 595 million euros (i.e. 8.5% of 7 billion euros) will be paid in 2011 to these governments for the 2010 financial year (the accounting treatment under IFRS is comparable with that of ordinary dividends (deducted from equity in 2011)). It should be noted that this coupon is included, however, in the calculation of earnings per share (see Note 17).
- The main items in the income statement are dealt with under 'Results in 2010' in the 'Report of the Board of Directors' section, and in the subsequent sections on the business units (which have not been reviewed by the auditor).

# Consolidated statement of comprehensive income

| (in millions of EUR) | **2009** | **2010** |
|---|---|---|
| **RESULT AFTER TAX** | **-2 547** | **1 888** |
| attributable to minority interests | -82 | 28 |
| attributable to equity holders of the parent | -2 466 | 1 860 |
| **OTHER COMPREHENSIVE INCOME** | | |
| Net change in revaluation reserve for shares | 450 | 49 |
| Fair value adjustments before tax | 300 | 105 |
| Deferred tax on fair value changes | -17 | -7 |
| Transfer from reserve to net result | 167 | -48 |
| Impairment | 152 | 9 |
| Net gains/losses on disposal | 17 | -60 |
| Deferred taxes on income | -2 | 3 |
| Net change in revaluation reserve for bonds | 1 138 | -427 |
| Fair value adjustments before tax | 1 337 | -874 |
| Deferred tax on fair value changes | -478 | 297 |
| Transfer from reserve to net result | 279 | 151 |
| Impairment | 33 | -54 |
| Net gains/losses on disposal | 109 | 17 |
| Amortisation and impairment of revaluation reserve for available-for-sale financial assets following reclassification to 'loans and receivables' | 209 | 284 |
| Deferred taxes on income | -72 | -96 |
| Net change in revaluation reserve for other assets | 0 | 1 |
| Fair value adjustments before tax | 0 | 1 |
| Deferred tax on fair value changes | 0 | 0 |
| Transfer from reserve to net result | 0 | 0 |
| Impairment | 0 | 0 |
| Net gains/losses on disposal | 0 | 0 |
| Deferred taxes on income | 0 | 0 |
| Net change in hedging reserve (cashflow hedges) | -26 | -68 |
| Fair value adjustments before tax | -59 | -131 |
| Deferred tax on fair value changes | 11 | 54 |
| Transfer from reserve to net result | 21 | 8 |
| Gross amount | 27 | 10 |
| Deferred taxes on income | -5 | -2 |
| Net change in translation differences | -155 | 63 |
| Gross amount | -167 | -6 |
| Deferred taxes on income | 12 | 70 |
| Other movements | 3 | -1 |
| **TOTAL COMPREHENSIVE INCOME** | **-1 137** | **1 505** |
| attributable to minority interests | -84 | 35 |
| attributable to equity holders of the parent | -1 053 | 1 470 |

# Consolidated balance sheet

| ASSETS (in millions of EUR) | Note | 31-12-2009 | 31-12-2010 |
|---|---|---|---|
| Cash and cash balances with central banks | | 7 173 | 15 292 |
| Financial assets | 18–29 | 304 057 | 281 240 |
| Held for trading | 18–29 | 40 563 | 30 287 |
| Designated at fair value through profit or loss | 18–29 | 30 520 | 25 545 |
| Available for sale | 18–29 | 56 120 | 54 143 |
| Loans and receivables | 18–29 | 164 598 | 157 024 |
| Held to maturity | 18–29 | 12 045 | 13 955 |
| Hedging derivatives | 18–29 | 213 | 286 |
| Reinsurers' share in technical provisions, insurance | 35 | 284 | 280 |
| Fair value adjustments of the hedged items in portfolio hedge of interest rate risk | – | 259 | 218 |
| Tax assets | 31 | 2 214 | 2 534 |
| Current tax assets | 31 | 367 | 167 |
| Deferred tax assets | 31 | 1 847 | 2 367 |
| Non-current assets held for sale and disposal groups | 46 | 70 | 12 938 |
| Investments in associated companies | 32 | 608 | 496 |
| Investment property | 33 | 762 | 704 |
| Property and equipment | 33 | 2 890 | 2 693 |
| Goodwill and other intangible assets | 34 | 3 316 | 2 256 |
| Other assets | 30 | 2 597 | 2 172 |
| **TOTAL ASSETS** | | **324 231** | **320 823** |

| LIABILITIES AND EQUITY (in millions of EUR) | Note | 31-12-2009 | 31-12-2010 |
|---|---|---|---|
| Financial liabilities | 18-29 | 279 450 | 260 582 |
| Held for trading | 18-29 | 29 891 | 24 136 |
| Designated at fair value through profit or loss | 18-29 | 31 309 | 34 615 |
| Measured at amortised cost | 18-29 | 217 163 | 200 707 |
| Hedging derivatives | 18-29 | 1 087 | 1 124 |
| Technical provisions (before reinsurance) | 35 | 22 012 | 23 255 |
| Fair value adjustments of the hedged items in portfolio hedge of interest rate risk | – | 0 | 0 |
| Tax liabilities | 31 | 519 | 468 |
| Current tax liabilities | 31 | 379 | 345 |
| Deferred tax liabilities | 31 | 140 | 123 |
| Liabilities associated with disposal groups | 46 | 0 | 13 341 |
| Provisions for risks and charges | 36 | 651 | 600 |
| Other liabilities | 37 | 4 422 | 3 902 |
| **TOTAL LIABILITIES** | | **307 054** | **302 149** |
| **Total equity** | **39** | **17 177** | **18 674** |
| Parent shareholders' equity | 39 | 9 662 | 11 147 |
| Non-voting core-capital securities | 39 | 7 000 | 7 000 |
| Minority interests | – | 515 | 527 |
| **TOTAL LIABILITIES AND EQUITY** | | **324 231** | **320 823** |

- In accordance with IFRS 5, the assets and liabilities of a number of divestments have no longer been recorded under various headings in the balance sheet, but have been grouped together instead under 'Non-current assets held for sale and disposal groups' and 'Liabilities associated with disposal groups'. The reference figures have not been restated (not required by IFRS 5). More information on the divestments and all the information required under IFRS 5 can be found in Note 46. It was announced in mid-March 2011 that the sale of KBL EPB to the Hinduja Group will not go ahead (for more information, see Note 48).
- For other changes in the presentation of the balance sheet, see Note 1a.

# Consolidated statement of changes in equity

| (in millions of EUR) | Issued and paid up share capital | Share premium | Treasury shares | Revaluation reserve (AFS assets) | Hedging reserve (cash-flow hedges) | Reserves | Translation differences | Parent share-holders' equity | Non-voting core-capital securities | Minority interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2009** | | | | | | | | | | | |
| Balance at the beginning of the period | 1 244 | 4 335 | -1 561 | -1 131 | -352 | 8 359 | -184 | 10 710 | 3 500 | 1 165 | 15 376 |
| Net result for the period | 0 | 0 | 0 | 0 | 0 | -2 466 | 0 | -2 466 | 0 | -82 | -2 547 |
| Other comprehensive income | 0 | 0 | 0 | 1 588 | -22 | 3 | -156 | 1 413 | 0 | -3 | 1 410 |
| Subtotal, income and expense for the period | 0 | 0 | 0 | 1 588 | -22 | -2 463 | -156 | -1 053 | 0 | -84 | -1 137 |
| Dividends | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Capital increase | 1 | 5 | 0 | 0 | 0 | -2 | 0 | 4 | 3 500 | 0 | 3 504 |
| Purchases of treasury shares | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Sales of treasury shares | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Results on (derivatives on) treasury shares | 0 | 0 | 2 | 0 | 0 | 0 | 0 | 2 | 0 | 0 | 2 |
| Change in minority interests | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -566 | -566 |
| Total change | 1 | 5 | 2 | 1 588 | -22 | -2 465 | -156 | -1 048 | 3 500 | -650 | 1 801 |
| Balance at the end of the period | 1 245 | 4 339 | -1 560 | 457 | -374 | 5 894 | -339 | 9 662 | 7 000 | 515 | 17 177 |
| of which revaluation reserve for shares | – | – | – | 387 | – | – | – | – | – | – | – |
| of which revaluation reserve for bonds | – | – | – | 70 | – | – | – | – | – | – | – |
| of which revaluation reserve for other assets than bonds and shares | – | – | – | 0 | – | – | – | – | – | – | – |
| of which relating to non-current assets held for sale and disposal groups | – | – | – | 0 | 0 | – | 0 | 0 | – | 0 | 0 |
| **2010** | | | | | | | | | | | |
| Balance at the beginning of the period | 1 245 | 4 339 | -1 560 | 457 | -374 | 5 894 | -339 | 9 662 | 7 000 | 515 | 17 177 |
| Net result for the period | 0 | 0 | 0 | 0 | 0 | 1 860 | 0 | 1 860 | 0 | 28 | 1 888 |
| Other comprehensive income | 0 | 0 | 0 | -379 | -69 | -1 | 58 | -390 | 0 | 7 | -383 |
| Subtotal, income and expense for the period | 0 | 0 | 0 | -379 | -69 | 1 860 | 58 | 1 470 | 0 | 35 | 1 505 |
| Dividends | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Capital increase | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 1 |
| Purchases of treasury shares | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Sales of treasury shares | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 1 | 0 | 0 | 1 |
| Results on (derivatives on) treasury shares | 0 | 0 | 31 | 0 | 0 | 0 | 0 | 31 | 0 | 0 | 31 |
| Effect of business combinations | 0 | 0 | 0 | 0 | 0 | -6 | 0 | -6 | 0 | 0 | -6 |
| Change in minority interests | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -23 | -23 |
| Change in scope | 0 | 0 | 0 | -12 | 0 | 0 | 0 | -12 | 0 | -1 | -13 |
| Total change | 0 | 1 | 31 | -391 | -69 | 1 855 | 58 | 1 485 | 0 | 12 | 1 497 |
| Balance at the end of the period | 1 245 | 4 340 | -1 529 | 66 | -443 | 7 749 | -281 | 11 147 | 7 000 | 527 | 18 674 |
| of which revaluation reserve for shares | – | – | – | 435 | – | – | – | – | – | – | – |
| of which revaluation reserve for bonds | – | – | – | -370 | – | – | – | – | – | – | – |
| of which revaluation reserve for other assets than bonds and shares | – | – | – | 1 | – | – | – | – | – | – | – |
| of which relating to non-current assets held for sale and disposal groups | – | – | – | 3 | 0 | – | 10 | 12 | – | 0 | 12 |

- For information on the number of shares and the capital-strengthening transactions concluded with the Belgian Federal Government and the Flemish Region, see Note 39.
- For the shareholder structure at balance sheet date, see Note 4 in the 'Company annual accounts' section.

## Consolidated cashflow statement

| (in millions of EUR) | 2009 | 2010 |
|---|---|---|
| **Operating activities** | | |
| Result before tax | -2 904 | 2 224 |
| Adjustments for: | | |
| Result before tax from discontinued operations | 123 | 66 |
| Depreciation, impairment and amortisation of property and equipment, intangible fixed assets, investment property and securities | 1 275 | 603 |
| Profit/Loss on the disposal of investments | -21 | -192 |
| Change in impairment on loans and advances | 1 903 | 1 481 |
| Change in technical provisions (before reinsurance) | 3 199 | 2 436 |
| Change in the reinsurers' share in the technical provisions | -38 | -83 |
| Change in other provisions | 42 | -49 |
| Other unrealised gains or losses* | -3 940 | -136 |
| Income from associated companies | 22 | 61 |
| Cashflows from operating profit before tax and before changes in operating assets and liabilities | -339 | 6 411 |
| Changes in operating assets (excluding cash and cash equivalents) | 22 661 | 8 933 |
| Financial assets held for trading | 25 278 | 9 516 |
| Financial assets at fair value through profit or loss | -2 413 | 4 983 |
| Available-for-sale assets | -8 766 | 430 |
| Loans and receivables | 8 497 | 2 167 |
| Hedging derivatives | 66 | -204 |
| Operating assets associated with disposal groups | 0 | -7 959 |
| Changes in operating liabilities (excluding cash and cash equivalents) | -25 347 | 2 056 |
| Deposits measured at amortised cost | -3 319 | -6 232 |
| Debts represented by securities measured at amortised cost | 2 000 | -1 485 |
| Financial liabilities held for trading | -13 280 | -5 031 |
| Financial liabilities at fair value through profit or loss | -10 919 | 3 305 |
| Hedging derivatives | 171 | 38 |
| Operating liabilities associated with disposal groups | 0 | 11 461 |
| Income taxes paid | -157 | -363 |
| Net cash from or used in operating activities | -3 181 | 17 037 |
| **Investing activities** | | |
| Purchase of held-to-maturity securities | -2 763 | -3 975 |
| Proceeds from the repayment of held-to-maturity securities at maturity | 1 707 | 2 039 |
| Acquisition of a subsidiary or a business unit, net of cash acquired (including increases in percentage interest held) | -18 | -108 |
| Proceeds from the disposal of a subsidiary or business unit, net of cash disposed of (including decreases in percentage interest held) | 0 | 1 194 |
| Purchase of shares in associated companies | 0 | 0 |
| Proceeds from the disposal of shares in associated companies | 0 | 0 |
| Dividends received from associated companies | 5 | 1 |
| Purchase of investment property | -31 | -18 |
| Proceeds from the sale of investment property | 17 | 20 |
| Purchase of intangible fixed assets (excluding goodwill) | -168 | -142 |
| Proceeds from the sale of intangible fixed assets (excluding goodwill) | 25 | 34 |
| Purchase of property and equipment | -549 | -533 |
| Proceeds from the sale of property and equipment | 215 | 293 |
| Net cash from or used in investing activities | -1 561 | -1 194 |
| **Financing activities** | | |
| Purchase or sale of treasury shares | 2 | 1 |
| Issue or repayment of promissory notes and other debt securities | -1 480 | -1 686 |
| Proceeds from or repayment of subordinated liabilities | -315 | 547 |
| Principal payments under finance lease obligations | 0 | 0 |
| Proceeds from the issuance of share capital | 4 | 1 |
| Proceeds from the issuance of non-voting core-capital securities | 3 500 | 0 |
| Proceeds from the issuance of preference shares | -655 | 0 |
| Dividends paid | 0 | 0 |
| Net cash from or used in financing activities | 1 056 | -1 137 |
| **Change in cash and cash equivalents** | | |
| Net increase or decrease in cash and cash equivalents | -3 686 | 14 706 |
| Cash and cash equivalents at the beginning of the period | 9 461 | 5 487 |
| Effects of exchange rate changes on opening cash and cash equivalents | -287 | 364 |
| Cash and cash equivalents at the end of the period | 5 487 | 20 557 |

# Consolidated cashflow statement (continued)

| (in millions of EUR) | 2009 | 2010 |
|---|---|---|
| **Additional information** | | |
| Interest paid | -5 983 | -4 577 |
| Interest received | 12 049 | 11 053 |
| Dividends received (including equity method) | 150 | 104 |
| **Components of cash and cash equivalents** | | |
| Cash and cash balances with central banks | 7 172 | 15 292 |
| Loans and advances to banks repayable on demand and term loans to banks at not more than three months | 10 205 | 6 866 |
| Deposits from banks repayable on demand | -11 890 | -4 449 |
| Cash and cash equivalents belonging to disposal groups | 0 | 2 849 |
| Total | 5 487 | 20 557 |
| of which not available | 0 | 0 |

* Amount in 2009 concerns primarily valuation differences in the portfolio of structured credit (CDOs), including the related fees that have been recognised for the guarantee provided by the Belgian State to cover this portfolio, most of which is unrealised and therefore does not represent cash flow.

- KBC uses the indirect method to report on cashflows from operating activities.
- As stated in Note 46, KBL EPB qualifies as a discontinued operation on account of the agreement entered into in May 2010 to sell it. The main impact this agreement would have on cashflows relating to investing activities is as follows: receipt of the sales price: 1 350 million euros; reduction in cash and cash equivalents belonging to disposal groups: 2 billion euros (amount at 31 December 2009) and 2.8 billion euros (amount at 31 December 2010). In mid-March 2011, it was announced that the sale of KBL EPB to the Hinduja Group would not go ahead (for more information, see Note 48).
- The main acquisitions and divestments of consolidated subsidiaries and activities are commented on below (there were no major acquisitions or divestments in 2009). All (material) acquisitions and divestments of group companies or activities were paid for in cash.

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

| | 2010 | 2010 | 2010 |
|---|---|---|---|
| (in millions of EUR) | **Secura** | **KBC Peel Hunt** | **Global Convertible Bonds & Asian Equity Derivatives businesses** |
| Purchase or sale | Sale | Sale | Sale |
| Percentage of shares bought (+) or sold (-) in the relevant year | 100% | 100% | – |
| Total share percentage at the end of the relevant year | 0% | 0% | – |
| For business unit/segment | Belgium | Group Centre | Group Centre |
| Deal date (month and year) | November 2010 | November 2010 | November 2010 |
| Purchase price or sale price | 315 | 86 | 866 |
| Cashflow for acquiring or selling companies less cash and cash equivalents acquired or sold | 290 | 75 | 824 |
| Assets and liabilities bought or sold | | | |
| Cash and cash balances with central banks | 0 | 0 | 0 |
| Financial assets | 753 | 511 | 906 |
| Held for trading | 0 | 26 | 864 |
| Designated at fair value through profit or loss | 0 | 0 | 0 |
| Available for sale | 639 | 2 | 0 |
| Loans and receivables | 0 | 483 | 42 |
| Held to maturity | 114 | 0 | 0 |
| Hedging derivatives | 0 | 0 | 0 |
| *of which cash and cash equivalents* | *25* | *11* | *42* |
| Financial liabilities | 0 | 402 | 392 |
| Held for trading | 0 | 15 | 392 |
| Designated at fair value through profit or loss | 0 | 0 | 0 |
| Measured at amortised cost | 0 | 387 | 0 |
| Hedging derivatives | 0 | 0 | 0 |
| *of which cash and cash equivalents* | *0* | *0* | *0* |
| Technical provisions (before reinsurance) | 862 | 0 | 0 |

## Note 1 a: Statement of compliance

The consolidated financial statements, including all the notes, were authorised for issue on 24 March 2011 by the Board of Directors of KBC Group NV.

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted for use in the European Union ('endorsed IFRS') and present one year of comparative information. All amounts are shown in millions of euros and rounded to the million.

The following IFRS standards became effective on 1 January 2010 and have been applied in this report:

- The revised IFRS 3 (Business Combinations) and amendments to IAS 27 (Consolidated and Separate Financial Statements). These revisions and amendments are the result of a joint project between the IASB and FASB, aimed at achieving a higher degree of convergence between IFRS and US GAAP. The revised version of IFRS 3 will be applied prospectively and may have a considerable impact on the way in which business combinations and changes in shareholdings are recognised in the future.

The following IFRS standards became effective on 1 January 2010 and do not have any impact on this report:

- amendments to IFRS 2 (Share-based Payment) relating to group cash-settled transactions;
- amendment to IAS 39 (Financial Instruments: Recognition and Measurement) relating to eligible hedged items;
- IFRIC 17 (Distribution of Non-Cash Assets to Owners);
- IFRIC 18 (Transfers of Assets from Customers).

The following IFRS standards and IFRIC interpretations were issued but not yet effective for the KBC group at year-end 2010. KBC will apply these standards and interpretations when they become mandatory:

- IAS 24 (Related Party Disclosures). The definition of a related party has been simplified and a partial exemption from the disclosure requirements of IAS 24 provided for government-related entities. However, where a reporting entity is exempt from the general disclosure requirements, other information (identity, nature of the related party relationship, nature and amount of the transaction) will have to be disclosed in future reports.
- In November 2009, the IASB issued IFRS 9 (Financial Instruments) on the classification and measurement of financial assets, as a replacement for the relevant requirements of the present IAS 39 (Financial Instruments: Recognition and Measurement). This new standard will become effective on 1 January 2013. However, the standard has still not been adopted for use in the European Union. An impact study is an inherent part of the IFRS 9 programme currently under way at KBC.
- IFRIC 19 (Extinguishing Financial Liabilities with Equity Instruments).

Changes in the presentation of the income statement in 2010:

- 'Provisions for risks and charges' ceased to be a sub-heading of 'Operating expenses'. From now on, amounts allocated to and reversed from 'Provisions for risks and charges' on the balance sheet will be recognised in the income statement under the heading where the future cost of the provision will be recorded ('Staff expenses', 'General administrative expenses, 'Income tax expense' and 'Other net income'). In the reference figures, the amounts previously stated under 'Provisions for risks and charges' in the income statement have been added to 'General administrative expenses'.
- The accounting presentation of certain income and expense items has been harmonised further in the group, causing a slight difference in comparability between the figures for 2009 and 2010. Had the changes in the accounting presentation been applied to 2009, then 'Net fee and commission income' in that year would have been 36 million euros lower, 'Other net income' 25 million euros higher, and 'Operating expenses' 11 million euros less negative.

- A number of headings in the income statement have been renamed for the sake of clarity and simplicity:

| Previous name | New name |
|---|---|
| Gross earned premiums, insurance | Earned premiums, insurance (before reinsurance) |
| Gross technical charges, insurance | Technical charges, insurance (before reinsurance) |
| Net (un)realised gains from financial instruments at fair value through profit or loss | Net result from financial instruments at fair value through profit or loss |
| Net realised gains from available-for-sale assets | Net realised result from available-for-sale assets |
| Profit before tax | Result before tax |
| Profit after tax | Result after tax |
| Net post-tax income from discontinued operations | Net post-tax result from discontinued operations |

Similarly, 'Gross technical provisions, insurance' has been changed to 'Technical provisions (before reinsurance)' in the balance sheet.

Changes in the presentation of segment reporting in 2010:

- Following the restructuring plan, which was approved by the European Commission at the end of 2009, the results of all the business units will be significantly affected in the years ahead by the planned divestments. The segment reporting format has been changed to create more transparency and to prevent the results of the business units from being seriously distorted. This new format covers the Belgium Business Unit, the Central & Eastern Europe Business Unit, the Merchant Banking Business Unit and the Group Centre, a unit which now comprises the former Group Centre plus all companies earmarked for divestment under the strategic plan. Consequently, the results of the new business units will not be distorted by future divestments. The figures for 2009 have been restated to make them comparable.

Changes in the content and layout of the notes in 2010:

- Owing to the inclusion of additional information, and with the general aim to present information in an even more transparent manner, a number of notes have been adjusted in terms of layout and content (for example, the notes concerning financial instruments, insurance results, related-party transactions, etc.) and also renumbered.
- All the information required under IFRS 5 has been summarised in a new note (Note 46).
- The financial statements also include specific information on risk management. In this regard, Note 47 refers to the 'Value and risk management' section.

## Note 1 b: Summary of significant accounting policies

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

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

**b Effects of changes in foreign exchange rates**

Monetary assets and liabilities denominated in foreign currency are translated into the functional currency at the spot rate at balance sheet date.
Negative and positive valuation differences, except for those relating to the funding of shares and investments of consolidated companies in foreign currency, are recognised in profit or loss.
Non-monetary items measured at historical cost are translated into the functional currency at the historical exchange rate that existed on the transaction date. Non-monetary items carried at fair value are translated at the spot rate of the date the fair value was determined.
Translation differences are reported together with changes in fair value.
Income and expense items in foreign currency are taken to profit or loss at the exchange rate prevailing when they were recognised.

The balance sheets of foreign subsidiaries are translated into the reporting currency (euros) at the spot rate at balance sheet date (with the exception of the capital and reserves, which are translated at the historical rate). The income statement is translated at the average rate for the financial year as best estimate of the exchange rate at transaction date.

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

**c Financial assets and liabilities (IAS 39)**

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

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

The IAS 39 classifications are as follows:

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

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

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

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

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

- *Financial liabilities designated at fair value through profit or loss (FIFV).* These are measured in the same way as held-for-trading liabilities. This fair value option may be used under the same conditions as FIFV assets. Additionally, this classification may be used to account for (unbundled) deposit components (i.e. financial liabilities not including a discretionary participation feature) as defined in IFRS 4.

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

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

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

KBC applies the following general rules:

- *Amounts receivable.* These are classified under 'Loans and receivables'. They are measured on acquisition at fair value, including transaction costs. Loans with a fixed maturity are subsequently measured at amortised cost using the effective interest method, i.e. an interest rate is applied that exactly discounts all estimated future cashflows from the loans to the net carrying amount. This interest rate takes account of all related fees and transaction costs. Loans with no fixed maturity date are measured at amortised cost.

  Impairment losses are recognised for loans and advances for which there is evidence – either on an individual or portfolio basis – of impairment at balance sheet date. Whether or not evidence exists is determined on the basis of the probability of default (PD). The characteristics of the loan, such as the type of loan, the borrower's line of business, the geographical location of the borrower and other characteristics key to a borrower's risk profile, are used to determine the PD. Loans with the same PD therefore have a similar credit risk profile.
  - Loans and advances with a PD of 12 (individual problem loans with the highest probability of default) are individually tested for impairment (and written down on an individual basis if necessary). The impairment amount is calculated as the difference between the loans' carrying amount and their present value.
  - Loans and advances with a PD of 10 or 11 are also considered to be individual problem loans. Significant loans (of more than 1.25 million euros) are tested individually. The impairment amount is calculated as the difference between the loans' carrying amount and their present value. Non-significant loans (of less than 1.25 million euros) are tested on a statistical basis. The impairment amount calculated according to the statistical method is based on three components: the amount outstanding of loans, a reclassification percentage reflecting the movement of loans between the various PD classes, and a loss percentage reflecting the average loss for each product.
  - Loans and advances with a PD lower than 10 are considered normal loans. Incurred-but-not-reported (IBNR) losses are recognised for loans with a PD of 1 through 9. IBNR losses are based on the IRB Advanced models (PD x LGD x EAD), with all parameters being adjusted to reflect the point-in-time nature of these losses. The main adjustment relates to the PD, i.e. the time horizon of the PD is shortened on the basis of the emergence period. This is the period between the time an event occurs that will lead to an impairment and the time KBC identifies this event, and is dependent on the review frequency, the location and degree of involvement with the counterparties.

- When impairment is identified, the carrying amount of the loan is reduced via an impairment account and the loss recognised in the income statement. If, in a subsequent period, the estimated impairment amount increases or decreases due to an event that occurs after the impairment loss was recognised, the previously recognised impairment will be increased or reduced accordingly through adjustment of the impairment account. Loans and the related amounts included in the impairment accounts are written off when there is no realistic prospect of recovery in future or if the loan is forgiven. A renegotiated loan will continue to be tested for impairment, calculated on the basis of the original effective interest rate applying to the loan.

  For off-balance-sheet commitments (commitment credit) classified as uncertain or irrecoverable and doubtful, provisions are recognised if the general IAS 37 criteria are satisfied and the *more-likely-than-not* criterion met. These provisions are recognised at their present value.

  Interest on loans written down as a result of impairment is recognised using the rate of interest used to measure the impairment loss.

- *Securities.* Depending on whether or not securities are traded on an active market and depending on what the intention is when they are acquired, securities are classified as loans and receivables, held-to-maturity assets, held-for-trading assets, financial assets at fair value through profit or loss, or available-for-sale assets.

  Securities classified as loans and receivables or held-to-maturity assets are initially measured at fair value, including transaction costs. They are subsequently measured at amortised cost. The difference between the acquisition cost and the redemption value is recognised as interest and recorded in the income statement on an accruals basis over the remaining term to maturity. It is taken to the income statement on an actuarial basis, based on the effective rate of return on acquisition. Individual impairment losses for securities classified as loans and receivables or held-to-maturity are recognised - according to the same method as is used for amounts receivable as described above - if there is evidence of impairment at balance sheet date.

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

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

  Available-for-sale securities are initially measured at fair value (including transaction costs) and subsequently at fair value, with changes in fair value being recorded separately in equity until the sale or impairment of the securities. In this case, the cumulative fair value changes are transferred from equity to profit or loss for the financial year. Impairment losses are recognised if evidence of impairment exists on the balance sheet date. For listed equity and other variable-yield securities, a significant (more than 30%) or prolonged (more than one year) decline in their fair value below cost is evidence of impairment. For fixed-income securities, impairment is measured on the basis of the recoverable amount of the acquisition cost. Impairment losses are taken to the income statement for the financial year. For equity and other variable-yield securities, impairment is reversed through a separate equity heading. Reversals of impairment on fixed-income securities occur through profit or loss for the financial year.

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

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

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

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

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

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

**d Goodwill and other intangible assets**

Goodwill is defined as any excess of the cost of the acquisition over the acquirer's interest in the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. It is recognised as an intangible asset and is carried at cost less impairment losses. Goodwill is not amortised, but is tested at least once a year for impairment. An impairment loss is recognised if the carrying amount of the cash-generating unit to which the goodwill belongs exceeds its recoverable amount. Impairment losses on goodwill cannot be reversed.

If the capitalisation criteria are met, software is recognised as an intangible asset. System software is capitalised and amortised at the same rate as hardware, i.e. over three years, from the moment the software is available for use. Standard software and customised software developed by a third party is capitalised and amortised over five years according to the straight-line method from the moment the software is available for use. Internal and external development expenses for internally-generated software for investment projects are capitalised and written off according to the straight-line method over five years. Investment projects are large-scale projects that introduce or replace an important business objective or model. Internal and external research expenses for these projects and all expenses for other ICT projects concerning internally-generated software (other than investment projects) are taken to the income statement directly.

**e Property and equipment (including investment property)**

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

## f Technical provisions

### *Provisions for unearned premiums and unexpired risk*

For primary business, the provision for unearned premiums is in principle calculated on a daily basis, based on the gross premiums, net of commission.

For inward treaties, i.e. reinsurance business received, the provision for unearned premiums is calculated for each contract separately on the basis of the information communicated by the ceding undertaking and, where necessary, supplemented on the basis of the company's own experience regarding the evolution of the risk over time.

The provision for unearned premiums for the life insurance business is recorded under the provision for the life insurance group of activities.

### *Life insurance provision*

Except for unit-linked life insurance products, this provision is calculated according to current actuarial principles, with account being taken of the provision for unearned premiums, the ageing reserve, provision for annuities payable but not yet due, etc.

In principle, this provision is calculated separately for every insurance contract.

For accepted business, a provision is constituted for each individual contract, based on the information supplied by the ceding undertaking and supplemented, where necessary, by the company's own past experience.

Besides the rules set out below, an additional provision is set aside as required by law.

The following rules apply:

- *Valuation according to the prospective method.* This method is applied for the provisions for conventional non-unit-linked life insurance, modern non-unit-linked universal life insurance policies offering a guaranteed rate of interest on future premium payments and for the provision for extra-legal benefits for employees in respect of current annuities. Calculations according to prospective actuarial formulas are based on the technical assumptions made in the contracts.
- *Valuation according to the retrospective method.* This method is applied for the provision for modern non-unit-linked universal life insurance policies and for the provision for extra-legal benefits for employees in respect of new supplementary premium payments. Calculations according to retrospective actuarial formulas are based on the technical assumptions made in the contracts, though no account is taken of future payments.

### *Provision for claims outstanding*

For claims reported, the provision is in principle measured separately in each case, taking into account the known facts in the claims file, on the basis of the amounts still due to the injured parties or beneficiaries, plus external costs of settling claims. Where benefits have to be paid in the form of an annuity, the amounts to be set aside for that purpose are calculated using recognised actuarial methods.

For 'claims incurred but not reported' at balance sheet date, an IBNR (Incurred But Not Reported) provision is set aside. In the primary business, this IBNR provision is based on a lump sum per class of insurance depending upon past experience and the trend in the insured portfolio. For extraordinary events, additional amounts are added to the IBNR provision.

For 'claims incurred but not enough reserved' at balance sheet date, an IBNER (Incurred But Not Enough Reserved) provision is set aside if the adequacy procedures demonstrate that the other claims provisions are insufficient to meet future liabilities. This provision contains amounts for claims which have already been reported but which, for technical reasons, could not yet be recorded in the claims file. Where appropriate, a provision is set aside on a prudent basis for possible liabilities arising for claims files already closed.

A provision for the internal cost of settling claims is calculated at a percentage that is based on past experience.

Additional provisions are also constituted as required by law, such as supplementary workmen's compensation provisions.

### *Provision for profit sharing and rebates*

This heading includes the provision for the profit share that has been allocated but not yet awarded at the end of the financial year for both the group of life insurance activities and the group of non-life insurance activities.

### *Liability adequacy test*

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

### *Ceded reinsurance and retrocession*

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

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

Deposit accounting rules apply to financial instruments that do not include a discretionary participation feature (DPF), and to the deposit component of unit-linked insurance contracts. This means that the deposit component and insurance component are measured separately. In deposit accounting, the portion of the premiums relating to the deposit component is not taken to the income statement, nor is the resulting increase in the carrying amount of the liability. Management fees and commissions are recognised immediately in the income statement. When the value of unit-linked investments fluctuates subsequently, both the change on the asset side and the resulting change on the liabilities side are taken to the income statement immediately. Therefore, after initial recognition, the deposit component is measured at fair value through profit or loss. This fair value is determined by multiplying the number of units by the value of the unit, which is based upon the fair value of the underlying financial instruments. Settlements relating to the deposit component are not recorded in the income statement, but will result in a decrease in the carrying amount of the liability.

Financial instruments with a discretionary participation feature and the insurance component of unit-linked contracts are treated as non-unit-linked insurance contracts (see f Technical provisions), and are not unbundled into a deposit component and an insurance component. On the balance sheet date, the liabilities resulting from these financial instruments or insurance contracts are tested to see if they are adequate, according to the liability adequacy test. If the carrying amount of these liabilities is lower than their estimated future discounted cashflows, the deficiency will be recognised in the income statement against an increase in the liability.

**h Pension liabilities**

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

Defined benefit plans are those under which KBC has a legal or constructive obligation to pay extra contributions to the pension fund if this last has insufficient assets to settle all the obligations to employees resulting from employee service in current and prior periods. The pension obligations under these plans for employees are calculated according to IAS 19, based on the projected-unit-credit method, with each period of service granting additional entitlement to pension benefits.

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

**i Tax liabilities**

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

**j Provisions**

Provisions are recognised in the balance sheet:

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

**k Equity**

Equity is the residual interest in the net assets after all liabilities have been deducted.

Equity instruments have been differentiated from financial instruments in accordance with the IAS 32 rules:

- The non-voting core-capital securities (also referred to as yield-enhanced securities or YES) issued to the Belgian Federal and Flemish Regional governments are considered an equity instrument, with the coupon being accounted for directly in equity. Since payment of the coupon on the YES is conditional upon payment of a dividend on ordinary shares, coupons are recognised at the same time as dividends on ordinary shares (i.e. the coupon is not accrued in equity).
- The acquisition cost of KBC Group NV treasury shares is deducted from equity. On the sale, issuance or cancellation of treasury shares, gains or losses are reported directly in equity.
- Transactions in derivative financial instruments on KBC treasury shares are likewise reported in equity, save in the event of net cash settlement.
- Written stock options on treasury shares subject to IFRS 2 are measured at fair value on the grant date. This fair value is recognised in the income statement as a staff expense over the period of service, against a separate entry under equity. The 2000-2002 stock option plans are not covered by the scope of IFRS 2.
- The revaluation reserve for available-for-sale assets is included in equity until disposal or impairment of the assets. At that time, the cumulative gain or loss is transferred to profit or loss for the period.

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

**l Exchange rates used**

| | Exchange rate at 31-12-2010 | | Exchange rate average in 2010 | |
|---|---|---|---|---|
| | 1 EUR = ... currency | Change from 31-12-2009 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR) | 1 EUR = ... currency | Change relative to average in 2009 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR) |
| CZK | 25.06 | 6% | 25.32 | 5% |
| GBP | 0.861 | 3% | 0.857 | 4% |
| HUF | 278.0 | -3% | 276.2 | 2% |
| PLN | 3.975 | 3% | 4.010 | 8% |
| USD | 1.336 | 8% | 1.325 | 5% |

**m Changes made to accounting policies in 2010**

No material changes were made to the accounting policies compared with 2009.

## Note 2 a: Segment reporting based on the management structure

**The group's segments or business units**

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

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

For reporting purposes, therefore, the composition of the segments or business units is as follows:
- Belgium (retail bancassurance, asset management, private banking in Belgium; companies earmarked for divestment under the strategic plan are recognised under Group Centre);
- Central & Eastern Europe (retail bancassurance, asset management, private banking and merchant banking in the Czech Republic, Slovakia, Hungary, Poland and Bulgaria; companies in other countries that have been earmarked for divestment are recognised under Group Centre, as is the planned IPO of the minority stake in ČSOB);
- Merchant Banking (corporate banking and market activities in Belgium and in a selection of countries in Europe, North America and Southeast Asia; companies earmarked for divestment are recognised under Group Centre);
- Group Centre (all companies earmarked for divestment (and the planned IPO of a minority stake in ČSOB), KBC Group NV, and certain allocated results for KBC Bank NV, KBC Global Services NV and KBC Insurance NV (that cannot reliably be allocated to the segments)).

It should be noted that:
- In principle, a group company is assigned in its entirety to one specific segment (see Note 44). Major exceptions to this rule are only made for those charges that cannot clearly be allocated to a specific segment (such charges are grouped together and recognised under Group Centre) and KBC Bank (which is assigned to various segments and to Group Centre using a set of allocation rules).
- The funding cost of goodwill related to participating interests held by KBC Bank and KBC Insurance is allocated to the segment to which the relevant participating interest belongs. The funding cost in respect of leveraging at KBC Group NV level is not allocated to a segment.
- Transactions are conducted among the different segments at arm's length.
- When segment information is recorded, 'Net interest income' is not divided up into 'Interest income' and 'Interest expense'. This is permitted under IFRS because the bulk of the business units' income is in the form of interest, and management assesses and co-ordinates those business units primarily on the basis of net interest income.
- No information is provided on income from sales to external customers per product or per service (or group of products or services), since the information is prepared at consolidated level chiefly for each business unit, and not per customer group or product group.

**Underlying results by segment**

The figures in the segment reporting presentation have been prepared in accordance with the general accounting method used at KBC (see Note 1) and, therefore, comply with the International Financial Reporting Standards, as adopted for use in the European Union (endorsed IFRS). A number of changes have been made to this methodology in order to provide a better insight into the underlying business activities. The results generated in this way are referred to as 'underlying results' and these form an important element in the internal assessment and management of the business units. The differences between the IFRS figures and the underlying figures are as follows:
- Exceptional items that do not regularly occur during the normal course of business are eliminated in the underlying results. For instance, these items also include exceptional losses and gains relating to investments in CDOs (including the cost associated with the CDO guarantee agreement), to exposure to troubled banks (Lehman Brothers, Washington Mutual, Icelandic banks), to trading positions that were unwound due to the discontinuation of activities of KBC Financial Products, and to actual divestments (for example, related gains). In view of their exceptional nature and materiality, it is important to separate out these items in order to gain a full understanding of the results trend.
- In the IFRS figures, many of the ALM hedging derivatives (i.e. those that do not qualify for fair value hedge accounting for a portfolio hedge of interest rate risk) are regarded as trading instruments and, consequently, interest relating to these instruments appears under 'Net result from financial instruments at fair value', whereas interest earned on the related assets appears under 'Net interest income'. In the underlying figures, interest on these derivatives has therefore been moved to 'Net interest income' (the heading under which interest income generated by the related assets is recognised), without this having any impact on the net result.
- Moreover, the fair value changes (due to marking-to-market) of the above ALM hedging instruments appear under 'Net result from financial instruments at fair value', whereas most underlying assets are not recognised at fair value (i.e. not marked-to-market). To limit the volatility arising from the marking-to-market of these instruments, a (government) bond portfolio was classified as 'measured at fair value through profit or loss' (fair value option). The remaining volatility stemming from the fair value changes of these ALM hedging derivatives relative to the fair value changes in the relevant bond portfolio is excluded from the underlying results.
- In the IFRS figures, income from professional market activities is divided up among different components. While trading profit is recognised under 'Net result from financial instruments at fair value', the funding costs and the fees and commission paid to realise this trading profit are recognised under 'Net interest income' and 'Net fee and commission income', respectively. Moreover, some 'Dividend income', 'Net realised result from available-for-sale assets' and 'Other net income' also relates to market activities. In the underlying figures, all market-activity-related components have been moved to 'Net result from financial instruments at fair value', without this having any impact on the net result.

- The IFRS figures take into account the effect of changes in own credit spreads when measuring the fair value of financial liabilities designated at fair value through profit or loss. The resultant valuation adjustments have an impact on the reported net result. Since this is a non-operating item, its impact is excluded from the underlying figures.
- In the IFRS figures, discontinued operations (only KBL EPB under KBC's new strategic plan) are recognised in accordance with IFRS 5. This means that all the results relating to such operations are moved from their various headings and grouped together under 'Net post-tax result from discontinued operations', as soon as the IFRS 5 criteria have been met. In the underlying figures, discontinued operations are treated in the same way as other companies earmarked for divestment (all figures under the headings that relate to divestments or discontinued operations are moved to 'Group Centre'). It was announced in mid-March 2011 that the sale of KBL EPB to the Hinduja Group will not go ahead (for more information, see Note 48).

The results for each business unit are dealt with in this annual report under the relevant sections of the 'Report of the Board of Directors', which also contains a table for each business unit providing a reconciliation of the IFRS-based results and the underlying results. The auditor has not audited these sections. A reconciliation of the figures at group level is given in the table below.

**Reconciliation of IFRS-based results and underlying results**

| **Reconciliation of IFRS-based results and underlying results** (in millions of EUR) | **Footnote** | **Main heading(s) concerned in the income statement** | **2009** | **2010** |
|---|---|---|---|---|
| Result after tax, attributable to equity holders of the parent (underlying) | | | 1 724 | 1 710 |
| Changes in fair value of ALM hedging instruments | 1 | Net result from financial instruments at fair value | 79 | -278 |
| Gains/losses relating to CDOs | 2 | Net result from financial instruments at fair value | -1 849 | 564 |
| Fair value of CDO-related guarantee and commitment fees | 3 | Net result from financial instruments at fair value | -1 409 | -103 |
| Valuation losses on available-for-sale shares | 4 | Impairment, Net realised result from available-for-sale assets | -367 | 0 |
| (Reversal of) impairment relating to troubled banks in the US and Iceland | 5 | Impairment, Net result from financial instruments at fair value, Net realised result from available-for-sale assets | 65 | 13 |
| Gain on repurchase of hybrid tier-1 securities | 6 | See footnote | 128 | 0 |
| Impairment on goodwill and associated companies | 7 | Impairment on goodwill and on other | -493 | -119 |
| Loss on legacy structured derivatives business (KBC Financial Products) | | Net result from financial instruments at fair value | -1 078 | -260 |
| Changes in fair value of own debt instruments | | Net result from financial instruments at fair value | 44 | 53 |
| Results on divestments | 8 | Other net income, Net post-tax result from discontinued operations | – | -186 |
| Other | | – | 141 | -22 |
| Taxes and minority interests relating to the above items | 9 | Income tax expense and Result after tax, attributable to minority interests | 549 | 487 |
| Result after tax, attributable to equity holders of the parent (IFRS) | | | -2 466 | 1 860 |

1 See explanation in text above. The negative credit environment in 2010 caused the fair value of certain government bonds to decline (see widening credit spreads in PIIGS and other countries).
2 Relates primarily to changes in the fair value of CDO exposures (value: see Note 26), change in provisions for and payment of CDO-related claims.
3 Relates to the CDO guarantee agreement concluded with the Belgian State in 2009 (see 'Additional information').
4 The sizeable negative figure in 2009 was due primarily to plummeting share prices in the first quarter.
5 Relates to Lehman Brothers, Washington Mutual and various Icelandic banks.
6 In the third quarter of 2009, KBC Bank initiated a programme to buy back a number of outstanding tier-1 securities at 70% of their nominal value. The programme was closed on 13 October 2009. The after-tax gain realised on the repurchase of the hybrid securities issued by KBC Bank Funding Trust was deducted from 'Result after tax, attributable to minority interests' and included under 'Result after tax, attributable to equity holders of the parent'.
7 In 2009, mainly group companies in Russia, Bulgaria and Slovakia. In 2010, chiefly group companies in Poland and Romania, and associated companies in Slovenia.
8 In 2010, primarily the impairment of 0.3 billion euros on goodwill related to the agreement to sell KBL EPB (it was announced in mid-March 2011 that the sale of KBL EPB to the Hinduja Group will not go ahead), and the (net) gain of 0.2 billion euros realised on other divestments.
9 Includes the recognition of a deferred tax asset of 0.4 billion euros in the second quarter of 2010 (see Note 16).

### Underlying results by segment (business unit)

| (in millions of EUR) | Belgium Business Unit | CEE Business Unit | Merchant Banking Business Unit | Group Centre (excl. interseg-ment elim-inations) | Interseg-ment elimi-nations | KBC group |
|---|---|---|---|---|---|---|
| **UNDERLYING INCOME STATEMENT, 2009** | | | | | | |
| Net interest income | 2 144 | 1 656 | 829 | 868 | 0 | 5 497 |
| Earned premiums, insurance (before reinsurance) | 3 315 | 1 083 | 0 | 499 | -41 | 4 856 |
| Technical charges, insurance (before reinsurance) | -3 206 | -748 | 0 | -474 | 12 | -4 416 |
| Ceded reinsurance result | -44 | -25 | 0 | -9 | 15 | -64 |
| Dividend income | 62 | 9 | 10 | 15 | 0 | 96 |
| Net result from financial instruments at fair value through profit or loss | 69 | 63 | 549 | 257 | 0 | 938 |
| Net realised result from available-for-sale assets | 139 | 17 | 57 | 80 | 0 | 293 |
| Net fee and commission income | 653 | 295 | 201 | 419 | 0 | 1 569 |
| Other net income | 129 | 103 | 133 | 25 | -48 | 342 |
| **TOTAL INCOME** | **3 262** | **2 453** | **1 779** | **1 679** | **-62** | **9 111** |
| Operating expenses[a] | -1 700 | -1 477 | -594 | -1 180 | 62 | -4 888 |
| Impairment | -75 | -641 | -814 | -383 | 0 | -1 913 |
| on loans and receivables | -74 | -630 | -812 | -367 | 0 | -1 883 |
| on available-for-sale assets | -1 | 0 | 0 | -15 | 0 | -16 |
| on goodwill | 0 | 0 | 0 | 0 | 0 | 0 |
| other | 0 | -11 | -1 | -2 | 0 | -15 |
| Share in results of associated companies | 0 | 2 | 0 | -24 | 0 | -22 |
| **RESULT BEFORE TAX** | **1 488** | **337** | **371** | **93** | **0** | **2 289** |
| Income tax expense | -433 | -36 | -3 | -35 | 0 | -507 |
| Net post-tax result from discontinued operations | 0 | 0 | 0 | 0 | 0 | 0 |
| **RESULT AFTER TAX** | **1 055** | **301** | **368** | **58** | **0** | **1 782** |
| attributable to minority interests | 5 | 140 | 69 | -155 | 0 | 58 |
| **attributable to equity holders of the parent** | **1 050** | **161** | **300** | **213** | **0** | **1 724** |
| a Of which non-cash expenses | -90 | -173 | -65 | -115 | 0 | -444 |
| Depreciation and amortisation of fixed assets | -67 | -157 | -43 | -132 | 0 | -398 |
| Other | -23 | -16 | -22 | 16 | 0 | -45 |
| Acquisitions of non-current assets* | 95 | 191 | 328 | 212 | 0 | 827 |
| **UNDERLYING INCOME STATEMENT, 2010** | | | | | | |
| Net interest income | 2 243 | 1 855 | 836 | 668 | 0 | 5 603 |
| Earned premiums, insurance (before reinsurance) | 2 886 | 1 360 | 0 | 467 | -93 | 4 621 |
| Technical charges, insurance (before reinsurance) | -2 851 | -1 054 | 0 | -444 | 68 | -4 281 |
| Ceded reinsurance result | -11 | -9 | 0 | -10 | 21 | -9 |
| Dividend income | 50 | 3 | 6 | 14 | 0 | 73 |
| Net result from financial instruments at fair value through profit or loss | 60 | 183 | 539 | 72 | 0 | 855 |
| Net realised result from available-for-sale assets | 51 | 20 | 3 | 23 | 0 | 98 |
| Net fee and commission income | 770 | 284 | 225 | 387 | 0 | 1 666 |
| Other net income | 119 | 54 | -70 | 28 | -12 | 118 |
| **TOTAL INCOME** | **3 318** | **2 696** | **1 540** | **1 205** | **-16** | **8 744** |
| Operating expenses[a] | -1 702 | -1 532 | -576 | -1 037 | 16 | -4 832 |
| Impairment | -104 | -464 | -796 | -162 | 0 | -1 525 |
| on loans and receivables | -82 | -452 | -789 | -158 | 0 | -1 481 |
| on available-for-sale assets | -23 | 0 | -7 | -4 | 0 | -34 |
| on goodwill | 0 | 0 | 0 | 0 | 0 | 0 |
| other | 0 | -11 | 1 | 0 | 0 | -10 |
| Share in results of associated companies | 0 | 1 | 0 | -62 | 0 | -61 |
| **RESULT BEFORE TAX** | **1 513** | **701** | **168** | **-56** | **0** | **2 326** |
| Income tax expense | -457 | -86 | -19 | -25 | 0 | -587 |
| Net post-tax result from discontinued operations | 0 | 0 | 0 | 0 | 0 | 0 |
| **RESULT AFTER TAX** | **1 056** | **615** | **149** | **-82** | **0** | **1 739** |
| attributable to minority interests | 5 | 210 | 16 | -202 | 0 | 29 |
| **attributable to equity holders of the parent** | **1 051** | **406** | **133** | **120** | **0** | **1 710** |
| a Of which non-cash expenses | -57 | -124 | -39 | -174 | 0 | -394 |
| Depreciation and amortisation of fixed assets | -59 | -123 | -35 | -165 | 0 | -381 |
| Other | 1 | 0 | -4 | -10 | 0 | -12 |
| Acquisitions of non-current assets* | 65 | 181 | 275 | 215 | 0 | 736 |

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

**Balance-sheet information by segment (business unit)**

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

| (in millions of EUR) | Belgium Business Unit | CEE Business Unit | Merchant Banking Business Unit | Group Centre | KBC group |
|---|---|---|---|---|---|
| **BALANCE SHEET, 31-12-2009** | | | | | |
| Total loans to customers | 49 593 | 33 767 | 52 298 | 17 571 | 153 230 |
| of which mortgage loans | 25 029 | 12 075 | 13 383 | 8 693 | 59 180 |
| of which reverse repos | 0 | 3 096 | 3 199 | 0 | 6 295 |
| Deposits from customers | 64 827 | 42 088 | 63 237 | 23 313 | 193 464 |
| of which repos | 320 | 3 138 | 9 741 | 0 | 13 199 |
| **BALANCE SHEET, 31-12-2010** | | | | | |
| Total loans to customers | 51 961 | 35 760 | 48 202 | 14 742 | 150 666 |
| of which mortgage loans | 26 952 | 14 506 | 12 809 | 7 310 | 61 577 |
| of which reverse repos | 0 | 4 036 | 5 450 | 0 | 9 486 |
| Deposits from customers | 69 595 | 44 251 | 71 606 | 12 418 | 197 870 |
| of which repos | 0 | 3 219 | 12 179 | 0 | 15 398 |

## Note 2 b: Segment reporting based on geographic area

This segment reporting format is based on geographic areas, reflecting KBC's focus on its two home markets – Belgium and Central and Eastern Europe (including Russia in the table) – and its selective presence in other countries ('Rest of the world', i.e. mainly the US, Southeast Asia and Western Europe excluding Belgium). The geographic segmentation is based on the location where the services are rendered. Since at least 95% of customers are local, the location of the branch or subsidiary determines the geographic breakdown of both the balance sheet and income statement.

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

More details on the geographic breakdown of balance sheet figures can be found in the various notes to the balance sheet. The breakdown in this note is based on the geographic location of the counterparty.

| (in millions of EUR) | Belgium | Central & Eastern Europe and Russia | Rest of the world | Intersegment eliminations | KBC group |
|---|---|---|---|---|---|
| **2009** | | | | | |
| Total income from external customers (underlying) | 4 060 | 2 886 | 2 166 | 0 | 9 111 |
| Total assets (period-end) | 208 551 | 58 411 | 57 268 | – | 324 231 |
| Total liabilities (period-end) | 187 689 | 52 289 | 67 077 | – | 307 054 |
| Acquisitions of non-current assets* (period-end) | 495 | 236 | 96 | – | 827 |
| **2010** | | | | | |
| Total income from external customers (underlying) | 3 889 | 3 000 | 1 855 | 0 | 8 744 |
| Total assets (period-end) | 209 103 | 61 269 | 50 452 | – | 320 823 |
| Total liabilities (period-end) | 194 672 | 55 030 | 52 447 | – | 302 149 |
| Acquisitions of non-current assets* (period-end) | 460 | 226 | 49 | – | 736 |

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

## Notes to the income statement

As already mentioned, all the reference figures in the income statement have been restated due to the application of IFRS 5 to the agreement entered into in May 2010 to sell KBL EPB. Information in this regard is provided in Note 46. It was announced in mid-March 2011 that the sale of KBL EPB to the Hinduja Group will not go ahead (for more information, see Note 48).

### Note 3: Net interest income

| (in millions of EUR) | 2009 | 2010 |
|---|---|---|
| **Total** | **5 817** | **6 245** |
| **Interest income** | **11 687** | **10 542** |
| Available-for-sale assets | 1 908 | 1 949 |
| Loans and receivables | 7 440 | 6 706 |
| Held-to-maturity investments | 487 | 567 |
| Other liabilities not at fair value | 47 | 28 |
| *Subtotal, interest income from financial assets not measured at fair value through profit or loss* | *9 881* | *9 251* |
| *of which impaired financial assets* | *50* | *90* |
| Financial assets held for trading | 588 | 351 |
| Hedging derivatives | 432 | 338 |
| Other financial assets at fair value through profit or loss | 786 | 603 |
| **Interest expense** | **-5 871** | **-4 297** |
| Financial liabilities measured at amortised cost | -4 455 | -3 173 |
| Other liabilities not at fair value | -16 | -3 |
| Investment contracts at amortised cost | 0 | 0 |
| *Subtotal, interest expense for financial liabilities not measured at fair value through profit or loss* | *-4 471* | *-3 175* |
| Financial liabilities held for trading | -90 | -85 |
| Hedging derivatives | -788 | -794 |
| Other financial liabilities at fair value through profit or loss | -523 | -243 |

### Note 4: Dividend income

| (in millions of EUR) | 2009 | 2010 |
|---|---|---|
| **Total** | **139** | **97** |
| Shares held for trading | 41 | 31 |
| Shares initially recognised at fair value through profit or loss | 1 | 3 |
| Available-for-sale shares | 96 | 63 |

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

| (in millions of EUR) | 2009 | 2010 |
|---|---|---|
| **Total** | **-3 485** | **-77** |
| Trading instruments (including interest and fair value changes in trading derivatives) | -3 709 | -145 |
| Other financial instruments initially recognised at fair value through profit or loss | 26 | -250 |
| *of which gains/losses on own credit risk* | *44* | *53* |
| Foreign exchange trading | 203 | 317 |
| Fair value adjustments in hedge accounting | -4 | 0 |
| Micro hedge | -2 | 2 |
| Fair value hedges | -1 | 2 |
| Changes in the fair value of the hedged items | 18 | 35 |
| Changes in the fair value of the hedging derivatives, including discontinuation | -19 | -33 |
| Cashflow hedges | -1 | 1 |
| Changes in the fair value of the hedging derivatives, ineffective portion | -1 | 1 |
| Hedges of net investments in foreign operations, ineffective portion | 0 | 0 |
| Portfolio hedge of interest rate risk | -2 | -2 |
| Fair value hedge of interest rate risk | 0 | 0 |
| Changes in the fair value of the hedged items | 84 | 35 |
| Changes in the fair value of the hedging derivatives, including discontinuation | -84 | -35 |
| Cashflow hedges of interest rate risk | -2 | -2 |
| Changes in the fair value of the hedging derivatives, ineffective portion | -2 | -2 |

- Changes in the value of CDOs: 'Net result from financial instruments at fair value through profit or loss' also includes the effect of value changes in CDOs held in portfolio. In 2009, this effect amounted – on balance – to a negative 2.9 billion euros (also incorporating the impact of the acquired government guarantee, including the relevant fees charged – see below – and the negative effect of increasing cover from 40% to 70% for the CDO-related counterparty exposure to MBIA, the US monoline insurer). In 2010, the improvement in the market price for corporate credit – as reflected in credit default swap spreads – had a positive impact on the value of CDOs held by KBC (roughly +0.4 billion euros).
- CDO guarantee agreement concluded with the Belgian State: in May 2009, KBC signed an agreement with the Belgian State regarding a guarantee for a substantial part of its structured credit portfolio. The plan basically comprises a notional amount that initially totalled 20 billion euros, with 5.5 billion euros relating to the notional value of the unhedged super senior CDO investments and 14.4 billion euros to the notional value of the counterparty exposure to MBIA. Against payment of a fee, KBC has purchased a State guarantee which covers 90% of the risk of default, after a first-loss tranche in which KBC bears any loss in full. As a CDO reached maturity in 2010, the initial amounts have been changed (with the total now coming to 18.1 billion euros). More detailed information on this agreement can be found in 'Additional information'.
- Cost associated with the CDO guarantee agreement concluded with the Belgian State: the total fee to be paid by KBC to the Belgian State for the third tranche (*the cash guarantee*) is approximately 1.1 billion euros (present value at the time the agreement entered into effect and recognised upfront in 2009). There was also a positive effect on the mark-to-market value of the guaranteed positions. In addition, KBC has to pay the Belgian State a commitment fee of roughly 60 million euros per half year for the second tranche (*the equity guarantee*). That contract, including the fee due, is measured at fair value through profit or loss.

**Impact on the income statement of the cost associated with the CDO guarantee agreement concluded with the Belgian State**

| (in millions of EUR, before tax) | 2009 | 2010 |
|---|---|---|
| Cash guarantee (for the third tranche) | | |
| Recognised upfront in 2009 | -1 121 | – |
| Change in fair value | -126 | -36 |
| Equity guarantee (for the second tranche) | -162 | -67 |
| Total recognised in the income statement | -1 409 | -103 |

- The impact of changes in the fair value of PIIGS sovereign bonds is dealt with in more detail under 'Credit risk' in the 'Value and risk management' section.
- 'Foreign exchange trading' results in the table comprise total exchange differences, excluding those recognised on financial instruments at fair value through profit or loss.
- Impact of changes in own credit risk: see Note 27.
- Use of ALM derivatives: except for micro-hedging derivatives, which are used to only a limited extent in the group, the interest for ALM derivatives classified under 'Portfolio hedge of interest rate risk' is recognised under 'Net interest income'. Changes in the fair value of these derivatives are recognised under 'Net result from financial instruments at fair value through profit or loss', but due to the fact that changes in the fair value of the hedged assets are also recognised under this heading – and the hedging is effective – the balance of this heading is zero. For other ALM derivatives, the interest in question is recognised under 'Net result from financial instruments at fair value through profit or loss' (-308 and -431 million euros in 2009 and 2010, respectively). The fair value changes are also recognised under this heading, most (but not all) of which are offset by changes in the fair value of a bond portfolio that is classified as 'financial instruments initially recognised at fair value through profit or loss' (see accounting policies).
- The effectiveness of the hedge is determined according to the following methods:
  - For fair value micro hedging, the *dollar offset method* is used on a quarterly basis, which requires changes in the fair value of the hedged item to offset changes in the fair value of the hedging instrument within a range of 80%-125%, which is currently the case.
  - For cashflow micro hedges, the designated hedging instrument is compared with a *perfect hedge* of the hedged cashflows on a prospective (by BPV measurement) and retrospective basis (by comparing the fair value of the designated hedging instrument with the *perfect hedge*). The effectiveness of both tests must fall within a range of 80%-125%, which is currently the case.
  - For fair value hedges for a portfolio of interest rate risk, effectiveness is assessed on the basis of the rules set out in the European version of IAS 39 (carve-out). IFRS does not permit net positions to be reported as hedged items, but does allow hedging instruments to be designated as a hedge of a gross asset position (or a gross liabilities position, as the case may be). Specifically, care is taken to ensure that the volume of assets (or liabilities) in each maturity bucket is greater than the volume of hedging instruments allocated to the same bucket.
- Day 1 profit: when the transaction price in a non-active market differs from the fair value of other observable market transactions in the same instrument or the fair value based on a valuation technique whose variables include only data from observable markets, the difference between the transaction price and the fair value (day 1 profit) is taken to profit or loss. If this is not the case (i.e. the variables do not include only data from observable markets), day 1 profit is reserved and is released in profit or loss during the life and until the maturity of the financial instrument. Movements in deferred day 1 profit can be summarised as follows:

| (in millions of EUR) | 2009 | 2010 |
|---|---|---|
| Deferred day 1 profits, opening balance on 1 January | 86 | 27 |
| New deferred day 1 profits | 0 | 0 |
| Day 1 profits recognised in profit or loss during the period | | |
| Amortisation of day 1 profits | -49 | -15 |
| Financial instruments no longer recognised | -4 | -4 |
| Exchange differences | -6 | 2 |
| Deferred day 1 profits, closing balance on 31 December | 27 | 11 |

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

| (in millions of EUR) | 2009 | 2010 |
|---|---|---|
| **Total** | **224** | **90** |
| Fixed-income securities | 135 | 26 |
| Shares | 89 | 64 |

## Note 7: Net fee and commission income

| (in millions of EUR) | 2009 | 2010 |
|---|---|---|
| **Total** | **1 132** | **1 224** |
| **Fee and commission income** | **2 059** | **2 156** |
| Securities and asset management | 1 049 | 1 118 |
| Margin on life insurance investment contracts without DPF (deposit accounting) | 22 | 28 |
| Commitment credit | 270 | 252 |
| Payments | 496 | 522 |
| Other | 222 | 236 |
| **Fee and commission expense** | **-927** | **-932** |
| Commission paid to intermediaries | -432 | -489 |
| Other | -495 | -443 |

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

## Note 8: Other net income

| (in millions of EUR) | 2009 | 2010 |
|---|---|---|
| **Total** | **427** | **452** |
| of which gains or losses on | | |
| Sale of loans and receivables | 10 | 4 |
| Sale of held-to-maturity investments | -5 | 1 |
| Sale of financial liabilities measured at amortised cost | 1 | 0 |
| Other, including: | 422 | 447 |
| Income from (mainly operational) leasing activities, KBC Lease Group | 74 | 76 |
| Income from consolidated private equity participations | 56 | 54 |
| Income from VAB Group | 79 | 65 |
| Gains and losses on divestments | 0 | 191 |
| Irregularities at KBC Lease UK | 0 | -175 |

- During the fourth quarter of 2010, an internal audit at KBC Lease UK identified irregularities in a number of contracts concluded with third parties. The necessary amounts have been recognised to cover the maximum potential net cost of these irregularities.
- Gains on divestments relate to the sale of Secura and to the sale of KBC Financial Products' Global Convertible Bonds & Asian Equity Derivatives businesses.

## Note 9: Insurance results

| (in millions of EUR) | Life | Non-life | Non-technical account | Total |
|---|---|---|---|---|
| **2009** | | | | |
| Technical result | -353 | 303 | 26 | -24 |
| Earned premiums, insurance (before reinsurance) | 2 927 | 1 947 | 0 | 4 874 |
| Technical charges, insurance (before reinsurance) | -3 168 | -1 245 | 0 | -4 413 |
| Net fee and commission income | -111 | -342 | 31 | -422 |
| Ceded reinsurance result | -2 | -56 | -6 | -63 |
| Financial result | 729 | 157 | -196 | 691 |
| Net interest income | – | – | 944 | 944 |
| Dividend income | – | – | 58 | 58 |
| Net result from financial liabilities at fair value through profit or loss | – | – | -361 | -361 |
| Net realised result from available-for-sale assets | – | – | 50 | 50 |
| Allocation to the technical accounts | 729 | 157 | -887 | 0 |
| General administrative expenses | -120 | -333 | -10 | -463 |
| Internal claims settlement expenses | -8 | -85 | 0 | -93 |
| Indirect acquisition costs | -38 | -91 | 0 | -130 |
| Administrative expenses | -73 | -157 | 0 | -230 |
| Investment management fees | 0 | 0 | -10 | -10 |
| Other net income | – | – | 30 | 30 |
| Impairment | – | – | -362 | -362 |
| Share in results of associated companies | – | – | 0 | 0 |
| **RESULT BEFORE TAX** | **257** | **127** | **-512** | **-129** |
| Income tax expense | – | – | – | -13 |
| Net post-tax result from discontinued operations | – | – | – | 4 |
| **RESULT AFTER TAX** | – | – | – | **-137** |
| attributable to minority interests | – | – | – | 3 |
| **attributable to equity holders of the parent** | – | – | – | **-140** |
| **2010** | | | | |
| Technical result | -424 | 345 | 35 | -43 |
| Earned premiums, insurance (before reinsurance) | 2 705 | 1 937 | 0 | 4 642 |
| Technical charges, insurance (before reinsurance) | -3 012 | -1 250 | 0 | -4 262 |
| Net fee and commission income | -115 | -339 | 39 | -415 |
| Ceded reinsurance result | -2 | -2 | -4 | -8 |
| Financial result | 885 | 176 | 228 | 1 288 |
| Net interest income | – | – | 1 002 | 1 002 |
| Dividend income | – | – | 47 | 47 |
| Net result from financial liabilities at fair value through profit or loss | – | – | 195 | 195 |
| Net realised result from available-for-sale assets | – | – | 44 | 44 |
| Allocation to the technical accounts | 885 | 176 | -1 060 | 0 |
| General administrative expenses | -136 | -364 | -9 | -509 |
| Internal claims settlement expenses | -8 | -75 | 0 | -83 |
| Indirect acquisition costs | -38 | -89 | 0 | -127 |
| Administrative expenses | -90 | -201 | 0 | -291 |
| Investment management fees | 0 | 0 | -9 | -9 |
| Other net income | – | – | 95 | 95 |
| Impairment | – | – | -19 | -19 |
| Share in results of associated companies | – | – | 0 | 0 |
| **RESULT BEFORE TAX** | **325** | **157** | **329** | **811** |
| Income tax expense | – | – | – | -142 |
| Net post-tax result from discontinued operations | – | – | – | 11 |
| **RESULT AFTER TAX** | – | – | – | **679** |
| attributable to minority interests | – | – | – | 4 |
| **attributable to equity holders of the parent** | – | – | – | **675** |

- It should be noted that the figures relating to earned premiums do not include investment contracts without DPF, which largely correspond to unit-linked contracts.
- As a bancassurer, KBC presents its financial information on an integrated basis (i.e. banking and insurance activities combined). More information on the banking and insurance businesses is provided separately in the respective annual reports of KBC Bank, KBL EPB and KBC Insurance. For the purpose of this note, information is provided on the insurance results alone. The figures include intragroup transactions between bank and insurance entities (the results for insurance contracts concluded between the group's bank and insurance entities, interest that insurance companies receive on their deposits with bank entities, commissions that insurance entities pay to bank branches for sales of insurance, etc.) in order to give a more accurate view of the profitability of the insurance business. Additional specific information on the insurance business is provided separately in the following notes:
  - Earned premiums, life insurance (Note 10);
  - Non-life insurance per class of business (Note 11);

- Technical provisions, insurance (Note 35);
- List of principal subsidiaries and associated companies (Note 44, KBC Insurance section);
- Overview of credit risk exposure in the insurance activities (under 'Credit risk' in the 'Value and risk management' section);
- Interest rate risk, equity risk and real estate risk for insurance activities (under 'Market risk in non-trading activities' in the 'Value and risk management' section);
- Technical insurance risk (under 'Technical insurance risk' in the 'Value and risk management' section);
- Levels of solvency and embedded value in the life insurance business (under 'Solvency, economic capital and embedded value' in the 'Value and risk management' section).

## Note 10: Earned premiums, life insurance

| (in millions of EUR) | 2009 | 2010 |
|---|---|---|
| **Total** | **2 923** | **2 700** |
| **Breakdown by IFRS category** | | |
| Insurance contracts | 852 | 1 112 |
| Investment contracts with DPF | 2 070 | 1 588 |
| **Breakdown by type** | | |
| Accepted reinsurance | 25 | 27 |
| Primary business | 2 897 | 2 673 |
| **Breakdown of primary business** | | |
| Individual versus group | | |
| Individual premiums | 2 600 | 2 131 |
| Premiums under group contracts | 297 | 542 |
| Periodic versus single | | |
| Periodic premiums | 792 | 910 |
| Single premiums | 2 105 | 1 763 |
| Non-profit-sharing versus profit-sharing contracts | | |
| Premiums from non-profit-sharing contracts | 200 | 214 |
| Premiums from profit-sharing contracts | 2 602 | 2 134 |
| Other | 95 | 325 |

- As required under IFRS, deposit accounting is used for investment contracts without DPF. This means that the premium income (and technical charges) from these contracts is not recognised under 'Earned premiums (before reinsurance)' (and 'Technical charges (before reinsurance)'), but that the margins on them are reported under 'Net fee and commission income'. Investment contracts without DPF are more or less the same as unit-linked contracts, which in 2009 accounted for premium income of 1.3 billion euros and in 2010 for premium income of 1.8 billion euros.

## Note 11: Non-life insurance per class of business

| (in millions of EUR) | Earned premiums (before reinsurance) | Claims incurred (before reinsurance) | Operating expenses (before reinsurance) | Ceded rein-surance | Total |
|---|---|---|---|---|---|
| **2009** | | | | | |
| **Total** | **1 945** | **-1 276** | **-590** | **-56** | **23** |
| Accepted reinsurance | 237 | -180 | -50 | -13 | -5 |
| Primary business | 1 708 | -1 096 | -541 | -43 | 28 |
| Accident & health (classes 1 & 2, excl. industrial accidents) | 147 | -68 | -48 | -2 | 30 |
| Industrial accidents (class 1) | 77 | -67 | -15 | -3 | -8 |
| Motor, third-party liability (class 10) | 488 | -337 | -145 | -6 | 0 |
| Motor, other classes (classes 3, 7) | 314 | -214 | -94 | 0 | 5 |
| Shipping, aviation, transport (classes 4, 5, 6, 7, 11, 12) | 45 | -30 | -12 | -6 | -3 |
| Fire and other damage to property (classes 8, 9) | 456 | -244 | -165 | -23 | 23 |
| General third-party liability (class 13) | 106 | -90 | -40 | -3 | -26 |
| Credit and suretyship (classes 14, 15) | 6 | -7 | -2 | 1 | -2 |
| Miscellaneous pecuniary losses (class 16) | 14 | -10 | -5 | -1 | -2 |
| Legal assistance (class 17) | 41 | -22 | -11 | 0 | 8 |
| Assistance (class 18) | 14 | -6 | -5 | -1 | 3 |
| **2010** | | | | | |
| **Total** | **1 937** | **-1 278** | **-628** | **-2** | **28** |
| Accepted reinsurance | 185 | -156 | -33 | 4 | -1 |
| Primary business | 1 752 | -1 122 | -595 | -6 | 29 |
| Accident & health (classes 1 & 2, excl. industrial accidents) | 140 | -51 | -57 | 1 | 33 |
| Industrial accidents (class 1) | 76 | -58 | -16 | -1 | 1 |
| Motor, third-party liability (class 10) | 505 | -334 | -158 | 1 | 13 |
| Motor, other classes (classes 3, 7) | 314 | -208 | -101 | 0 | 5 |
| Shipping, aviation, transport (classes 4, 5, 6, 7, 11, 12) | 43 | -25 | -11 | -7 | -1 |
| Fire and other damage to property (classes 8, 9) | 478 | -332 | -183 | 17 | -20 |
| General third-party liability (class 13) | 114 | -70 | -43 | -16 | -16 |
| Credit and suretyship (classes 14, 15) | 8 | -1 | -2 | -1 | 4 |
| Miscellaneous pecuniary losses (class 16) | 13 | -13 | -5 | 2 | -2 |
| Legal assistance (class 17) | 43 | -23 | -12 | 0 | 9 |
| Assistance (class 18) | 17 | -6 | -8 | -1 | 2 |

- The figures include intragroup transactions between bank and insurance entities (see Note 9).

## Note 12: Operating expenses

| (in millions of EUR) | 2009 | 2010 |
|---|---|---|
| **Total** | **-4 779** | **-4 436** |
| Staff expenses | -2 589 | -2 529 |
| of which share-based payment (equity-settled) | -1 | 0 |
| of which share-based payment (cash-settled) | 1 | 0 |
| General administrative expenses | -1 814 | -1 546 |
| Depreciation and amortisation of fixed assets | -376 | -361 |

- General administrative expenses (see table) include repair and maintenance expenses, advertising costs, rent, professional fees, various (non-income) taxes, utilities and other such expenses. The figure for 2010 includes expenses related to the new special tax imposed on financial institutions in Hungary (57 million euros for 2010, deductible expense) and the higher costs attached to the Belgian deposit protection scheme.
- Share-based payments are included under staff expenses.
  The main equity-settled share-based payments are described below.
  Since 2000, the KBC Bank and Insurance Holding Company NV (now KBC Group NV) has launched a number of share option plans for all or certain members of staff of the company and various subsidiaries. The share options were granted free to the members of staff, who only had to pay the relevant tax on the benefit when the options were allocated. The share options have a life of seven to ten years from the date of issue and can be exercised in specific years in the months of June, September or December. Not all the options need be exercised at once. When exercising options, members of staff can either deposit the resulting shares on their custody accounts or sell them immediately on NYSE Euronext Brussels.

The KBC Bank and Insurance Holding Company NV (now KBC Group NV) took over three share option plans of KBC Peel Hunt Ltd. dating from 1999 and 2000. Eligible KBC Peel Hunt staff members obtained options on KBC Group NV shares instead of KBC Peel Hunt Ltd. shares. Any options that were still outstanding at KBC Peel Hunt were exercised in the course of 2010.

KBC Group NV has repurchased treasury shares in order to be able to deliver shares to staff when they exercise their options.

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

An overview of the number of stock options for staff is shown in the table. The average price of the KBC share was 32.60 euros during 2010. In 2010, no new KBC share options for personnel were issued.

| | 2009 | | 2010 | |
|---|---|---|---|---|
| **Options** | **Number of options[1]** | **Average exercise price** | **Number of options[1]** | **Average exercise price** |
| Outstanding at beginning of period | 981 425 | 47.83 | 978 045 | 48.09 |
| Granted during period | 0 | – | 0 | – |
| Exercised during period | 0 | – | -4 527 | 28.41 |
| Expired during period | -3 380 | 42.58 | -306 922 | 44.47 |
| Forfeited during period | 0 | – | 0 | – |
| **Outstanding at end of period[2]** | **978 045** | **48.09** | **666 596** | **49.89** |
| **Exercisable at end of period** | **910 395** | **44.03** | **651 996** | **49.07** |

1 In share equivalents.
2 2009: range of exercise prices: 27.8–97.94 euros; weighted average residual term to maturity: 27 months.
2010: range of exercise prices: 27.8–97.94 euros; weighted average residual term to maturity: 17 months.

In 2010, there was a capital increase reserved for KBC group employees, who could buy shares at 33.10 euros per share. This did not result in the recognition of an employee benefit as the issue price was higher than the market price (as opposed to the recognition of 1 million euros in 2009).

## Note 13: Personnel

| | 2009 | 2010 |
|---|---|---|
| **Total average number of persons employed (in full-time equivalents)** | **56 939** | **52 110** |
| **Breakdown by legal entity** | | |
| KBC Bank | 40 735 | 38 972 |
| KBC Insurance | 8 277 | 7 496 |
| KBL EPB | 2 741 | – |
| KBC Group NV (holding company) | 5 186 | 5 642 |
| **Breakdown by employee classification** | | |
| Blue-collar staff | 903 | 1 022 |
| White-collar staff | 53 952 | 50 693 |
| Senior management | 2 084 | 395 |

- The figures in the table are annual averages and may differ from the end-of-year totals shown in the 'Corporate social responsibility' section.
- KBL EPB is not included in the figures for 2010 (the average number of persons employed there in 2010 was approximately 2 600 (in full-time equivalents)). From 2010, the senior management figures reflect those persons appointed to such positions by the Executive Committee of KBC Group NV. As they had previously also included persons who were considered as senior management at local level, the figures for 2009 are not comparable with those for 2010.

## Note 14: Impairment (income statement)

| (in millions of EUR) | 2009 | 2010 |
|---|---|---|
| **Total** | **-2 725** | **-1 656** |
| **Impairment on loans and receivables** | **-1 901** | **-1 483** |
| Breakdown by type | | |
| Specific impairment, on-balance-sheet lending | -1 809 | -1 452 |
| Provisions for off-balance-sheet credit commitments | -13 | -19 |
| Portfolio-based impairment | -79 | -12 |
| Breakdown by business unit | | |
| Belgium | -74 | -82 |
| Central & Eastern Europe | -630 | -452 |
| Merchant Banking | -786 | -789 |
| Group Centre | -412 | -160 |
| **Impairment on available-for-sale assets** | **-326** | **-31** |
| Breakdown by type | | |
| Shares | -325 | -32 |
| Other | -2 | 0 |
| **Impairment on goodwill** | **-483** | **-88** |
| **Impairment on other** | **-14** | **-54** |
| Intangible fixed assets, other than goodwill | 0 | 0 |
| Property and equipment (including investment property) | -8 | -4 |
| Held-to-maturity assets | -2 | 0 |
| Associated companies (goodwill) | 0 | -31 |
| Other | -4 | -18 |

- 'Impairment on loans and receivables' are accounted for primarily by loans and advances to customers. In 2010, impairment charges in the Merchant Banking Business Unit included 0.5 billion euros for lending activities in Ireland, due to the economic situation in that country (especially on the real estate market). That could lead to high(er) unemployment and an increase in arrears and defaults on mortgage loans. In the Central & Eastern Europe Business Unit (452 million euros), impairment charges amounted to 138 million euros in the Czech Republic, 52 million euros in Slovakia, 133 million euros in Hungary, 112 million euros in Poland and 15 million euros in Bulgaria.
- Impairment on available-for-sale assets. Impairment on shares fell on account of the improved stock market climate (and the reduced size of the share portfolio).
- Impairment on goodwill. In 2009, this heading had included *inter alia* 399 million euros for group companies in Central and Eastern Europe (primarily Russia, Bulgaria and Slovakia). In 2010, it included *inter alia* 52 million euros for group companies in Central and Eastern Europe (Poland and Romania). In most cases, the impairment reflects the difference between the carrying value before impairment and the value in use. It should be noted that the impairment of 0.3 billion euros on goodwill relating to the agreement to sell KBL EPB was recognised under 'Net post-tax result from discontinued operations', as required under IFRS 5. It was announced in mid-March 2011 that the sale of KBL EPB to the Hinduja Group will not go ahead (for more information, see Note 48).
- Impairment on other. In 2009, this heading had included *inter alia* impairment charges on property and equipment (8 million euros) and on held-to-maturity securities (2 million euros). Impairment always relates to the difference between the carrying value before impairment and the value in use of the assets in question. In 2010, it included impairment charges of 31 million euros for the minority shareholding in Nova Ljubljanska banka (Slovenia), based on higher loan losses and impairment charges on property and equipment (4 million euros).
- For information on total impairment recognised in the balance sheet, see Note 21.

## Note 15: Share in results of associated companies

| (in millions of EUR) | 2009 | 2010 |
|---|---|---|
| **Total** | **-25** | **-63** |
| of which Nova Ljubljanska banka | -27 | -64 |

- Impairment on (goodwill on) associated companies is included in 'Impairment' (see Note 14). The share in results of associated companies does not therefore take this impairment into account.

## Note 16: Income tax expense

| (in millions of EUR) | 2009 | 2010 |
|---|---|---|
| **Total** | **256** | **-82** |
| **Breakdown by type** | | |
| Current taxes on income | -159 | -358 |
| Deferred taxes on income | 415 | 276 |
| **Tax components** | | |
| Result before tax | -2 904 | 2 224 |
| Income tax at the Belgian statutory rate | 33.99% | 33.99% |
| Income tax calculated | 987 | -756 |
| Plus/minus tax effects attributable to | | |
| differences in tax rates, Belgium – abroad | 83 | 162 |
| tax-free income | 142 | 323 |
| adjustments related to prior years | 172 | 18 |
| adjustments, opening balance of deferred taxes due to change in tax rate | 2 | 4 |
| unused tax losses and unused tax credits to reduce current tax expense | 28 | 0 |
| unused tax losses and unused tax credits to reduce deferred tax expense | 78 | 604 |
| reversal of previously recognised deferred tax assets due to tax losses | -4 | -13 |
| other (mainly non-deductible expenses) | -1 233 | -425 |
| **Aggregate amount of temporary differences associated with investments in subsidiaries, branches and associated companies and interests in joint ventures, for which deferred tax liabilities have not been recognised*** | **698** | **687** |

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

- For information on tax assets and tax liabilities, see Note 31.
- In 2009, KBC recorded a negative result of 2.5 billion euros largely on account of (fair value) losses incurred on its CDO portfolio and related activities. It did not recognise a tax effect on the bulk of these losses until 31 March 2010, given that they occurred at subsidiaries where future taxable profits would be insufficient to offset this effect. To recapitalise one of the main subsidiaries involved, KBC proposed to the local regulator and the Belgian tax authorities that it would issue a debt waiver for that particular subsidiary. At the end of April 2010, the Belgian tax authorities ruled positively, confirming the general principle that a debt waiver was tax deductible when certain criteria were met. In practice, this meant that KBC was able to recognise deferred tax income of 0.4 billion euros in the second quarter of 2010. This deferred tax asset was justified by the fact that enough taxable profit would be available in the quite near future (estimated future profits are based on macroeconomic assumptions and take account of conservative scenarios).

## Note 17: Earnings per share

| (in millions of EUR) | 2009 | 2010 |
|---|---|---|
| **Basic earnings per share** | | |
| Result after tax, attributable to equity holders of the parent | -2 466 | 1 860 |
| Coupon on core-capital securities sold to the Belgian Federal and Regional governments | -0 | -595 |
| Net result used to determine basis earnings per share | -2 466 | 1 265 |
| Weighted average number of shares outstanding (‘000 of units) | 339 569 | 339 737 |
| Basic earnings per share (in EUR) | -7.26 | 3.72 |
| **Diluted earnings per share** | | |
| Result after tax, attributable to equity holders of the parent | -2 466 | 1 860 |
| Elimination of interest expense on freely convertible debt (net of tax effect) | 0 | 0 |
| Coupon on core-capital securities sold to the Belgian Federal and Regional governments | 0 | -595 |
| Net result used to determine diluted earnings per share | -2 466 | 1 265 |
| Weighted average number of shares outstanding (‘000 of units) | 339 569 | 339 737 |
| Dilutive potential shares (‘000 of units) | 7 | 4* |
| Weighted average number of shares for diluted earnings (‘000 of units) | 339 576 | 339 741 |
| Diluted earnings per share (in EUR) | -7.26 | 3.72 |

* No account taken of 662 875 employee stock options which are still outstanding and could have a dilutive impact if the market price exceeds the exercise price.

- For a definition of basic earnings per share and diluted earnings per share, see the ‘Glossary of ratios used’.
- Overview of dilutive instruments:
  - freely convertible bonds: none;
  - options on KBC Group NV shares allocated to staff members: for more detailed information, see Note 12.

## Notes on the financial assets and liabilities on the balance sheet

To further enhance transparency, the following notes on financial assets and liabilities have been expanded and rearranged since last year's annual report.

Please note that all the reference figures in the income statement have been restated to reflect the application of IFRS 5 to the sale agreement for KBL EPB. However, as permitted under IFRS, the reference figures in the balance sheet have not been restated. Nevertheless, for comparison purposes, a separate column has been added in Note 18, containing figures for reference date 31 December 2009 that exclude the divestments concluded in 2010 and those that fall under the scope of IFRS 5. For more information on the application of IFRS 5, see Note 46. It was announced in mid-March 2011 that the sale of KBL EPB to the Hinduja Group will not go ahead (for more information, see Note 48).

Financial assets and liabilities are grouped into categories. These categories are defined and relevant valuation rules provided in 'Financial assets and liabilities (IAS 39)', Note 1 b.

Whenever reference is made in the tables or text to the category 'Designated at fair value', this should be taken to mean 'Designated at fair value through profit or loss' (fair value option).

## Note 18: Financial assets and liabilities, breakdown by portfolio and product

| (in millions of EUR) | Held for trading | Designated at fair value[1] | Available for sale | Loans and receivables | Held to maturity | Hedging derivatives | Measured at amortised cost | Total | Total, excluding divestments in 2010[2] |
|---|---|---|---|---|---|---|---|---|---|
| **FINANCIAL ASSETS, 31-12-2009** | | | | | | | | | |
| Loans and advances to credit institutions and investment firms[a] | 566 | 3 708 | 0 | 16 930 | – | – | – | 21 204[c] | 17 929 |
| Loans and advances to customers[b] | 3 169 | 6 133 | 0 | 143 928 | – | – | – | 153 230 | 150 332 |
| Discount and acceptance credit | 0 | 9 | 0 | 116 | – | – | – | 125 | 114 |
| Consumer credit | 0 | 0 | 0 | 4 947 | – | – | – | 4 947 | 4 940 |
| Mortgage loans | 0 | 2 349 | 0 | 56 830 | – | – | – | 59 180 | 57 609 |
| Term loans | 3 169 | 3 579 | 0 | 64 904 | – | – | – | 71 652 | 71 228 |
| Finance leasing | 0 | 0 | 0 | 5 569 | – | – | – | 5 569 | 5 569 |
| Current account advances | 0 | 0 | 0 | 5 123 | – | – | – | 5 123 | 4 535 |
| Other | 0 | 196 | 0 | 6 439 | – | – | – | 6 635 | 6 337 |
| Equity instruments | 2 977 | 20 | 2 418 | – | – | – | – | 5 414 | 4 649 |
| Investment contracts (insurance) | – | 7 957 | – | – | – | – | – | 7 957 | 6 867 |
| Debt instruments issued by | 12 653 | 12 457 | 52 694 | 3 270 | 11 765 | – | – | 92 838 | 86 291 |
| Public bodies | 8 056 | 11 202 | 39 439 | 3 | 10 662 | – | – | 69 362 | 66 010 |
| Credit institutions and investment firms | 2 512 | 327 | 6 297 | 0 | 767 | – | – | 9 903 | 8 787 |
| Corporates | 2 085 | 928 | 6 958 | 3 267 | 335 | – | – | 13 572 | 11 494 |
| Derivatives | 20 995 | – | – | – | – | 165 | – | 21 160 | 20 864 |
| Accrued interest income | 203 | 245 | 1 008 | 470 | 280 | 48 | – | 2 254 | 2 149 |
| Carrying value including accrued interest income | 40 563 | 30 520 | 56 120 | 164 598 | 12 045 | 213 | – | 304 057 | 289 081 |
| *a of which reverse repos[3]* | | | | | | | | *6 297* | *3 924* |
| *b of which reverse repos[3]* | | | | | | | | *6 295* | *6 295* |
| *c of which loans and advances to banks repayable on demand and term loans to banks at not more than three months* | | | | | | | | *10 205* | *7 191* |
| **FINANCIAL ASSETS, 31-12-2010** | | | | | | | | | |
| Loans and advances to credit institutions and investment firms[a] | 696 | 1 808 | 0 | 12 998 | – | – | – | 15 502[c] | |
| Loans and advances to customers[b] | 4 109 | 6 471 | 0 | 140 087 | – | – | – | 150 666 | |
| Discount and acceptance credit | 0 | 0 | 0 | 119 | – | – | – | 119 | |
| Consumer credit | 0 | 0 | 0 | 4 274 | – | – | – | 4 274 | |
| Mortgage loans | 0 | 380 | 0 | 61 198 | – | – | – | 61 577 | |
| Term loans | 4 109 | 6 025 | 0 | 61 548 | – | – | – | 71 681 | |
| Finance leasing | 0 | 0 | 0 | 4 909 | – | – | – | 4 909 | |
| Current account advances | 0 | 0 | 0 | 4 456 | – | – | – | 4 456 | |
| Other | 0 | 66 | 0 | 3 583 | – | – | – | 3 649 | |
| Equity instruments | 1 717 | 19 | 2 098 | – | – | – | – | 3 833 | |
| Investment contracts (insurance) | – | 7 329 | – | – | – | – | – | 7 329 | |
| Debt instruments issued by | 7 709 | 9 727 | 51 020 | 3 477 | 13 629 | – | – | 85 562 | |
| Public bodies | 5 806 | 8 852 | 40 612 | 132 | 12 712 | – | – | 68 114 | |
| Credit institutions and investment firms | 731 | 266 | 5 075 | 224 | 584 | – | – | 6 879 | |
| Corporates | 1 172 | 610 | 5 333 | 3 122 | 333 | – | – | 10 569 | |
| Derivatives | 15 758 | – | – | – | – | 213 | – | 15 970 | |
| Accrued interest income | 299 | 192 | 1 025 | 463 | 325 | 73 | – | 2 378 | |
| Carrying value including accrued interest income | 30 287 | 25 545 | 54 143 | 157 024 | 13 955 | 286 | – | 281 240 | |
| *a of which reverse repos[3]* | | | | | | | | *2 284* | |
| *b of which reverse repos[3]* | | | | | | | | *9 486* | |
| *c of which loans and advances to banks repayable on demand and term loans to banks at not more than three months* | | | | | | | | *6 866* | |

1 Loans and advances in the 'Designated at fair value' column relate primarily to reverse repo transactions and a small portfolio of home loans. In each case, the carrying value comes close to the maximum credit exposure.
2 Total excluding divestments finalised in 2010 and announced divestments that already fall under the scope of IFRS 5 in 2010 (to enable comparison with the figures for 31 December 2010).
3 A 'reverse repo' transaction is a transaction where one party (KBC) buys securities from another party and undertakes to resell these securities at a designated future date at a set price. In most cases, reverse repo transactions are governed by bilateral framework agreements (generally Global Master Repo Agreements) which include a description of the periodic exchanges of collateral. The reverse repo transactions shown in the table are related mainly to the temporary borrowing of bonds. In this type of lending, the risk and the income from the bonds are for the counterparty. The amount of the reverse repos is virtually identical to the amount of the underlying assets (that have been lent out).

| (in millions of EUR) | Held for trading | Design-ated at fair value | Available for sale | Loans and receiv-ables | Held to maturity | Hedging deriv-atives | Measured at amor-tised cost | Total | Total, excluding divest-ments in 2010[1] |
|---|---|---|---|---|---|---|---|---|---|
| **FINANCIAL LIABILITIES, 31-12-2009** | | | | | | | | | |
| Deposits from credit institutions and investment firms[a] | 211 | 6 678 | – | – | – | – | 38 555 | 45 444[c] | 42 128 |
| Deposits from customers and debt certificates[b] | 834 | 16 695 | – | – | – | – | 175 935 | 193 464 | 185 363 |
| Demand deposits | 0 | 150 | – | – | – | – | 44 271 | 44 421 | 39 383 |
| Time deposits | 0 | 12 992 | – | – | – | – | 44 448 | 57 441 | 55 254 |
| Savings deposits | 0 | 0 | – | – | – | – | 38 645 | 38 645 | 38 645 |
| Special deposits | 0 | 0 | – | – | – | – | 3 677 | 3 677 | 3 677 |
| Other deposits | 0 | 11 | – | – | – | – | 1 124 | 1 135 | 1 091 |
| Certificates of deposit | 0 | 42 | – | – | – | – | 15 746 | 15 788 | 15 788 |
| Customer savings certificates | 0 | 0 | – | – | – | – | 2 583 | 2 583 | 2 579 |
| Convertible bonds | 0 | 0 | – | – | – | – | 0 | 0 | 0 |
| Non-convertible bonds | 834 | 3 218 | – | – | – | – | 16 311 | 20 363 | 20 352 |
| Convertible subordinated liabilities | 0 | 0 | – | – | – | – | 0 | 0 | 0 |
| Non-convertible subordinated liabilities | 0 | 282 | – | – | – | – | 9 129 | 9 411 | 8 595 |
| Liabilities under investment contracts | – | 7 685 | – | – | – | – | 254 | 7 939 | 6 849 |
| Derivatives | 26 304 | – | – | – | – | 882 | – | 27 185 | 26 703 |
| Short positions | 2 147 | – | – | – | – | – | – | 2 147 | 1 736 |
| In equity instruments | 486 | – | – | – | – | – | – | 486 | 213 |
| In debt instruments | 1 661 | – | – | – | – | – | – | 1 661 | 1 523 |
| Other | 250 | 168 | – | – | – | – | 1 514 | 1 931 | 1 759 |
| Accrued interest expense | 146 | 83 | – | – | – | 205 | 905 | 1 339 | 1 282 |
| Carrying value including accrued interest expense | 29 891 | 31 309 | – | – | – | 1 087 | 217 163 | 279 450 | 265 820 |
| *a of which repos[2]* | | | | | | | | *11 513* | *10 444* |
| *b of which repos[2]* | | | | | | | | *13 199* | *13 199* |
| *c of which deposits from banks repayable on demand* | | | | | | | | *11 890* | *10 678* |
| **FINANCIAL LIABILITIES, 31-12-2010** | | | | | | | | | |
| Deposits from credit institutions and investment firms[a] | 21 | 6 911 | – | – | – | – | 20 924 | 27 856[c] | |
| Deposits from customers and debt certificates[b] | 648 | 20 971 | – | – | – | – | 176 252 | 197 870 | |
| Demand deposits | 0 | 57 | – | – | – | – | 48 189 | 48 246 | |
| Time deposits | 0 | 17 012 | – | – | – | – | 42 131 | 59 142 | |
| Savings deposits | 0 | 0 | – | – | – | – | 40 245 | 40 245 | |
| Special deposits | 0 | 0 | – | – | – | – | 4 005 | 4 005 | |
| Other deposits | 0 | 0 | – | – | – | – | 1 281 | 1 281 | |
| Certificates of deposit | 0 | 22 | – | – | – | – | 14 965 | 14 987 | |
| Customer savings certificates | 0 | 0 | – | – | – | – | 2 155 | 2 155 | |
| Convertible bonds | 0 | 0 | – | – | – | – | 0 | 0 | |
| Non-convertible bonds | 648 | 3 600 | – | – | – | – | 14 427 | 18 674 | |
| Convertible subordinated liabilities | 0 | 0 | – | – | – | – | 0 | 0 | |
| Non-convertible subordinated liabilities | 0 | 280 | – | – | – | – | 8 854 | 9 134 | |
| Liabilities under investment contracts | – | 6 514 | – | – | – | – | 179 | 6 693 | |
| Derivatives | 22 317 | – | – | – | – | 849 | – | 23 166 | |
| Short positions | 1 119 | – | – | – | – | – | – | 1 119 | |
| In equity instruments | 10 | – | – | – | – | – | – | 10 | |
| In debt instruments | 1 110 | – | – | – | – | – | – | 1 110 | |
| Other | 0 | 145 | – | – | – | – | 2 564 | 2 709 | |
| Accrued interest expense | 31 | 74 | – | – | – | 276 | 789 | 1 169 | |
| Carrying value including accrued interest expense | 24 136 | 34 615 | – | – | – | 1 124 | 200 707 | 260 582 | |
| *a of which repos[2]* | | | | | | | | *8 265* | |
| *b of which repos[2]* | | | | | | | | *15 398* | |
| *c of which deposits from banks repayable on demand* | | | | | | | | *4 449* | |

1 Total excluding divestments finalised in 2010 and announced divestments that already fall under the scope of IFRS 5 in 2010 (to enable comparison with the figures for 31 December 2010).
2 A 'repo' transaction is a transaction where one party buys securities from another party (KBC) and undertakes to resell these securities at a designated future date at a set price. In most cases, repo transactions are governed by bilateral framework agreements (generally Global Master Repo Agreements) which include a description of the periodic exchanges of collateral. The repo transactions shown in the table are related mainly to the temporary lending of bonds. In this type of lending, the risk and the income from the bonds are for KBC. The amount of the repos is virtually identical to the amount of the underlying assets (that have been lent out).

## Note 19: Financial assets and liabilities, breakdown by portfolio and geographic location

| (in millions of EUR) | Held for trading | Designated at fair value | Available for sale | Loans and receivables | Held to maturity | Hedging derivatives | Measured at amortised cost | Total |
|---|---|---|---|---|---|---|---|---|
| **FINANCIAL ASSETS, 31-12-2009** | | | | | | | | |
| Belgium | 3 971 | 8 725 | 18 587 | 74 903 | 1 803 | 70 | – | 108 059 |
| Central & Eastern Europe (including Russia) | 7 351 | 1 094 | 12 411 | 35 686 | 6 837 | 141 | – | 63 521 |
| Rest of the world | 29 240 | 20 701 | 25 121 | 54 009 | 3 405 | 2 | – | 132 478 |
| Total carrying value (including accrued interest income) | 40 563 | 30 520 | 56 120 | 164 598 | 12 045 | 213 | – | 304 057 |
| **FINANCIAL ASSETS, 31-12-2010** | | | | | | | | |
| Belgium | 3 342 | 7 189 | 21 742 | 75 261 | 1 407 | 105 | – | 109 046 |
| Central & Eastern Europe (including Russia) | 8 439 | 986 | 10 694 | 36 327 | 9 172 | 180 | – | 65 799 |
| Rest of the world | 18 506 | 17 370 | 21 707 | 45 436 | 3 376 | 0 | – | 106 395 |
| Total carrying value (including accrued interest income) | 30 287 | 25 545 | 54 143 | 157 024 | 13 955 | 286 | – | 281 240 |
| **FINANCIAL LIABILITIES, 31-12-2009** | | | | | | | | |
| Belgium | 4 242 | 7 285 | – | – | – | 760 | 86 617 | 98 904 |
| Central & Eastern Europe (including Russia) | 950 | 5 535 | – | – | – | 134 | 42 495 | 49 114 |
| Rest of the world | 24 699 | 18 489 | – | – | – | 194 | 88 051 | 131 432 |
| Total carrying value (including accrued interest expense) | 29 891 | 31 309 | – | – | – | 1 087 | 217 163 | 279 450 |
| **FINANCIAL LIABILITIES, 31-12-2010** | | | | | | | | |
| Belgium | 3 279 | 7 491 | – | – | – | 929 | 87 282 | 98 981 |
| Central & Eastern Europe (including Russia) | 1 142 | 5 501 | – | – | – | 124 | 44 234 | 51 001 |
| Rest of the world | 19 715 | 21 623 | – | – | – | 72 | 69 191 | 110 600 |
| Total carrying value (including accrued interest expense) | 24 136 | 34 615 | – | – | – | 1 124 | 200 707 | 260 582 |

## Note 20: Financial assets and liabilities, breakdown by portfolio and remaining term to maturity

| (in millions of EUR) | Held for trading | Designated at fair value | Available for sale | Loans and receivables | Held to maturity | Hedging derivatives | Measured at amortised cost | Total |
|---|---|---|---|---|---|---|---|---|
| **FINANCIAL ASSETS, 31-12-2009** | | | | | | | | |
| At not more than one year | 9 416 | 8 725 | 9 583 | 56 309 | 1 614 | – | – | 85 648 |
| At more than one year | 6 627 | 14 951 | 43 873 | 104 305 | 10 431 | – | – | 180 186 |
| Not specified* | 24 520 | 6 844 | 2 663 | 3 983 | 0 | 213 | – | 38 224 |
| Total carrying value (including accrued interest income) | 40 563 | 30 520 | 56 120 | 164 598 | 12 045 | 213 | – | 304 057 |
| **FINANCIAL ASSETS, 31-12-2010** | | | | | | | | |
| At not more than one year | 6 336 | 9 003 | 7 836 | 47 023 | 1 653 | – | – | 71 851 |
| At more than one year | 2 229 | 9 291 | 25 413 | 106 369 | 12 301 | – | – | 155 602 |
| Not specified* | 21 723 | 7 252 | 20 894 | 3 633 | 0 | 286 | – | 53 788 |
| Total carrying value (including accrued interest income) | 30 287 | 25 545 | 54 143 | 157 024 | 13 955 | 286 | – | 281 240 |
| **FINANCIAL LIABILITIES, 31-12-2009** | | | | | | | | |
| At not more than one year | 1 862 | 19 568 | – | – | – | – | 143 503 | 164 933 |
| At more than one year | 1 140 | 5 472 | – | – | – | – | 34 186 | 40 798 |
| Not specified* | 26 890 | 6 270 | – | – | – | 1 087 | 39 473 | 73 720 |
| Total carrying value (including accrued interest expense) | 29 891 | 31 309 | – | – | – | 1 087 | 217 163 | 279 450 |
| **FINANCIAL LIABILITIES, 31-12-2010** | | | | | | | | |
| At not more than one year | 1 325 | 23 822 | – | – | – | – | 127 623 | 152 770 |
| At more than one year | 94 | 5 477 | – | – | – | – | 32 110 | 37 681 |
| Not specified* | 22 717 | 5 317 | – | – | – | 1 124 | 40 974 | 70 132 |
| Total carrying value (including accrued interest expense) | 24 136 | 34 615 | – | – | – | 1 124 | 200 707 | 260 582 |

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

- The difference between short-term financial assets and short-term financial liabilities reflects, among other things, the fundamental operation of a bank, i.e. converting short-term deposits into long-term loans. Consequently, the volume of deposits at not more than one year (recognised under financial liabilities) is greater than loans at not more than one year (recorded under financial assets), a ratio that indicates liquidity risk. Group-wide liquidity risks are aggregated and monitored centrally on a daily basis, and reported regularly to the Group Risk and Capital Oversight Committee, the Executive Committee and the Audit, Risk and Compliance Committee. More information on liquidity risk and how it is monitored is provided in the 'Value and risk management' section.

## Note 21: Financial assets, breakdown by portfolio and quality

### Impaired financial assets

| (in millions of EUR) | Held for trading | Designated at fair value | Available for sale | Loans and receivables | Held to maturity | Hedging derivatives | Measured at amortised cost | Total |
|---|---|---|---|---|---|---|---|---|
| **FINANCIAL ASSETS, 31-12-2009** | | | | | | | | |
| Unimpaired assets | 40 563 | 30 520 | 55 602 | 160 060 | 12 044 | 213 | – | 299 002 |
| Impaired assets | – | – | 924 | 8 506 | 6 | – | – | 9 437 |
| Impairment | – | – | -407 | -3 969 | -6 | – | – | -4 381 |
| Total carrying value (including accrued interest income) | 40 563 | 30 520 | 56 120 | 164 598 | 12 045 | 213 | – | 304 057 |
| **FINANCIAL ASSETS, 31-12-2010** | | | | | | | | |
| Unimpaired assets | 30 278 | 25 545 | 53 825 | 151 403 | 13 955 | 286 | – | 275 301 |
| Impaired assets | – | – | 572 | 10 543 | 0 | – | – | 11 114 |
| Impairment | – | – | -254 | -4 921 | 0 | – | – | -5 175 |
| Total carrying value (including accrued interest income) | 30 287 | 25 545 | 54 143 | 157 024 | 13 955 | 286 | – | 281 240 |

- The concept of 'impairment' is relevant for all financial assets that are not designated at fair value through profit or loss. Fixed-income financial assets are impaired when impairment is identified on an individual basis. In the case of loans, they are impaired when they have a probability of default (or PD, see explanation below) rating of 10, 11 or 12. Impairment is recognised based on an estimate of the net present value of the recoverable amount. In addition, for credit in PD classes 1 to 9, impairment losses are recorded on a portfolio basis, using a formula based on the internal rating based (IRB) advanced models (or an alternative method if an IRB advanced model is not yet available).
- KBC has developed various rating models to determine the PD class. A number of uniform models are used throughout the group (models for governments, banks, large companies, project finance, etc.), while others (SMEs, private individuals, etc.) have been designed for specific geographic markets. The same internal rating scale is used throughout the group. The output generated by these models is used to split the normal loan portfolio into internal rating classes ranging from PD 1 (lowest risk) to PD 9 (highest risk). A defaulted debtor is assigned an internal rating ranging from PD 10 to PD 12. PD 12 is assigned when either one of the debtor's credit facilities is terminated by the bank, or when a court order is passed instructing repossession of the collateral. PD 11 groups debtors that are more than 90 days past due (in arrears or overdrawn), but that do not meet PD 12 criteria. PD 10 is assigned to debtors 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.

## Impairment details

| (in millions of EUR) | Available for sale: Fixed-income assets | Available for sale: Shares | Held to maturity: Fixed-income assets | Loans and receivables: Individual impairment | Loans and receivables: Portfolio-based impairment | Provisions for off-balance-sheet credit commitments* |
|---|---|---|---|---|---|---|
| **IMPAIRMENT, 31-12-2009** | | | | | | |
| Opening balance | 333 | 788 | 19 | 2 352 | 244 | 112 |
| Movements with an impact on results | | | | | | |
| Impairment recognised | 17 | 338 | 2 | 2 454 | 164 | 116 |
| Impairment reversed | -5 | 0 | 0 | -644 | -84 | -103 |
| Movements without an impact on results | | | | | | |
| Write-offs | 0 | 0 | -15 | -463 | 0 | -15 |
| Changes in the scope of consolidation | 0 | 0 | 0 | -6 | 0 | 0 |
| Transfers to/from non-current assets held for sale and disposal groups | 0 | 0 | 0 | 0 | 0 | 0 |
| Other | -217 | -846 | -1 | -26 | -22 | 1 |
| Closing balance | 127 | 280 | 6 | 3 667 | 302 | 111 |
| **IMPAIRMENT, 31-12-2010** | | | | | | |
| Opening balance | 127 | 280 | 6 | 3 667 | 302 | 111 |
| Movements with an impact on results | | | | | | |
| Impairment recognised | 0 | 32 | 0 | 2 906 | 214 | 119 |
| Impairment reversed | -1 | 0 | 0 | -1 454 | -199 | -104 |
| Movements without an impact on results | | | | | | |
| Write-offs | -50 | -11 | 0 | -391 | 0 | 0 |
| Changes in the scope of consolidation | 0 | -23 | -5 | -16 | -2 | 0 |
| Transfers to/from non-current assets held for sale and disposal groups | -55 | 0 | 0 | -122 | 0 | 0 |
| Other | -13 | -32 | 0 | 4 | 11 | -11 |
| Closing balance | 9 | 245 | 0 | 4 594 | 327 | 116 |

* These impairment losses are recognised on the liabilities side of the balance sheet, whereas changes in them are recorded under 'Impairment on loans and receivables' in the income statement.

- Impairment on available-for-sale shares: the -846 million euros recognised under 'Other' in 2009 related to the sale of shares from the insurance portfolio for which impairment had already been recorded in previous years. When such shares are sold, the impairment losses previously recorded disappear, without impacting the income statement (only the difference between the sales price and the carrying value less accumulated impairment is recognised in the income statement).
- For information regarding the impact of changes in impairment on the income statement, see Note 14.
- Additional information on impairment relating to the loan portfolio is provided under 'Credit risk' in the 'Value and risk management' section.

## Past due, but not impaired assets

| (in millions of EUR) | Less than 30 days past due | 30 days or more, but less than 90 days past due |
|---|---|---|
| **31-12-2009** | | |
| Loans and advances | 3 696 | 1 235 |
| Debt instruments | 8 | 4 |
| Derivatives | 0 | 0 |
| Total | 3 704 | 1 239 |
| **31-12-2010** | | |
| Loans and advances | 3 677 | 1 316 |
| Debt instruments | 0 | 1 |
| Derivatives | 0 | 0 |
| Total | 3 677 | 1 317 |

- Financial assets are past due if a counterparty fails to make a payment at the time agreed in the contract. The concept of 'past due' applies to a contract, not to a counterparty. For example, if a counterparty fails to make a monthly repayment, the entire loan is considered past due, but that does not mean that other loans to this counterparty are considered past due.
- Financial assets that are 90 days or more past due are always considered 'impaired'.

**Guarantees received**

- See Note 40.

**Renegotiated loans avoiding impairment**

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

**Overview of KBC's exposure to structured credit and government bonds**

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

## Note 22: Maximum credit exposure

| (in millions of EUR) | 31-12-2009 | 31-12-2010 |
|---|---|---|
| **Maximum credit exposure** | | |
| Equity instruments | 5 414 | 3 833 |
| Debt instruments | 92 838 | 85 562 |
| Loans and advances | 174 434 | 166 167 |
| of which designated at fair value | 9 841 | 8 279 |
| Derivatives | 21 160 | 15 970 |
| Other (including accrued interest) | 41 320 | 37 076 |
| Total | 335 166 | 308 609 |
| **Carrying value of financial assets pledged by KBC as collateral** | | |
| For liabilities | 40 327 | 30 419 |
| For contingent liabilities | 6 800 | 4 151 |

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

## Note 23: Fair value of financial assets and liabilities – general

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

| **Fair value of financial assets and liabilities that are not designated at fair value in the balance sheet** (in millions of EUR) | **Loans and receivables** | | **Financial assets held to maturity** | | **Financial liabilities measured at amortised cost** | |
|---|---|---|---|---|---|---|
| | **Carrying value** | **Fair value** | **Carrying value** | **Fair value** | **Carrying value** | **Fair value** |
| **FINANCIAL ASSETS, 31-12-2009** | | | | | | |
| Loans and advances to credit institutions and investment firms | 16 930 | 16 987 | – | – | – | – |
| Loans and advances to customers | 143 928 | 146 043 | – | – | – | – |
| Debt instruments | 3 270 | 3 387 | 11 765 | 12 184 | – | – |
| Accrued interest income | 470 | 470 | 280 | 280 | – | – |
| Total (including accrued interest income) | 164 598 | 166 886 | 12 045 | 12 463 | – | – |
| **FINANCIAL ASSETS, 31-12-2010** | | | | | | |
| Loans and advances to credit institutions and investment firms | 12 998 | 13 168 | – | – | – | – |
| Loans and advances to customers | 140 087 | 141 209 | – | – | – | – |
| Debt instruments | 3 477 | 3 536 | 13 629 | 13 920 | – | – |
| Accrued interest income | 463 | 463 | 325 | 325 | – | – |
| Total (including accrued interest income) | 157 024 | 158 375 | 13 955 | 14 245 | – | – |
| **FINANCIAL LIABILITIES, 31-12-2009** | | | | | | |
| Deposits from credit institutions and investment firms | – | – | – | – | 38 555 | 39 840 |
| Deposits from customers and debt certificates | – | – | – | – | 175 935 | 178 379 |
| Liabilities under investment contracts | – | – | – | – | 254 | 254 |
| Other | – | – | – | – | 1 514 | 1 514 |
| Accrued interest expense | – | – | – | – | 905 | 905 |
| Total (including accrued interest expense) | – | – | – | – | 217 163 | 220 892 |
| **FINANCIAL LIABILITIES, 31-12-2010** | | | | | | |
| Deposits from credit institutions and investment firms | – | – | – | – | 20 924 | 21 347 |
| Deposits from customers and debt certificates | – | – | – | – | 176 252 | 177 834 |
| Liabilities under investment contracts | – | – | – | – | 179 | 179 |
| Other | – | – | – | – | 2 564 | 2 564 |
| Accrued interest expense | – | – | – | – | 789 | 789 |
| Total (including accrued interest expense) | – | – | – | – | 200 707 | 202 713 |

## Note 24: Fair value of financial assets and liabilities – fair value hierarchy

| (in millions of EUR) | | | | 31-12-2009 | | | | 31-12-2010 |
|---|---|---|---|---|---|---|---|---|
| **Fair value hierarchy** | **Level 1** | **Level 2** | **Level 3** | **Total** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Financial assets at fair value** | | | | | | | | |
| Held for trading | | | | | | | | |
| Loans and advances to credit institutions and investment firms | 0 | 566 | 0 | 566 | 0 | 686 | 10 | 696 |
| Loans and advances to customers | 0 | 3 169 | 0 | 3 169 | 0 | 4 109 | 0 | 4 109 |
| Equity instruments | 1 104 | 1 801 | 72 | 2 977 | 537 | 187 | 993 | 1 717 |
| Debt instruments | 10 355 | 2 152 | 146 | 12 653 | 5 651 | 1 443 | 614 | 7 709 |
| Derivatives | 243 | 16 603 | 4 150 | 20 995 | 63 | 13 622 | 2 073 | 15 758 |
| Accrued interest income | – | – | – | 203 | – | – | – | 299 |
| Designated at fair value | | | | | | | | |
| Loans and advances to credit institutions and investment firms | 0 | 3 708 | 0 | 3 708 | 0 | 1 808 | 0 | 1 808 |
| Loans and advances to customers | 0 | 6 133 | 0 | 6 133 | 0 | 6445 | 26 | 6 471 |
| Equity instruments | 3 | 17 | 0 | 20 | 2 | 15 | 1 | 19 |
| Investment contracts (insurance) | 7 607 | 350 | 0 | 7 957 | 7 325 | 4 | 0 | 7 329 |
| Debt instruments | 11 298 | 927 | 231 | 12 457 | 9 097 | 256 | 373 | 9 727 |
| Accrued interest income | – | – | – | 245 | – | – | – | 192 |
| Available for sale | | | | | | | | |
| Equity instruments | 2 061 | 33 | 325 | 2 418 | 1 665 | 35 | 398 | 2 098 |
| Debt instruments | 49 090 | 3 442 | 162 | 52 694 | 48 677 | 1 845 | 497 | 51 020 |
| Accrued interest income | – | – | – | 1 008 | – | – | – | 1 025 |
| Hedging derivatives | | | | | | | | |
| Derivatives | 0 | 165 | 0 | 165 | 0 | 213 | 0 | 213 |
| Accrued interest income | – | – | – | 48 | – | – | – | 73 |
| Total (including accrued interest income) | 81 760 | 39 065 | 5 085 | 127 415 | 73 017 | 30 668 | 4 986 | 110 261 |
| **Financial liabilities at fair value** | | | | | | | | |
| Held for trading | | | | | | | | |
| Deposits from credit institutions and investment firms | 0 | 211 | 0 | 211 | 0 | 0 | 21 | 21 |
| Deposits from customers and debt certificates | 0 | 729 | 105 | 834 | 0 | 624 | 24 | 648 |
| Derivatives | 209 | 20 516 | 5 579 | 26 304 | 44 | 15 868 | 6 406 | 22 317 |
| Short positions | 1 900 | 227 | 20 | 2 147 | 1 076 | 44 | 0 | 1 119 |
| Other | 0 | 250 | 0 | 250 | 0 | 0 | 0 | 0 |
| Accrued interest expense | – | – | – | 146 | – | – | – | 31 |
| Designated at fair value | | | | | | | | |
| Deposits from credit institutions and investment firms | 0 | 6 678 | 0 | 6 678 | 0 | 6 911 | 0 | 6 911 |
| Deposits from customers and debt certificates | 0 | 13 281 | 3 414 | 16 695 | 0 | 17 165 | 3 806 | 20 971 |
| Liabilities under investment contracts | 7 354 | 331 | 0 | 7 685 | 6 514 | 0 | 0 | 6 514 |
| Other | 0 | 0 | 168 | 168 | 0 | 0 | 145 | 145 |
| Accrued interest expense | – | – | – | 83 | – | – | – | 74 |
| Hedging derivatives | | | | | | | | |
| Derivatives | 0 | 882 | 0 | 882 | 0 | 849 | 0 | 849 |
| Accrued interest expense | – | – | – | 205 | – | – | – | 276 |
| Total (including accrued interest expense) | 9 463 | 43 105 | 9 285 | 62 288 | 7 634 | 41 459 | 10 402 | 59 875 |

- The IAS 39 fair value hierarchy prioritises the valuation techniques and the respective inputs into three levels.
  1. The fair value hierarchy gives the highest priority to 'level 1 inputs'. This means that, when there is an active market, quoted prices have to be used to measure the financial assets or liabilities at fair value. Level 1 inputs are prices that are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency (and that are quoted in active markets accessible to KBC). They represent actual and regularly occurring market transactions on an arm's length basis. The fair value measurement of financial instruments with quoted prices is based on a mark-to-market valuation derived from currently available transaction prices. No valuation technique (model) is involved.
  2. If there are no price quotations available, an entity establishes fair value by using a model based on observable or unobservable inputs. The use of observable inputs needs to be maximised, whereas the use of unobservable inputs has to be minimised.
     Observable inputs are also referred to as 'level 2 inputs' and reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Observable inputs reflect an active market. Examples of observable inputs are the risk-free rate, exchange rates, stock prices and implied volatility. Valuation techniques based on observable inputs can include discounted cashflow analysis, reference to the current or recent fair value of a similar instrument, or third-party pricing, provided that the third-party price is in line with alternative observable market data.
     Unobservable inputs are also referred to as 'level 3 inputs' and reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions regarding the risks involved). Unobservable inputs reflect a market that is not active. For example, proxies and correlation factors can be considered to be unobservable in the market.
- When the inputs used to measure the fair value of an asset or a liability can be categorised into different levels of the fair value hierarchy, the fair value measurement is classified in its entirety into the same level as the lowest level input that is significant to the entire fair value measurement. For example, if a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement.
- The valuation methodology and the corresponding classification in the fair value hierarchy of the most commonly used financial instruments are summarised in the table. This table provides an overview of the level in which the instruments are generally classified, but exceptions are possible. In other words, whereas the majority of instruments of a certain type are within the level indicated in the table, a small portion may actually be classified in another level.
- Transfers between the various levels are dealt with below.

## Note 25: Fair value of financial assets and liabilities – transfers between levels 1 and 2

- In 2010, there were a number of significant transfers between levels 1 and 2 of the IAS 39 fair value hierarchy. These transfers were brought about by a group-wide refinement of the classification method and by the fact that the financial markets became more active. The reported reclassifications relate entirely to debt instruments. In particular, certain bond portfolios were traded more actively in 2010 than in the previous year, leading to transfers from level 2 to level 1. In addition, refining the classification method resulted in certain portfolios of debt instruments (e.g., ABS) – that were mostly allocated to a single level in 2009 – being spread across the various levels of the hierarchy. Consequently, positions with a combined value of around 1.1 billion euros were transferred out of level 2 and into level 1 at year-end 2010. Moreover, positions totalling some 0.1 billion euros were reclassified from level 1 to level 2.

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

## Note 26: Fair value of financial assets and liabilities – focus on level 3

**Movements table of assets and liabilities valued in level 3 of the fair value hierarchy – 2009**
(in millions of EUR)

**Level 3 financial assets**

| | Held for trading | | | | | Designated at fair value | | | | Available for sale | | Hedging derivatives |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Loans and advances | Equity instruments | Investment contracts (insurance) | Debt instruments | Derivatives | Loans and advances | Equity instruments | Investment contracts (insurance) | Debt instruments | Equity instruments | Debt instruments | Derivatives |
| Opening balance | 0 | 121 | 0 | 74 | 6 631 | 0 | 0 | 0 | 103 | 336 | 147 | 0 |
| Gains or losses | 0 | -29 | 0 | -91 | -2 808 | 0 | 0 | 0 | 133 | -5 | 11 | 0 |
| in profit or loss* | 0 | -29 | 0 | -91 | -2 808 | 0 | 0 | 0 | 133 | 0 | 17 | 0 |
| in equity | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -5 | -6 | 0 |
| Purchases | 0 | 19 | 0 | 164 | 742 | 0 | 0 | 0 | 55 | 42 | 4 | 0 |
| Disposals | 0 | -39 | 0 | -1 | -66 | 0 | 0 | 0 | -60 | -46 | 0 | 0 |
| Settlements | 0 | 0 | 0 | 0 | -349 | 0 | 0 | 0 | 0 | -2 | 0 | 0 |
| Transfers into level 3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfers out of level 3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfers into/out of non-current assets held for sale | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Changes in the scope of consolidation | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Closing balance | 0 | 72 | 0 | 146 | 4 150 | 0 | 0 | 0 | 231 | 325 | 162 | 0 |
| Total gains (positive figures) or losses (negative figures) included in profit or loss for assets held at the end of the reporting period | 0 | 0 | 0 | 73 | -2 107 | 0 | 0 | 0 | 101 | -3 | 0 | 0 |

**Level 3 financial liabilities**

| | Held for trading | | | | | | Designated at fair value | | | | Hedging derivatives |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Deposits from credit institutions | Deposits from customers and debt certificates | Liabilities under investment contracts | Derivatives | Short positions | Other | Deposits from credit institutions | Deposits from customers and debt certificates | Liabilities under investment contracts | Other | Derivatives |
| Opening balance | 0 | 291 | 0 | 6 336 | 106 | 0 | 0 | 4 859 | 0 | 101 | 0 |
| Gains or losses | 0 | 25 | 0 | 1 228 | -83 | 0 | 0 | -85 | 0 | 67 | 0 |
| in profit or loss* | 0 | 25 | 0 | 1 228 | -83 | 0 | 0 | -85 | 0 | 67 | 0 |
| in equity | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Issues | 0 | 35 | 0 | -1 834 | 10 | 0 | 0 | 0 | 0 | 0 | 0 |
| Repurchases | 0 | -246 | 0 | -151 | -13 | 0 | 0 | -1 360 | 0 | 0 | 0 |
| Transfers into level 3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfers out of level 3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfers out of/into liabilities associated with disposal groups | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Changes in the scope of consolidation | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Closing balance | 0 | 105 | 0 | 5 579 | 20 | 0 | 0 | 3 414 | 0 | 168 | 0 |
| Total gains (negative figures) or losses (positive figures) included in profit or loss for liabilities held at the end of the reporting period | 0 | 25 | 0 | 1 225 | -73 | 0 | 0 | -8 | 0 | 0 | 0 |

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

**Movements table of assets and liabilities valued in level 3 of the fair value hierarchy – 2010**
(in millions of EUR)

**Level 3 financial assets**

| | Held for trading | | | | | Designated at fair value | | | | Available for sale | | Hedging derivatives |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Loans and advances | Equity instruments | Investment contracts (insurance) | Debt instruments | Derivatives | Loans and advances | Equity instruments | Investment contracts (insurance) | Debt instruments | Equity instruments | Debt instruments | Derivatives |
| Opening balance | 0 | 72 | 0 | 146 | 4 150 | 0 | 0 | 0 | 231 | 325 | 162 | 0 |
| Gains or losses | 8 | 20 | 0 | -22 | -671 | -2 | 0 | 0 | 102 | -6 | 1 | 0 |
| in profit or loss* | 8 | 20 | 0 | -22 | -671 | -2 | 0 | 0 | 102 | -9 | 9 | 0 |
| in equity | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 3 | -8 | 0 |
| Purchases | 0 | 21 | 0 | 140 | 9 | 0 | 1 | 0 | 7 | 121 | 0 | 0 |
| Disposals | 0 | -14 | 0 | -135 | -6 | 0 | 0 | 0 | -60 | -32 | 0 | 0 |
| Settlements | 0 | 0 | 0 | 0 | -1 838 | 0 | 0 | 0 | 2 | 0 | -1 | 0 |
| Transfers into level 3 | 2 | 902 | 0 | 479 | 116 | 28 | 0 | 0 | 43 | 100 | 335 | 0 |
| Transfers out of level 3 | 0 | 0 | 0 | 0 | -28 | 0 | 0 | 0 | 0 | -109 | 0 | 0 |
| Transfers into/out of non-current assets held for sale | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Translation differences | 0 | -8 | 0 | 8 | 341 | 0 | 0 | 0 | 2 | 0 | 0 | 0 |
| Changes in the scope of consolidation | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 46 | 0 | 0 | 0 |
| Closing balance | 10 | 993 | 0 | 614 | 2 073 | 26 | 1 | 0 | 373 | 398 | 497 | 0 |
| Total gains (positive figures) or losses (negative figures) included in profit or loss for assets held at the end of the reporting period | 8 | 20 | 0 | 117 | -848 | 0 | 0 | 0 | 84 | -3 | 0 | 0 |

**Level 3 financial liabilities**

| | Held for trading | | | | | | Designated at fair value | | | | Hedging derivatives |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Deposits from credit institutions | Deposits from customers and debt certificates | Liabilities under investment contracts | Derivatives | Short positions | Other | Deposits from credit institutions | Deposits from customers and debt certificates | Liabilities under investment contracts | Other | Derivatives |
| Opening balance | 0 | 105 | 0 | 5 579 | 20 | 0 | 0 | 3 414 | 0 | 168 | 0 |
| Gains or losses | 0 | -89 | 0 | -1 439 | 0 | 0 | 0 | -149 | 0 | -23 | 0 |
| in profit or loss* | 0 | -89 | 0 | -1 439 | 0 | 0 | 0 | -149 | 0 | 23 | 0 |
| in equity | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Issues | 0 | 0 | 0 | 16 | 0 | 0 | 0 | 630 | 0 | 0 | 0 |
| Repurchases | 0 | -1 | 0 | -533 | -22 | 0 | 0 | -105 | 0 | 0 | 0 |
| Transfers into level 3 | 28 | 0 | 0 | 2 496 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfers out of level 3 | 0 | 0 | 0 | -45 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfers out of/into liabilities associated with disposal groups | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Translation differences | -7 | 9 | 0 | 331 | 2 | 0 | 0 | 17 | 0 | 0 | 0 |
| Changes in the scope of consolidation | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Closing balance | 21 | 24 | 0 | 6 406 | 0 | 0 | 0 | 3 806 | 0 | 145 | 0 |
| Total gains (negative figures) or losses (positive figures) included in profit or loss for liabilities held at the end of the reporting period | 0 | -89 | 0 | -1 134 | 0 | 0 | 0 | -2 | 0 | 0 | 0 |

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

- The procedure for classifying financial instruments in the fair value hierarchy was fine-tuned in 2010, based on the activity of the market (availability and frequency of price quotations and transactions, availability of bid and offer sizes, and stale prices) and the observability of the underlying inputs. This exercise, combined with a change in the observability of inputs in 2010, resulted in the following reclassifications:
  - Illiquid asset back securities (ABS), bonds and credit default swaps (CDS) – whose respective markets are inactive – were transferred out of level 2 and into level 3. Highly liquid asset backed securities and bonds for which quoted prices are available on a daily basis were transferred out of level 2 and into level 1. Asset backed securities, bonds and credit default swaps that are based, for example, on indicative prices whose reliability has been corroborated using observable alternative market data (e.g., alternative prices, spread analyses) were kept in level 2. All transfers out of level 2 and into levels 1 and 3 were caused chiefly by the fine-tuning of the classification procedure.
- Since 2009, KBC has been using a Gaussian Copula Mixture model to value its CDOs. This model models the distribution of default moments and probabilities of the underlying corporate and ABS names. The asset default trigger in the model is derived from the credit default spreads in the market. The correlation between defaults is modelled through Gaussian Copulas and is, therefore, simulated. By discounting the cashflows resulting from the default curves, the value for a specific CDO tranche is determined. The model also ensures that the inner tranches are valued in line with the market, through the calibration with CDX and iTraxx credit spread indices.
- The CDO notes are valued at the lower of: (1) the value of the CDO notes based on the Gaussian Copula Mixture model (after market value adjustments for illiquidity) and (2) the expected fundamental value (after market value adjustments for illiquidity) of the CDO notes at year-end. This valuation method was used to reflect a reserve for model risk relating to unobservable inputs.
- Results of profit/loss sensitivity tests on the current model for CDOs originated by KBC Financial Products, in which credit spreads of the underlying assets are shifted, are given in the table below. Correlation changes have not been included. The tests take into account the full guarantee agreement with the Belgian State (see below) and a counterparty value adjustment of 70% for MBIA. The scope includes all exposure in the unhedged and hedged CDO portfolio, excluding CDOs in run-off (not structured by KBC Financial Products), super senior tranches of CDOs hedged by Channel, Aldersgate (matured), Avebury and Wadsworth (valuation based on Residential Mortgage Loss model rather than on Gaussian Copula Mixture model).

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

| | Spreads -50% | Spreads -20% | Spreads -10% | Spreads +10% | Spreads +20% | Spreads +50% |
|---|---|---|---|---|---|---|
| 31-12-2009 | 1.1 | 0.4 | 0.2 | -0.2 | -0.3 | -0.7 |
| 31-12-2010 | 0.9 | 0.3 | 0.2 | -0.1 | -0.3 | -0.6 |

- The above profit/loss sensitivity test does not take account of correlation changes. Given that correlation (of both the inner and outer tranches) is an important input in the Gaussian Copula Mixture model, a test was also carried out to calculate the combined impact of changes in the current valuation model's correlation and credit spread inputs on CDOs issued by KBC Financial Products. This test takes into account the full guarantee agreement with the Belgian State (see below) and a counterparty value adjustment of 70% for MBIA. The scope includes the entire CDO portfolio (hedged and unhedged), excluding CDOs in run-off (not structured by KBC Financial Products), Aldersgate (matured), Chiswell and Lancaster (valuation based on Single Tranche model rather than on the Gaussian Copula Mixture model). A widening of 50% in the credit spreads combined with an increase in correlation would lead to an additional loss of 0.4 billion euros, whereas a narrowing of 50% and a decrease in correlation would result in an additional gain of 0.7 billion euros.
- The next table depicts the results of the profit/loss sensitivity analyses performed on a counterparty value adjustment for MBIA in which not only the credit spreads of the underlying assets of the CDOs issued by KBC Financial Products change, but also the counterparty value adjustment for MBIA. The adjustment is currently 70%.

**Profit/loss sensivity analysis based on corporate and ABS credit spread indices and on changes in the counterparty value adjustment for MBIA, 31-12-2010** (in billions of EUR)*

| | Spreads -50% | Spreads -20% | Spreads -10% | Spreads +10% | Spreads +20% | Spreads +50% |
|---|---|---|---|---|---|---|
| MBIA 60% | 0.9 | 0.4 | 0.3 | 0.1 | 0.0 | -0.3 |
| MBIA 70% | 0.4 | 0.2 | 0.1 | -0.1 | -0.1 | -0.3 |
| MBIA 80% | 0.3 | 0.0 | -0.1 | -0.3 | -0.3 | -0.5 |
| MBIA 90% | 0.2 | -0.1 | -0.2 | -0.4 | -0.5 | -0.7 |
| MBIA 100% | 0.1 | -0.3 | -0.4 | -0.6 | -0.7 | -1.0 |

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

- Since the liquidity discount factor is an important input for calculating the current reserve for fund derivatives, a profit/loss sensitivity analysis was carried out for this purpose (on positions at 15 February 2011). The current liquidity discount factor is 20%. If this factor was to fall to 15%, 0.02 billion euros would have to be released from the current reserve (with a positive impact on results). If it were to increase to 25%, an additional reserve of 0.01 billion euros would have to be set aside (adversely affecting results).
- For more information on the structured credit portfolio (CDOs and other ABS), see the 'Value and risk management' section.
- Information on the guarantee agreement with the Belgian State to cover CDO exposure is provided in the 'Additional information' section. The fair value of the equity guarantee with the Belgian State (and the corresponding commitment fee) is measured using a level 3 model that reflects, among other things, movements in KBC's subordinated credit default swap spread and in the fair value of the hedged super senior exposure since the guarantee agreement entered into effect. If the fair value of the super senior positions was to improve by 10% on its year-end 2009 and year-end 2010 levels, this would lead to an additional charge of 11 million euros and 5 million euros, respectively, while the same improvement in KBC's subordinated credit spread would lead to an additional charge of 8 million euros in both cases.
- Changes in own credit risk are also largely determined using a level 3 technique (see Note 27).

## Note 27: Changes in own credit risk

| (in millions of EUR) ((+) profit (-) loss; amounts before tax) | |
|---|---|
| **Own debt issues designated at fair value, 31-12-2009** | |
| Impact of change in own credit spreads on the income statement | 44 |
| Total cumulative impact at balance sheet date | 204 |
| **Own debt issues designated at fair value, 31-12-2010** | |
| Impact of change in own credit spreads on the income statement | 53 |
| Total cumulative impact at balance sheet date | 258 |

- The fair value of financial liabilities designated at fair value through profit or loss takes account of own credit risk. Most of the financial liabilities designated at fair value through profit or loss relates to IFIMA issues.
  The own credit risk of KBC IFIMA issues designated at fair value through profit or loss is measured using KBC's own funding spread. Taking into account this own credit risk, the total fair value of KBC IFIMA issues designated at fair value through profit or loss amounted to some 3.8 billion euros on 31 December 2010. The results of sensitivity tests – in which the funding spread is shifted – on the total fair value of KBC IFIMA issues at year-end 2010 is given in the table below.

**Profit/loss sensitivity based on a relative shift in the funding spread**
(in billions of EUR), 31-12-2010

| Spreads -50% | Spreads -20% | Spreads -10% | Spreads +10% | Spreads +20% | Spreads +50% |
|---|---|---|---|---|---|
| -0.2 | -0.07 | -0.04 | +0.04 | +0.07 | +0.2 |

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

## Note 28: Reclassification of financial assets and liabilities

**Financial assets reclassified out of 'available for sale' to 'loans and receivables' on 31-12-2008** (in millions of EUR) – situation at 31-12-2010

| | | | |
|---|---|---|---|
| Carrying value | | | 2 746 |
| Fair value | | | 2 776 |
| | **If not reclassified (available for sale)** | **After reclassification (loans and receivables)** | **Impact** |
| Impact on the revaluation reserve (available-for-sale assets), before tax | -479 | -519 | -40 |
| Impact on the income statement, before tax | -18 | -62 | -44 |

- In October 2008, the International Accounting Standards Board (IASB) issued amendments to IAS 39 and IFRS 7 under 'Reclassification of financial assets'. These amendments were endorsed by the European Union on 15 October 2008. Following the implementation of these amendments, the KBC group reclassified a number of assets out of the 'available for sale' category to the 'loans and receivables' category because they had become less liquid. On the date of reclassification, the assets in question met the definition of loans and receivables, and the group has the intention and ability to hold these assets for the foreseeable future or until maturity. KBC reclassified these assets on 31 December 2008.
- The reclassification had a negative impact of 40 million euros on equity (and a positive impact on retained earnings regarding the income statement for 2009) and a negative impact of 44 million euros on the income statement (besides specific impairment, 8 million euros was also set aside for portfolio-based impairment on loans and receivables). On the reclassification date (31 December 2008), the estimated recoverable amount of these assets came to 5 billion euros and the effective interest rate varied between 5.88% and 16.77%.

## Note 29: Derivatives

| | Held for trading | | | | Micro hedging: fair value hedge | | | | Micro hedging: cashflow hedge* | | | | Portfolio hedge of interest rate risk | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Carrying value | | Notional amount | | Carrying value | | Notional amount | | Carrying value | | Notional amount | | Carrying value | | Notional amount | |
| (in millions of EUR) | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities |
| **31-12-2009** | | | | | | | | | | | | | | | | |
| **Total** | **20 995** | **26 304** | **917 155** | **905 786** | **43** | **187** | **4 371** | **4 340** | **119** | **434** | **18 773** | **18 757** | **3** | **261** | **8 181** | **8 181** |
| **Breakdown by type** | | | | | | | | | | | | | | | | |
| Interest rate contracts | 11 136 | 13 154 | 567 887 | 568 046 | 43 | 186 | 4 356 | 4 323 | 72 | 425 | 18 287 | 18 287 | 3 | 260 | 8 176 | 8 176 |
| Interest rate swaps | 10 322 | 12 675 | 503 165 | 503 832 | 43 | 186 | 4 356 | 4 323 | 72 | 425 | 18 287 | 18 287 | 3 | 260 | 8 176 | 8 176 |
| Forward rate agreements | 15 | 14 | 9 636 | 9 715 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Futures | 13 | 4 | 10 845 | 7 427 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Options | 786 | 459 | 44 236 | 47 056 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Forwards | 0 | 2 | 5 | 15 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Foreign exchange contracts | 1 568 | 1 627 | 182 225 | 184 935 | 0 | 1 | 7 | 8 | 47 | 8 | 486 | 470 | 0 | 0 | 0 | 0 |
| Forward foreign exchange operations/currency forwards | 274 | 313 | 83 409 | 85 226 | 0 | 0 | 0 | 0 | 0 | 2 | 30 | 32 | 0 | 0 | 0 | 0 |
| Currency and interest rate swaps | 1 047 | 1 166 | 82 202 | 83 229 | 0 | 1 | 7 | 8 | 47 | 3 | 266 | 224 | 0 | 0 | 0 | 0 |
| Futures | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Options | 248 | 148 | 16 613 | 16 481 | 0 | 0 | 0 | 0 | 1 | 4 | 190 | 214 | 0 | 0 | 0 | 0 |
| Equity contracts | 3 132 | 3 807 | 35 838 | 44 464 | 0 | 0 | 9 | 9 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Equity swaps | 1 381 | 951 | 24 095 | 24 118 | 0 | 0 | 9 | 9 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Forwards | 14 | 1 | 26 | 7 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Futures | 11 | 15 | 764 | 901 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Options | 1 722 | 2 811 | 10 945 | 16 866 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Warrants | 5 | 28 | 7 | 2 573 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Credit contracts | 5 108 | 7 687 | 130 975 | 108 110 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Credit default swaps | 5 108 | 7 687 | 130 975 | 108 110 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Credit spread options | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total return swaps | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Commodity and other contracts | 50 | 28 | 231 | 231 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 5 | 5 |

* Including hedges of net investments in foreign operations.

| | Held for trading | | | | Micro hedging: fair value hedge | | | | Micro hedging: cashflow hedge* | | | | Portfolio hedge of interest rate risk | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Carrying value | | Notional amount | | Carrying value | | Notional amount | | Carrying value | | Notional amount | | Carrying value | | Notional amount | |
| (in millions of EUR) | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities |
| **31-12-2010** | | | | | | | | | | | | | | | | |
| **Total** | **15 758** | **22 317** | **702 353** | **710 423** | **30** | **101** | **4 466** | **4 466** | **178** | **529** | **19 938** | **19 907** | **5** | **218** | **5 457** | **5 457** |
| **Breakdown by type** | | | | | | | | | | | | | | | | |
| Interest rate contracts | 8 788 | 10 436 | 431 187 | 440 724 | 30 | 101 | 4 466 | 4 466 | 132 | 523 | 19 519 | 19 519 | 5 | 218 | 5 457 | 5 457 |
| Interest rate swaps | 7 734 | 9 894 | 373 901 | 371 458 | 30 | 101 | 4 466 | 4 466 | 132 | 523 | 19 519 | 19 519 | 5 | 218 | 5 457 | 5 457 |
| Forward rate agreements | 4 | 3 | 6 207 | 13 266 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Futures | 12 | 0 | 6 558 | 8 000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Options | 1 038 | 510 | 44 511 | 47 739 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Forwards | 0 | 29 | 10 | 262 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Foreign exchange contracts | 1 566 | 1 829 | 198 541 | 199 112 | 0 | 0 | 0 | 0 | 46 | 6 | 418 | 387 | 0 | 0 | 0 | 0 |
| Forward foreign exchange operations/currency forwards | 191 | 267 | 100 451 | 99 908 | 0 | 0 | 0 | 0 | 0 | 1 | 34 | 34 | 0 | 0 | 0 | 0 |
| Currency and interest rate swaps | 1 144 | 1 329 | 74 560 | 75 623 | 0 | 0 | 0 | 0 | 46 | 5 | 304 | 262 | 0 | 0 | 0 | 0 |
| Futures | 0 | 0 | 17 | 17 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Options | 231 | 233 | 23 514 | 23 565 | 0 | 0 | 0 | 0 | 0 | 1 | 81 | 91 | 0 | 0 | 0 | 0 |
| Equity contracts | 2 155 | 2 760 | 29 436 | 36 162 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Equity swaps | 1 109 | 950 | 22 216 | 22 217 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Forwards | 9 | 1 | 13 | 4 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Futures | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Options | 1 030 | 1 781 | 7 200 | 9 837 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Warrants | 6 | 28 | 6 | 4 104 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Credit contracts | 3 201 | 7 256 | 42 622 | 33 859 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Credit default swaps | 3 134 | 7 256 | 41 817 | 33 053 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Credit spread options | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total return swaps | 67 | 0 | 806 | 806 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Commodity and other contracts | 47 | 35 | 567 | 567 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

* Including hedges of net investments in foreign operations.

- The carrying values given in the tables are dirty prices for derivatives held for trading and clean prices for hedging derivatives. The accrued interest income on hedging derivatives amounted to 48 million euros in 2009 and 73 million euros in 2010, while the accrued interest expense came to 205 million euros in 2009 and 276 million euros in 2010.
- The notional amounts (and the carrying values) exclude KBL EFP (see IFRS 5) in 2010. For additional information, see Note 46.
- One way in which the group's ALM department manages the interest rate risk is to conclude derivatives contracts. The accounting mismatches attributable to these hedging activities (derivatives as opposed to assets or liabilities) are dealt with in two ways:
  - Portfolio hedges of interest rate risk: used to hedge the interest rate risk on a particular loan portfolio (term loans, home loans, instalment loans and straight loans) with interest rate swaps. The hedge is set up in accordance with the requirements of the carved-out version of IAS 39.
  - Financial assets and liabilities designated at fair value through profit or loss (the fair value option): used to eliminate or significantly reduce a measurement or recognition inconsistency ('an accounting mismatch' that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases). This method is used specifically to avoid the remaining accounting mismatches relating to the loan portfolio (measured at amortised cost) and the interest rate swaps (measured at fair value) in ALM. For this purpose, a (government) bond portfolio has been classified as a financial asset at fair value through profit or loss. The fair value option is also used for CDOs and certain financial liabilities with embedded derivatives whose economic risk and characteristics are closely related to those of the host contract (some KBC IFIMA issues), which would otherwise give rise to an accounting mismatch with the hedging instruments.
- In addition, KBC uses micro-hedge accounting permitted under IAS 39 to limit the volatility of results in the following cases:
  - Fair value hedges: used in certain asset-swap constructions, where KBC buys a bond on account of the credit spread. The interest rate risk of the bond is hedged by means of an interest rate swap. This technique is also applied to certain fixed-term debt instruments issued by KBC Bank.
  - Cashflow hedges: used primarily to swap floating-rate notes for a fixed rate.
  - Hedges of net investments in foreign operations: the exchange risk attached to foreign-currency investments is hedged by attracting funding in the currency concerned at the level of the investing entity.
- Usually one of the micro-hedging techniques that must be documented individually is used for large individual transactions that can clearly be separated out. For the purposes of ALM, which by definition is macro-management, use is made of the possibilities specifically provided for under IAS 39, namely the 'fair value option' and the 'portfolio hedge of interest rate risk' according to the carved-out version.
- As regards the relationship between risk management and hedge accounting policy, 'economic' management is given priority and the risks have to be hedged in accordance with the general ALM framework. It is then decided what the most efficient option is for limiting (any) resulting accounting mismatch using one of the above hedging techniques.
- For information on fair value adjustments in hedge accounting, see Note 5.
- The estimated cashflows from the cashflow hedging derivatives per time bucket break down is given in the table.

| **Estimated cashflows from the cashflow hedging derivatives** (in millions of EUR) | **Inflow** | **Outflow** |
|---|---|---|
| Not more than three months | 24 | -30 |
| More than three but not more than six months | 53 | -72 |
| More than six months but not more than one year | 109 | -183 |
| More than one but not more than two years | 255 | -437 |
| More than two but not more than five years | 790 | -1 040 |
| More than five years | 2 413 | -2 633 |

## Notes on other balance sheet items

As already mentioned, all reference figures in the income statement have been restated to reflect the application of IFRS 5 to the agreement entered into in May 2010 to sell KBL EPB. However, as permitted under IFRS, the reference figures have not been restated in the balance sheet. It was announced in mid-March 2011 that the sale of KBL EPB to the Hinduja Group will not go ahead (for more information, see Note 48).

### Note 30: Other assets

| (in millions of EUR) | 31-12-2009 | 31-12-2010 |
|---|---|---|
| **Total** | **2 597** | **2 172** |
| Debtors arising out of primary insurance operations | 282 | 293 |
| Debtors arising out of reinsurance operations | 90 | 22 |
| Other debtors and called capital as yet unpaid | 0 | 0 |
| Deposits with ceding companies | 103 | 13 |
| Income receivable (other than interest income from financial assets) | 720 | 1 033 |
| Other | 1 402 | 811 |

### Note 31: Tax assets and tax liabilities

| (in millions of EUR) | 31-12-2009 | 31-12-2010 |
|---|---|---|
| **CURRENT TAXES** | | |
| Current tax assets | 367 | 167 |
| Current tax liabilities | 379 | 345 |
| **DEFERRED TAXES** | **1 706** | **2 243** |
| Deferred tax assets by type of temporary difference | 3 684 | 3 678 |
| Employee benefits | 222 | 230 |
| Losses carried forward | 828 | 960 |
| Tangible and intangible fixed assets | 84 | 83 |
| Provisions for risks and charges | 56 | 71 |
| Impairment for losses on loans and advances | 330 | 448 |
| Financial instruments at fair value through profit or loss and fair value hedges | 1 160 | 859 |
| Fair value changes, available-for-sale assets, cashflow hedges and hedges of net investments in foreign operations | 796 | 884 |
| Technical provisions | 82 | 62 |
| Other | 125 | 81 |
| Unused tax losses and unused tax credits | 1 358 | 980 |
| Deferred tax liabilities by type of temporary difference | 1 978 | 1 435 |
| Employee benefits | 42 | 33 |
| Losses carried forward | 0 | 0 |
| Tangible and intangible fixed assets | 127 | 128 |
| Provisions for risks and charges | 49 | 41 |
| Impairment for losses on loans and advances | 120 | 110 |
| Financial instruments at fair value through profit or loss and fair value hedges | 717 | 558 |
| Fair value changes, available-for-sale assets, cashflow hedges and hedges of net investments in foreign operations | 645 | 357 |
| Technical provisions | 101 | 27 |
| Other | 176 | 180 |
| Recognised in the balance sheet as follows: | | |
| Deferred tax assets | 1 847 | 2 367 |
| Deferred tax liabilities | 140 | 123 |

- Unused tax losses and unused tax credits concern tax losses of group companies which are not capitalised due to insufficient proof of future taxable profit. Most unused tax losses and unused tax credits can be carried forward for 20 years or more.
- In 2010, the Belgian tax authorities decided that a waiver of intercompany debt, related to losses on a CDO portfolio incurred in the past year, was tax deductible, provided certain conditions were met. In practice, this meant that KBC was able to recognise deferred tax income of 0.4 billion euros in the second quarter of 2010.
- Deferred tax assets relating to tax losses carried forward are justified by the fact that – based on macroeconomic forecasts and the use of conservative scenarios – enough taxable profit will be available in the quite near future.
- The net change in deferred taxes (+537 million euros) breaks down as follows:
  - decrease in deferred tax assets: -6 million euros;
  - decrease in deferred tax liabilities: -543 million euros.
- The decrease in deferred tax assets is accounted for by:
  - the increase via the income statement: +292 million euros (due primarily to losses carried forward – account taken of the company model for the recoverable period – (+186 million euros); impairment relating to losses on loans and advances (+118 million euros); financial instruments at fair value through profit or loss and fair value hedges (-12 million euros));
  - the increase in deferred tax assets consequent on the fall in the market value of cashflow hedges: +59 million euros;
  - other items: -357 million euros (accounted for chiefly by changes in the scope of consolidation and a reclassification between deferred tax assets and deferred tax liabilities).
- The decrease in deferred tax liabilities is made up of the following:
  - the decrease in deferred tax liabilities consequent on the fall in the market value of available-for-sale securities: -209 million euros;
  - the increase via the income statement: +16 million euros (owing primarily to financial instruments at fair value through profit or loss

and fair value hedges (+89 million euros); a drop in deferred tax liabilities on technical provisions (-94 million euros); and provisions for risks and charges (+12 million euros));

- other items: -350 million euros (accounted for chiefly by changes in the scope of consolidation and a reclassification between deferred tax assets and deferred tax liabilities).

## Note 32: Investments in associated companies

| (in millions of EUR) | 31-12-2009 | 31-12-2010 |
|---|---|---|
| **Total** | **608** | **496** |
| Overview of investments, including goodwill | | |
| Nova Ljubljanska banka | 582 | 488 |
| Other | 26 | 8 |
| Goodwill on associated companies | | |
| Gross amount | 210 | 210 |
| Accumulated impairment | 0 | -31 |
| Breakdown by type | | |
| Unlisted | 608 | 496 |
| Listed | 0 | 0 |
| Fair value of investments in listed associated companies | 0 | 0 |
| **MOVEMENTS TABLE** | **2009** | **2010** |
| Opening balance (1 January) | 27 | 608 |
| Acquisitions | 0 | 0 |
| Carrying value, transfers | 0 | 0 |
| Share in the result for the period | -22 | -63 |
| Dividends paid | -5 | -1 |
| Share of gains and losses not recognised in the income statement | 9 | 1 |
| Translation differences | 0 | 0 |
| Changes in goodwill | 0 | -31 |
| Transfers to or from non-current assets held for sale and disposal groups | 601 | -15 |
| Other movements | -2 | -3 |
| Closing balance (31 December) | 608 | 496 |

- Associated companies are companies on whose management KBC exerts significant influence, without having direct or indirect full or joint control. In general, KBC has a 20% to 50% shareholding in such companies.
- Associated companies relate primarily to Nova Ljubljanska banka (group), which has the following key figures (taken from the latest available annual report – 2009): total assets of 19.6 billion euros, total liabilities of 18.4 billion euros, total income of 0.6 billion euros and a result after tax (group share) of -0.1 billion euros.
- Goodwill paid on associated companies is included in the nominal value of 'Investments in associated companies' shown on the balance sheet. An impairment test has been performed and the necessary impairment losses on goodwill have been recognised (see table). In 2010, impairment on goodwill related to Nova Ljubljanska banka (also see Note 14).

## Note 33: Property and equipment and investment property

| (in millions of EUR) | 31-12-2009 | 31-12-2010 |
|---|---|---|
| **Property and equipment** | **2 890** | **2 693** |
| **Investment property** | **762** | **704** |
| Rental income | 70 | 60 |
| Direct operating expenses from investments generating rental income | 18 | 15 |
| Direct operating expenses from investments not generating rental income | 2 | 5 |

| MOVEMENTS TABLE | Land and buildings | IT equipment | Other equipment | Total property and equipment | Investment property |
|---|---|---|---|---|---|
| **2009** | | | | | |
| Opening balance | 1 732 | 182 | 1 051 | 2 964 | 689 |
| Acquisitions | 90 | 82 | 378 | 550 | 31 |
| Disposals | -23 | -5 | -176 | -205 | -11 |
| Depreciation | -92 | -89 | -65 | -246 | -24 |
| Impairment | | | | | |
| Recognised | -1 | -2 | 0 | -3 | -6 |
| Reversed | 0 | 0 | 0 | 0 | 2 |
| Transfers to or from non-current assets held for sale and disposal groups | -1 | 0 | -9 | -9 | 0 |
| Translation differences | 8 | 0 | 1 | 9 | 1 |
| Changes in the scope of consolidation | -1 | 0 | -6 | -7 | 70 |
| Other movements | 0 | 8 | -170 | -163 | 11 |
| Closing balance | 1 712 | 176 | 1 003 | 2 890 | 762 |
| of which accumulated depreciation and impairment | 1 072 | 617 | 247 | 1 937 | 189 |
| of which expenditure on items in the course of construction | 16 | 1 | 7 | 24 | – |
| of which finance lease as a lessee | 0 | 0 | 1 | 1 | – |
| Fair value 31-12-2009 | – | – | – | – | 886 |
| **2010** | | | | | |
| Opening balance | 1 712 | 176 | 1 003 | 2 890 | 762 |
| Acquisitions | 110 | 110 | 331 | 550 | 19 |
| Disposals | -19 | -19 | -148 | -186 | -12 |
| Depreciation | -82 | -89 | -52 | -223 | -24 |
| Impairment | | | | | |
| Recognised | -3 | 0 | -1 | -4 | -1 |
| Reversed | 2 | 0 | 0 | 2 | 0 |
| Transfers to or from non-current assets held for sale and disposal groups | -158 | -16 | -30 | -204 | -39 |
| Translation differences | 23 | 2 | 8 | 32 | 4 |
| Changes in the scope of consolidation | -3 | 0 | -6 | -10 | -5 |
| Other movements | -3 | -2 | -150 | -154 | 1 |
| Closing balance | 1 579 | 160 | 954 | 2 693 | 704 |
| of which accumulated depreciation and impairment | 1 031 | 615 | 728 | 2 374 | 196 |
| of which expenditure on items in the course of construction | 45 | 0 | 6 | 52 | – |
| of which finance lease as a lessee | 0 | 0 | 1 | 1 | – |
| Fair value 31-12-2010 | – | – | – | – | 862 |

- KBC applies the following annual rates of depreciation to property, equipment and investment property: mainly 3% for buildings (including investment property), 33% for IT equipment, between 10% and 33% for other equipment. No depreciation is charged for land.
- There are no material obligations to acquire property or equipment. Nor are there any material restrictions on title, and property and equipment pledged as security for liabilities.
- Most investment property is valued by an independent expert on a regular basis and by in-house specialists on an annual basis, based primarily on:
  - the capitalisation of the estimated rental value;
  - unit prices of similar real property, with account being taken of all the market inputs available on the date of the assessment (including location and market situation, type of building and construction, state of repair, use, etc.).
- Certain other investment property is valued annually by in-house specialists based on:
  - the current annual rental per building;
  - an individual capitalisation rate per building.

## Note 34: Goodwill and other intangible assets

| (in millions of EUR) | Goodwill | Software developed in-house | Software developed externally | Other | Total |
|---|---|---|---|---|---|
| **2009** | | | | | |
| Opening balance | 3 479 | 183 | 149 | 55 | 3 866 |
| Acquisitions | 39 | 76 | 79 | 14 | 208 |
| Disposals | 0 | -4 | -2 | -19 | -25 |
| Adjustment resulting from subsequent identification | 0 | 0 | 0 | 0 | 0 |
| Amortisation | 0 | -55 | -63 | -15 | -132 |
| Impairment | | | | | |
| Recognised | -509 | 0 | 0 | 0 | -509 |
| Reversed | 0 | 0 | 0 | 0 | 0 |
| Transfers to or from non-current assets held for sale and disposal groups | 0 | 0 | 0 | 0 | 0 |
| Translation differences | -16 | 0 | 0 | 1 | -16 |
| Changes in the scope of consolidation | -72 | 0 | 0 | 0 | -72 |
| Other movements | -4 | 0 | -8 | 6 | -5 |
| Closing balance | 2 918 | 201 | 155 | 42 | 3 316 |
| of which accumulated depreciation and impairment | 546 | 268 | 620 | 71 | 1 505 |
| **2010** | | | | | |
| Opening balance | 2 918 | 201 | 155 | 42 | 3 316 |
| Acquisitions | 11 | 58 | 79 | 19 | 167 |
| Disposals | 0 | 0 | -27 | -9 | -36 |
| Adjustment resulting from subsequent identification | 0 | 0 | 0 | 0 | 0 |
| Amortisation | 0 | -41 | -62 | -11 | -115 |
| Impairment | | | | | |
| Recognised | -88 | 0 | 0 | 0 | -88 |
| Reversed | 0 | 0 | 0 | 0 | 0 |
| Transfers to or from non-current assets held for sale and disposal groups | -994 | -10 | -5 | -1 | -1 009 |
| Translation differences | 28 | 0 | 2 | 1 | 30 |
| Changes in the scope of consolidation | -20 | 0 | 0 | 0 | -20 |
| Other movements | 6 | 1 | -2 | 6 | 11 |
| Closing balance | 1 861 | 208 | 140 | 47 | 2 256 |
| of which accumulated depreciation and impairment | 634 | 299 | 586 | 74 | 1 594 |

- 'Goodwill' includes the goodwill paid on companies included in the scope of consolidation and relating to the acquisition of activities. Goodwill paid on associated companies is included in the nominal value of 'Investments in associated companies' shown on the balance sheet. An impairment test has been performed and the necessary impairment losses on goodwill have been recognised (see table). Given the volatility of the markets, the test was carried out in each quarter of 2009 and 2010 (instead of annually).
- Impairment on goodwill under IAS 36 is recognised in profit or loss if the recoverable amount of an investment is lower than its carrying value. The recoverable amount is defined as the higher of the value in use (calculated based on discounted cashflow analysis) and the fair value (calculated based on multiple analysis, regression analysis, etc.) less costs to sell.
- The discounted cashflow method calculates the recoverable amount of an investment as the present value of all future free cashflows of the business. This method is based on long-term projections about the company's business and the resulting cashflows (i.e. projections for a number of years ahead (varying from 5 to 20), and the terminal value of the business at the end of the specific projection period). The terminal growth rate is determined using a long-term average market growth rate. The present value of these future cashflows is calculated using a compound discount rate, which is based on the Capital Asset Pricing Model (CAPM). A risk-free rate, a market-risk premium (multiplied by an activity beta), and a country risk premium (to reflect the impact of the economic situation of the country where KBC is active) are also used in the calculation. KBC has developed two distinct discounted cashflow models, viz. a bank model and an insurance model. Free cashflows in both cases are the dividends that can be paid out to the company's shareholders, account taken of the minimum capital requirements.
- The multiple-analysis method calculates the recoverable amount of an investment relative to the value of comparable companies. The value is determined on the basis of relevant ratios between the value of the comparable company and the carrying value, or profit, for instance, of that company. For the purposes of comparison, account is taken of listed companies (where value is equated to market capitalisation) and of companies involved in mergers or acquisitions (where the value is equated to the sales price).
- The regression analysis method calculates the recoverable amount of an investment using a regression analysis of comparable listed companies. For banks, account is taken primarily of the relationship between market capitalisation, net asset value and profitability. Statistical analysis has shown that a strong correlation exists between these parameters. It is assumed that a company with a comparable net asset value and comparable profitability is comparable in value.

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

| Goodwill outstanding (in millions of EUR) | **31-12-2009** | **31-12-2010** |
|---|---|---|
| KBL EPB | 994 | * |
| Absolut Bank | 356 | 379 |
| K&H Bank | 255 | 248 |
| ČSOB (Czech Republic) | 253 | 267 |
| ČSOB (Slovak Republic) | 191 | 191 |
| CIBANK | 171 | 170 |
| Warta | 156 | 159 |
| DZI Insurance | 144 | 145 |
| Kredyt Bank | 72 | 69 |
| Rest | 326 | 233 |
| Total | 2 918 | 1 861 |

* KBL EPB qualifies as a 'discontinued operation' (IFRS 5). It was announced in mid-March 2011 that the sale of KBL EPB to the Hinduja Group will not go ahead (for more information, see Note 48).

## Note 35: Technical provisions, insurance

| (in millions of EUR) | 31-12-2009 | 31-12-2010 |
|---|---|---|
| **Technical provisions (before reinsurance) (i.e. gross figures)** | **22 012** | **23 255** |
| Insurance contracts | 10 244 | 10 425 |
| Provisions for unearned premiums and unexpired risk | 504 | 532 |
| Life insurance provision | 5 493 | 6 580 |
| Provision for claims outstanding | 3 770 | 3 095 |
| Provision for profit sharing and rebates | 29 | 32 |
| Other technical provisions | 449 | 186 |
| Investment contracts with DPF | 11 768 | 12 830 |
| Life insurance provision | 11 715 | 12 768 |
| Non-life insurance provision | 0 | 0 |
| Provision for profit sharing and rebates | 53 | 62 |
| **Reinsurers' share** | **284** | **280** |
| Insurance contracts | 284 | 280 |
| Provisions for unearned premiums and unexpired risk | 15 | 20 |
| Life insurance provision | 7 | 3 |
| Provision for claims outstanding | 262 | 257 |
| Provision for profit sharing and rebates | 0 | 0 |
| Other technical provisions | 0 | 0 |
| Investment contracts with DPF | 0 | 0 |
| Life insurance provision | 0 | 0 |
| Non-life insurance provision | 0 | 0 |
| Provision for profit sharing and rebates | 0 | 0 |

| MOVEMENTS TABLE | 2009 Gross | 2009 Reinsurance | 2010 Gross | 2010 Reinsurance |
|---|---|---|---|---|
| **INSURANCE CONTRACTS, LIFE** | | | | |
| Opening balance | 5 547 | 17 | 5 904 | 16 |
| Net payments received/premiums receivable | 731 | 0 | 980 | 0 |
| Gross payments made | -362 | 0 | -524 | 0 |
| (Theoretical) risk premiums | -147 | 0 | -161 | 0 |
| Accretion of interest | 145 | 0 | 185 | 0 |
| Profit share allocated | 73 | 0 | 43 | 0 |
| Purchase/sale of portfolio | 0 | 0 | -3 | 0 |
| Exchange differences | 12 | 0 | 38 | 0 |
| Transfers out of/into liabilities associated with disposal groups | 0 | 0 | -68 | 0 |
| Changes in the scope of consolidation | 0 | 0 | -71 | -14 |
| Other movements | -94 | -1 | 355 | 2 |
| Closing balance | 5 904 | 16 | 6 678 | 4 |
| **INSURANCE CONTRACTS, NON-LIFE** | | | | |
| Opening balance | 4 152 | 263 | 4 340 | 268 |
| Payments regarding claims of previous years | -453 | -24 | -402 | -27 |
| Surplus/shortfall of claims provision in previous years | -94 | 12 | -238 | -2 |
| New claims | 689 | 20 | 587 | 39 |
| Purchase/sale of portfolio | 0 | 0 | 0 | 63 |
| Transfers | 0 | 0 | 0 | 0 |
| Exchange differences | 40 | 5 | 32 | 5 |
| Transfers out of/into liabilities associated with disposal groups | 0 | 0 | 0 | 0 |
| Changes in the scope of consolidation | 0 | 0 | -726 | -81 |
| Other movements | 7 | -8 | 152 | 11 |
| Closing balance | 4 340 | 268 | 3 746 | 276 |
| **INVESTMENT CONTRACTS WITH DPF, LIFE** | | | | |
| Opening balance | 9 824 | 0 | 11 768 | 0 |
| Net payments received/premiums receivable | 1 959 | 0 | 1 492 | 0 |
| Gross payments made | -500 | 0 | -469 | 0 |
| Theoretical risk premiums | -4 | 0 | 0 | 0 |
| Accretion of interest | 492 | 0 | 407 | 0 |
| Profit share allocated | 62 | 0 | 106 | 0 |
| Purchase/sale of portfolio | 0 | 0 | 0 | 0 |
| Exchange differences | 0 | 0 | 3 | 0 |
| Transfers out of/into liabilities associated with disposal groups | 0 | 0 | -430 | 0 |
| Other movements | -67 | 0 | -47 | 0 |
| Closing balance | 11 768 | 0 | 12 830 | 0 |

- Technical provisions relate to insurance contracts and investment contracts with a discretionary participation feature (DPF).
- Liabilities under investment contracts without DPF are valued according to IAS 39 (deposit accounting). These liabilities concern mainly unit-linked contracts, which are included in financial liabilities (see Note 18).
- Life insurance provisions are calculated using various assumptions. Judgement is required when making these assumptions and the assumptions used are based on various internal and external sources of information. Because IFRS 4 refers extensively to local accounting principles for the recognition of technical provisions at present, these provisions are generally calculated using the technical parameters that were applicable at the inception of the insurance contract and are subject to liability adequacy tests. The key parameters:
  - Mortality and morbidity rates are based on standard mortality tables and adapted where necessary to reflect the group's own experience.
  - Expense assumptions are based on current expense levels and expense loadings.
  - The discount rate is generally equal to the technical interest rate (3-5%) and remains constant throughout the life of the policy, in some cases adjusted to take account of legal requirements and internal policy decisions.
- Assumptions for non-life claims provisioning are based on past claims experience (including assumptions in respect of claim numbers, claim payments, and claims handling costs), and adjusted to take account of such factors as anticipated market experience, claims inflation, and external factors such as court awards and legislation. Non-life provisions are generally not discounted except when long-term obligations and/or annuities (e.g., hospitalisation, industrial accidents) are involved.
- In 2010, there were no major changes in assumptions leading to a significant change in the valuation of insurance assets and liabilities.

## Note 36: Provisions for risks and charges

| (in millions of EUR) | Provision for restructuring | Provision for taxes and pending legal disputes | Other | Subtotal | Provisions for off-balance-sheet credit commitments | Total |
|---|---|---|---|---|---|---|
| **2009** | | | | | | |
| Opening balance | 72 | 337 | 97 | 506 | 113 | 619 |
| Movements with an impact on results | | | | | | |
| Amounts allocated | 18 | 180 | 15 | 213 | 116 | 329 |
| Amounts used | -24 | -84 | -9 | -117 | 0 | -117 |
| Unused amounts reversed | -18 | -26 | -10 | -54 | -103 | -156 |
| Transfers out of/into liabilities associated with disposal groups | 0 | 0 | 0 | 0 | 0 | 0 |
| Changes in the scope of consolidation | 0 | 0 | 0 | 0 | 0 | 0 |
| Other movements | -11 | 11 | -9 | -9 | -15 | -24 |
| Closing balance | 37 | 419 | 84 | 539 | 111 | 651 |
| **2010** | | | | | | |
| Opening balance | 37 | 419 | 84 | 539 | 111 | 651 |
| Movements with an impact on results | | | | | | |
| Amounts allocated | 25 | 37 | 11 | 73 | 119 | 192 |
| Amounts used | -20 | -79 | -6 | -106 | 0 | -106 |
| Unused amounts reversed | -1 | -10 | -5 | -16 | -104 | -119 |
| Transfers out of/into liabilities associated with disposal groups | -8 | -3 | -15 | -26 | 0 | -26 |
| Changes in the scope of consolidation | 0 | 0 | 0 | 0 | 0 | 0 |
| Other movements | -6 | 23 | 2 | 20 | -11 | 9 |
| Closing balance | 27 | 387 | 70 | 484 | 116 | 600 |

- For most of the provisions recorded, no reasonable estimate can be made of when they will be used.
- Restructuring provisions were set aside mainly for (the consolidated entity in each case, i.e. including subsidiaries) KBC Financial Products (2009: 21 million euros; 2010: 16 million euros) and the Central and Eastern European subsidiaries of KBC Bank (2009: 3 million euros in total; 2010: 5 million euros in total). Due to the application of IFRS 5, no provisions were recorded for KBL EPB (in 2009: 8 million euros).
- As regards provisions for taxes and pending legal disputes, the remaining amount of the provision for commercial disputes involving CDOs came to 0.1 billion euros at the end of 2010.
- 'Other provisions' included those set aside for miscellaneous risks and future expenditure.
- As regards the most significant legal disputes pending, claims filed against KBC group companies are – in keeping with IFRS rules – treated on the basis of an assessment of whether they will lead to an outflow of resources (i.e. 'probable outflow'; 'possible outflow'; or 'remotely probable outflow'). Provisions are set aside for 'probable outflow' cases (see 'Notes on the accounting policies'). No provisions are constituted for 'possible outflow' cases, but information is provided in the annual accounts if such cases might have a material impact on the balance sheet (i.e. when the claim could lead to a possible outflow of more than 25 million euros). All other claims ('remotely probable outflow'), of whatever magnitude, that represent a minor or no risk at all do not have to be reported. Nonetheless, for reasons of transparency, KBC also provides information on the current status of the most important cases in this category.

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

- Probable outflow:
  - In 2003, a major case of fraud at K&H Equities Hungary was uncovered. Numerous customers suffered substantial losses on their securities portfolios as a result of unauthorised speculative transactions and possible misappropriations of funds. Instructions and portfolio overviews were forged or tampered with. In August 2008, criminal sentences were handed down. An appeal is pending. Most claims have already been settled either amicably or following an arbitral decision. Appropriate provisions have been set aside for the claims still outstanding, taking into account compensation provided by an external insurer.
  - From the end of 1995 until the beginning of 1997, KBC Bank and KB Consult were involved in the transfer of cash companies. KBC Bank and/or KB Consult were joined to proceedings in a number of cases. In addition, KB Consult, together with KBC Bank and KBC Group NV, was summoned to appear in the proceedings before the Bruges court sitting in chambers, which will hold various hearings on the case during 2011. A provision of 48 million euros has been constituted to deal with the potential impact of claims for damages in this respect. The transfer of a cash company is in principle completely legitimate. Nevertheless, it later transpired that certain purchasers were acting in bad faith since they did not make any investments at all and did not file tax returns for the cash companies they had purchased. KBC Bank and KB Consult immediately took the necessary measures to preclude any further involvement with these parties.
  - In March 2000, Rebeo and Trustimmo, two subsidiaries of Almafin (a subsidiary of KBC Bank), together with four former directors of Broeckdal Vastgoedmaatschappij (a real estate company) were summoned by the Belgian Ministry of Finance to appear before the civil court in Brussels regarding non-payment of 16.7 million euros in taxes owed by Broeckdal. However, Broeckdal Vastgoedmaatschappij contested this claim and in December 2002 initiated court proceedings against the Belgian Ministry of Finance before the civil court in Antwerp. The civil case pending before the Brussels court has been suspended until final judgment has been passed in the tax-related proceedings pending before the Antwerp court. A provision of 26 million euros has been set aside to cover potential damages.

- Remotely probable outflow:
  - In the criminal proceedings that began on 3 April 2009 against eleven current and former directors and staff members of KBC Bank and KBL European Private Bankers (KBL EPB) accused of co-operation in tax evasion committed by customers of KBC Bank and KBL EPB, the Brussels criminal court ruled on 8 December 2009 that the criminal proceedings were inadmissible. The Court judged that, given the extraordinary and doubtful circumstances in which the documents submitted by the public prosecutor came into the hands of the judicial authorities, they could not be used as evidence in legal proceedings. Following a close investigation into the way in which the disputed documents were incorporated into the proceedings, the court ruled that the criminal investigation had not been carried out in a fair and impartial manner. On 10 December 2010, the Brussels Court of Appeal confirmed the initial ruling and stressed that the investigating judge had not acted impartially. The Public Prosecutor's Office has appealed this decision.
  - ČSOB (and KBC Bank in one case) is involved in a number of court cases relating to the *Agreement on Sale of Enterprise*, concluded on 19 June 2000 between Investiční a Poštovní banka (IPB) and ČSOB and to the guarantees provided in this respect by the Czech Republic and the Czech National Bank. In one of these cases, ČSOB initiated arbitration proceedings in respect of the above guarantees at the International Chamber of Commerce on 13 June 2007 against the Czech Republic concerning payment of the equivalent of 62 million euros plus interest. The Czech government had filed a counterclaim, provisionally estimated at the equivalent of 1 billion euros plus interest. On 29 December 2010, an arbitral decision was issued in which ČSOB's claim was allowed and the Czech government's counterclaim dismissed in full.

## Note 37: Other liabilities

| (in millions of EUR) | 31-12-2009 | 31-12-2010 |
|---|---|---|
| **Total** | **4 422** | **3 902** |
| **Breakdown by type** | | |
| Retirement benefit obligations or other employee benefits | 1 146 | 993 |
| Deposits from reinsurers | 95 | 93 |
| Accrued charges (other than from interest expenses on financial liabilities) | 843 | 839 |
| Other | 2 339 | 1 978 |

- For more information on retirement benefit obligations, see Note 38.

## Note 38: Retirement benefit obligations

| (in millions of EUR) | 31-12-2009 | 31-12-2010 |
|---|---|---|
| **DEFINED BENEFIT PLANS** | | |
| **Reconciliation of defined benefit obligations** | | |
| Defined benefit obligations at the beginning of the period | 1 884 | 1 997 |
| Current service cost | 110 | 101 |
| Interest cost | 96 | 74 |
| Plan amendments | -21 | -8 |
| Actuarial gain (loss) | 5 | -156 |
| Benefits paid | -111 | -133 |
| Exchange differences | 0 | 2 |
| Curtailments | 0 | -2 |
| Transfers under IFRS 5 | 0 | -183 |
| Changes in the scope of consolidation | 0 | -28 |
| Other | 35 | -20 |
| Defined benefit obligations at the end of the period | 1 997 | 1 645 |
| **Reconciliation of the fair value of plan assets** | | |
| Fair value of plan assets at the beginning of the period | 1 293 | 1 529 |
| Actual rate of return on plan assets | 189 | 105 |
| Employer contributions | 93 | 82 |
| Plan participant contributions | 21 | 17 |
| Benefits paid | -111 | -133 |
| Exchange differences | 4 | 2 |
| Settlements | 0 | 0 |
| Transfers under IFRS 5 | 0 | -115 |
| Changes in the scope of consolidation | 0 | -26 |
| Other | 40 | -22 |
| Fair value of plan assets at the end of the period | 1 529 | 1 439 |
| of which financial instruments issued by the group | 13 | 11 |
| **Funded status** | | |
| Plan assets in excess of defined benefit obligations | -468 | -204 |
| Unrecognised net actuarial gains | -43 | -231 |
| Unrecognised transaction amount | 0 | 0 |
| Unrecognised past service cost | 0 | 0 |
| Unrecognised assets | -1 | -2 |
| Unfunded accrued/prepaid pension cost | -512 | -437 |
| **Movement in net liabilities or net assets** | | |
| Unfunded accrued/prepaid pension cost at the beginning of the period | -512 | -512 |
| Net periodic pension cost | -95 | -74 |
| Employer contributions | -93 | 82 |
| Exchange differences | 0 | 0 |
| Transfers under IFRS 5 | 0 | 63 |
| Changes in the scope of consolidation | 0 | 2 |
| Other | 2 | 3 |
| Unfunded accrued/prepaid pension cost at the end of the period | -512 | -437 |
| **Amounts recognised in the balance sheet** | | |
| Prepaid pension cost | 58 | 75 |
| Accrued pension liabilities | -570 | -512 |
| Unfunded accrued/prepaid pension cost | -512 | -437 |
| **Amounts recognised in the income statement** | | |
| Current service cost | 110 | 101 |
| Interest cost | 96 | 74 |
| Expected return on plan assets | -64 | -73 |
| Adjustments to limit prepaid pension cost | 1 | -2 |
| Amortisation of unrecognised prior service costs | -21 | -8 |
| Amortisation of unrecognised net gains/unrecognised net losses | -8 | -1 |
| Employee contributions | -18 | -17 |
| Curtailments | 0 | -2 |
| Settlements | 0 | 0 |
| Changes in the scope of consolidation | 0 | 0 |
| Actuarially determined net periodic pension cost* | 95 | 74 |
| **Actual rate of return on plan assets** | **14.7%** | **6.9%** |

| (in millions of EUR) | 31-12-2009 | 31-12-2010 |
|---|---|---|
| **Principal actuarial assumptions used (based on weighted averages)** | | |
| Discount rate | 5.0% | 3.8% |
| Expected rate of return on plan assets | 5.2% | 5.2% |
| Expected rate of salary increase | 3.4% | 3.4% |
| Rate of pension increase | 0.8% | 0.5% |
| **DEFINED CONTRIBUTION PLANS** | | |
| Expenses for defined contribution plans | 6 | 0 |

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

- The pension claims of the staff of various KBC group companies are covered by pension funds and group insurance schemes, most of which are defined benefit plans. The main defined benefit plans are the KBC pension fund which covers KBC Bank, KBC Insurance (since 2007) and most of their Belgian subsidiaries, the KBC Insurance group insurance scheme (for staff employed prior to 1 January 2007) and KBL EPB's pension plans (which include both group insurance and pension funds). An agreement was reached in 2010 for the sale of KBL EPB, but it was announced in mid-March 2011 that the sale of KBL EPB to the Hinduja Group will not go ahead (for more information, see Note 48). The assets of these first two plans are managed by KBC Asset Management. The benefits are dependent on, among other things, the employee's years of service, as well as on his/her remuneration in the years before retirement. The annual funding requirements for these plans are determined based on actuarial cost methods.
- The expected return on plan assets (ROA) is calculated on the basis of the OLO rate, account taken of the plan's investment mix.
  ROA = (X x rate on OLO T years) + (Y x (rate on OLO T years + 3%)) + (Z x (rate on OLO T years + 1.75%)), where:
  T = term of the OLO used for the discount rate;
  X = percentage of fixed-income securities;
  Y = percentage of shares;
  Z = percentage of real estate.
  The risk premiums of 3% and 1.75%, respectively, are based on the long-term returns from shares and real estate.
- Additional information is provided in the table.

**Additional information regarding retirement benefit obligations** (in millions of EUR)

| **Changes in main headings in the main table** | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| Defined benefit obligations | 1 717 | 1 786 | 1 884 | 1 997 | 1 645 |
| Fair value of plan assets | 1 497 | 1 520 | 1 293 | 1 529 | 1 439 |
| Unfunded accrued/prepaid pension cost | -474 | -508 | -512 | -512 | -437 |
| **Composition of the group's largest pension plans** | | **shares** | **bonds** | **real estate** | **cash** |
| 31-12-2009 | | | | | |
| KBC pension fund | | 40% | 48% | 9% | 3% |
| KBC Insurance group insurance scheme | | 8% | 88% | 2% | 2% |
| KBL EPB pension plan | | 39% | 54% | 3% | 4% |
| 31-12-2010 | | | | | |
| KBC pension fund | | 43% | 45% | 9% | 3% |
| KBC Insurance group insurance scheme | | 8% | 89% | 2% | 1% |
| **Impact of changes in the assumptions used in the actuarial calculation of plan assets and gross liabilities*** | **2006** | **2007** | **2008** | **2009** | **2010** |
| Impact on plan assets | +1 | -1 | 0 | 0 | 0 |
| Impact on gross liabilities | -40 | -7 | -88 | -18 | -84 |
| **Contributions expected in 2011** | | | | | |
| KBC pension fund | | | | | 58 |
| KBC Insurance group insurance scheme | | | | | 4 |

* Arising from defined benefit plans. A plus sign signifies a positive impact, a minus a negative impact; relates to all pension plans combined in the above section.

## Note 39: Parent shareholders' equity and non-voting core-capital securities

| In number of shares | 31-12-2009 | 31-12-2010 |
|---|---|---|
| Ordinary shares | 357 918 125 | 357 938 193 |
| *of which ordinary shares that entitle the holder to a dividend payment* | *344 392 245* | *344 557 548* |
| *of which treasury shares* | *18 189 217* | *18 171 795* |
| Mandatorily convertible bonds | 0 | 0 |
| Non-voting core-capital securities | 237 288 134 | 237 288 134 |
| Additional information | | |
| Par value per share (in EUR) | 3.48 | 3.48 |
| Number of shares issued but not fully paid up | 0 | 0 |

| **MOVEMENTS TABLE**<br>In number of shares | **Ordinary shares** | **Non-voting core-capital securities** |
|---|---|---|
| **2009** | | |
| Opening balance | 357 752 822 | 118 644 067 |
| Issue of shares/core-capital securities | 165 303 | 118 644 067 |
| Conversion of mandatorily convertible bonds into shares | 0 | 0 |
| Other movements | 0 | 0 |
| Closing balance | 357 918 125 | 237 288 134 |
| **2010** | | |
| Opening balance | 357 918 125 | 237 288 134 |
| Issue of shares/core-capital securities | 20 068 | 0 |
| Conversion of mandatorily convertible bonds into shares | 0 | 0 |
| Other movements | 0 | 0 |
| Closing balance | 357 938 193 | 237 288 134 |

- Ordinary shares: the share capital of KBC Group NV consists of ordinary shares of no nominal value. All ordinary shares carry voting rights and each share represents one vote. No participation certificates or non-voting shares have been issued.
- Treasury shares: at year-end 2010, the companies belonging to the KBC group held 18 171 795 ordinary KBC shares in portfolio. These were primarily treasury shares repurchased under the earlier share buy-back programmes and treasury shares needed for the employee stock option plans. The voting rights attached to the shares held by KBC Group NV and its direct and indirect subsidiaries have been suspended.
- For information on stock option plans, see Note 12.
- For information on the authorisation to increase capital and on the capital increase for personnel, see the 'Company annual accounts' section.
- Preference shares (357 million at year-end 2009; 366 million at year-end 2010) are not included in 'Parent shareholders' equity', but in 'Minority interests'. These instruments meet the IAS 32 definition of equity instruments. However, as they are not owned by the shareholders, they are presented under 'Minority interests'.
- Non-voting core-capital securities: since the end of 2008, KBC Group NV has issued 7 billion euros in perpetual, non-transferable, non-voting core-capital securities that have equal ranking (*pari passu*) with ordinary shares upon liquidation. These have been subscribed by the Belgian State (the Federal Holding and Investment Company) and the Flemish Region (each in the amount of 3.5 billion euros). The transaction with the Belgian State was concluded in December 2008, while the agreement with the Flemish Region was finalised in July 2009. KBC Group NV used the proceeds of these transactions to strengthen the core capital of its banking activities by a total of 5.5 billion euros (via an ordinary capital increase at KBC Bank NV) and to raise the solvency margin of its insurance activities by 1.5 billion euros (via an ordinary capital increase at KBC Insurance NV). The other features of the transactions are dealt with under 'Capital transactions and guarantee agreements with the government in 2008 and 2009' in the 'Additional information' section.

## Note 40: Commitments and guarantees granted and received

| (in millions of EUR) | 31-12-2009 | 31-12-2010 |
|---|---|---|
| **Credit commitments - undrawn amount** | | |
| Given | 34 097 | 33 587 |
| Irrevocable | 20 209 | 22 199 |
| Revocable | 13 888 | 11 388 |
| Received | 3 469 | 1 139 |
| **Financial guarantees** | | |
| Given | 17 029 | 12 359 |
| Guarantees received/collateral | 185 631 | 149 855 |
| For impaired and past due assets | 7 888 | 7 781 |
| Non-financial assets | 3 751 | 4 408 |
| Financial assets | 4 136 | 3 373 |
| For assets that are not impaired or past due | 177 744 | 142 074 |
| Non-financial assets | 147 464 | 120 553 |
| Financial assets | 30 279 | 21 520 |
| **Other commitments** | | |
| Given | 1 848 | 144 |
| Irrevocable | 1 828 | 140 |
| Revocable | 20 | 4 |
| Received | 257 | 105 |

- The figures for 31 December 2010 exclude KBL EPB (as is the case in the balance sheet). For data concerning commitments given and received for KBL EPB in 2010, see Note 46.
- The fair value of financial guarantees is based on the available market value, while the fair value of non-financial guarantees is based on the value when the loan is taken out (for example, the mortgage registration amount) or when the personal guarantee is established.
- At year-end, pledged and other collateral held for impaired assets and unimpaired assets past due amounted to 7.8 billion euros (compared with 7.9 billion euros at the end of 2009).
- KBC Group NV irrevocably and unconditionally guarantees all the sums, indebtedness, obligations and liabilities outstanding on 31 December 2010 listed in Section 5 (c) of the Irish Companies (Amendment) Act of the following Irish companies, which are consequently eligible for exemption from certain disclosure requirements, pursuant to Section 17 of the Irish Companies (Amendment) Act 1986:
  - KBC Financial Services (Ireland) Limited;
  - Eperon Asset Management Limited.

  Since both companies are included in the scope of consolidation, this is an intragroup transaction and the guarantee is not included in the above tabel.
- There is an obligation to return collateral held (which may be sold or repledged in the absence of default by the owner; see table) in its original form, or possibly in cash. Collateral can be called in if loans are terminated for various reasons such as default or bankruptcy. In the event of bankruptcy, the collateral will be sold by the receiver. In other cases, the bank will itself sell up the collateral. Possession of collateral is only taken in exceptional cases (which accounts for the limited amounts shown in the table). Collateral obtained by taking possession is not material. Collateral held that relates to OTC derivatives is primarily cash, which is recognised by KBC on the balance sheet (and is not included in the table).

| **Collateral held (which may be sold or repledged in the absence of default by the owner)** (in millions of EUR) | **Fair value of collateral held** | | **Fair value of collateral sold or repledged** | |
|---|---|---|---|---|
| | 31-12-2009 | 31-12-2010 | 31-12-2009 | 31-12-2010 |
| Financial assets | 17 958 | 15 423 | 9 403 | 9 015 |
| Equity instruments | 47 | 37 | 0 | 0 |
| Debt instruments | 17 762 | 15 199 | 9 403 | 9 015 |
| Loans and advances | 140 | 184 | 0 | 0 |
| Cash | 8 | 4 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 |
| Property and equipment | 0 | 0 | 0 | 0 |
| Investment property | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 |

| **Collateral obtained by taking possession** (in millions of EUR) | **31-12-2009** | **31-12-2010** |
|---|---|---|
| Non-current assets held for sale | 0 | 0 |
| Property and equipment | 27 | 4 |
| Investment property | 0 | 0 |
| Equity instruments and debt certificates | 54 | 43 |
| Cash | 174 | 218 |
| Other | 81 | 15 |
| Total | 337 | 281 |

## Note 41: Leasing

| (in millions of EUR) | **31-12-2009** | **31-12-2010** |
|---|---|---|
| **Finance lease receivables** | | |
| Gross investment in finance leases, receivable | 6 682 | 5 790 |
| At not more than one year | 2 047 | 1 668 |
| At more than one but not more than five years | 3 286 | 2 814 |
| At more than five years | 1 349 | 1 308 |
| Unearned future finance income on finance leases | 1 054 | 836 |
| Net investment in finance leases | 5 601 | 4 915 |
| At not more than one year | 1 749 | 1 440 |
| At more than one but not more than five years | 2 858 | 2 461 |
| At more than five years | 994 | 1 014 |
| of which unguaranteed residual values accruing to the benefit of the lessor | 18 | 12 |
| Accumulated impairment for uncollectable lease payments receivable | 187 | 192 |
| Contingent rents recognised in income | 15 | 105 |
| **Operating lease receivables** | | |
| Future aggregate minimum rentals receivable under non-cancellable leases | 729 | 856 |
| At not more than one year | 231 | 309 |
| At more than one but not more than five years | 485 | 519 |
| At more than five years | 13 | 28 |
| Contingent rents recognised in income | 0 | 2 |

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

## Note 42: Related-party transactions

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

| | 2009 | | | | | | | 2010 | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Subsidiaries | Associated companies | Joint ventures | Belgian State | Flemish Region* | Other* | Total | Subsidiaries | Associated companies | Joint ventures | Belgian State | Flemish Region | Other | Total |
| **Assets** | 394 | 282 | 47 | 28 511 | 950 | 1 043 | 31 226 | 618 | 228 | 110 | 28 958 | 1 198 | 1 148 | 32 260 |
| Loans and advances | 54 | 170 | 36 | 111 | 0 | 1 043 | 1 414 | 55 | 107 | 73 | 71 | 0 | 1 119 | 1 425 |
| Current account advances | 1 | 0 | 0 | 12 | 0 | 293 | 306 | 2 | 1 | 0 | 0 | 0 | 367 | 369 |
| Term loans | 53 | 170 | 36 | 99 | 0 | 750 | 1 107 | 53 | 107 | 73 | 71 | 0 | 753 | 1 056 |
| Finance leases | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Consumer credit | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Mortgage loans | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Equity instruments | 256 | 8 | 4 | 0 | 0 | 0 | 268 | 283 | 32 | 29 | 0 | 0 | 0 | 344 |
| Trading securities | 45 | 5 | 0 | 0 | 0 | 0 | 50 | 34 | 0 | 0 | 0 | 0 | 0 | 34 |
| Investment securities | 212 | 3 | 4 | 0 | 0 | 0 | 218 | 250 | 32 | 29 | 0 | 0 | 0 | 310 |
| Other amounts receivable | 84 | 103 | 8 | 28 400 | 950 | 0 | 29 545 | 280 | 88 | 8 | 28 888 | 1 198 | 28 | 30 490 |
| **Liabilities** | 164 | 247 | 12 | 321 | 0 | 41 | 785 | 934 | 174 | 32 | 294 | 0 | 23 | 1 457 |
| Deposits | 157 | 208 | 12 | 226 | 0 | 41 | 643 | 902 | 133 | 32 | 176 | 0 | 22 | 1 266 |
| Deposits | 156 | 85 | 12 | 226 | 0 | 41 | 519 | 902 | 132 | 32 | 176 | 0 | 22 | 1 264 |
| Other borrowings | 1 | 123 | 0 | 0 | 0 | 0 | 124 | 1 | 1 | 0 | 0 | 0 | 0 | 2 |
| Other financial liabilities | 1 | 30 | 0 | 0 | 0 | 0 | 31 | 23 | 20 | 0 | 0 | 0 | 0 | 43 |
| Debt certificates | 1 | 30 | 0 | 0 | 0 | 0 | 31 | 1 | 20 | 0 | 0 | 0 | 0 | 21 |
| Subordinated liabilities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 22 | 0 | 0 | 0 | 0 | 0 | 22 |
| Share-based payments (granted) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Share-based payments (exercised) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other liabilities | 6 | 10 | 0 | 95 | 0 | 0 | 110 | 9 | 21 | 0 | 118 | 0 | 1 | 148 |
| **Income statement** | -4 | 12 | 4 | 920 | 14 | -3 | 942 | -14 | 0 | 2 | 951 | 39 | -1 | 977 |
| Net interest income | 9 | 9 | 3 | 920 | 14 | 0 | 953 | 15 | 3 | 2 | 951 | 39 | 0 | 1 009 |
| Earned premiums (before reinsurance) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Dividend income | 4 | 7 | 1 | 0 | 0 | 0 | 12 | 4 | 5 | 0 | 0 | 0 | 0 | 9 |
| Net fee and commission income | 3 | 0 | 0 | 0 | 0 | -1 | 1 | -1 | -3 | 0 | 0 | 0 | -2 | -5 |
| Other net income | 6 | 1 | 1 | 0 | 0 | 0 | 8 | 3 | 0 | 0 | 0 | 0 | 1 | 4 |
| General administrative expenses | -26 | -5 | 0 | 0 | 0 | -2 | -33 | -35 | -5 | 0 | 0 | 0 | 0 | -40 |
| **Guarantees** | | | | | | | | | | | | | | |
| Guarantees issued by the group | | | | | | | 0 | | | | | | | 0 |
| Guarantees received by the group | | | | | | | 0 | | | | | | | 0 |

* Restated figures (assets amounting to 1.9 billion euros were not included in the previous annual report).

**Transactions with key management (members of the Board of Directors and Executive Committee of KBC Group NV)**

| (in millions of EUR)* | 2009 | 2010 |
|---|---|---|
| **Total*** | **9** | **10** |
| Breakdown by type of remuneration | | |
| Short-term employee benefits | 6 | 7 |
| Post-employment benefits | 4 | 3 |
| Defined benefit plans | 4 | 3 |
| Defined contribution plans | 0 | 0 |
| Other long-term employee benefits | 0 | 0 |
| Termination benefits | 1 | 1 |
| Share-based payments | 0 | 0 |
| Share options (in units) | | |
| At the beginning of the period | 111 600 | 52 100 |
| Granted | 0 | 0 |
| Exercised | 0 | 0 |
| Composition-related changes | -59 500 | -17 000 |
| At the end of the period | 52 100 | 35 100 |
| Advances and loans granted to key management and partners | 2 | 1 |

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

- The 'Other' heading in the first table comprises primarily KBC Ancora, Cera CVBA and MRBB;
- All related-party transactions occur at arm's length.
- The Belgian State and Flemish Region are considered in the strict sense only (i.e. excluding companies controlled by these parties).
- There were no material transactions with associated companies other than shown in the table.
- Key management comprises the members of the Board of Directors and Group Executive Committee. More detailed information on remuneration paid to key management staff is provided in the 'Corporate governance statement' section.
- In 2009, KBC entered into a guarantee agreement with the Belgian State to cover most of its potential downside risk exposure to CDOs. Included in the 2010 results is the related cost (103 million euros), which is recognised in 'Net result from financial instruments at fair value through profit or loss'.

## Note 43: Auditor's remuneration

In 2010, KBC Group NV and its subsidiaries paid Ernst & Young Bedrijfsrevisoren BCVBA fees amounting to a total of 15 659 361 euros for standard audit services. Remuneration paid for other services came to 3 041 628 euros in 2010, viz.: other certifications: 1 058 666 euros; tax advice: 143 773 euros; other non-audit assignments: 1 839 189 euros.

## Note 44: Principal subsidiaries and associated companies

| Company | Registered office | Ownership percentage at group level | Business unit* | Activity |
|---|---|---|---|---|
| **KBC BANK** | | | | |
| Fully consolidated subsidiaries | | | | |
| Absolut Bank | Moscow – RU | 95.00 | GC | Credit institution |
| Antwerp Diamond Bank NV | Antwerp – BE | 100.00 | GC | Credit institution |
| CBC Banque SA | Brussels – BE | 100.00 | B | Credit institution |
| Centea NV | Antwerp – BE | 99.56 | GC | Credit institution |
| CIBANK AD | Sofia – BG | 100.00 | CEE | Credit institution |
| ČSOB a.s. (Czech Republic) | Prague – CZ | 100.00 | CEE | Credit institution |
| ČSOB a.s. (Slovak Republic) | Bratislava – SK | 100.00 | CEE | Credit institution |
| KBC Asset Management NV | Brussels – BE | 100.00 | B | Asset management |
| KBC Bank NV | Brussels – BE | 100.00 | B/MB/GC | Credit institution |
| KBC Bank Deutschland AG | Bremen – DE | 100.00 | GC | Credit institution |
| KBC Bank Funding LLC & Trust (group) | New York – US | 100.00 | MB | Issuance of trust preferred securities |
| KBC Bank Ireland Plc | Dublin – IE | 100.00 | MB | Credit institution |
| KBC Clearing NV | Amsterdam – NL | 100.00 | MB | Clearing |
| KBC Commercial Finance | Brussels – BE | 100.00 | MB | Factoring |
| KBC Credit Investments NV | Brussels – BE | 100.00 | MB | Investment in credit-related securities |
| KBC Finance Ireland | Dublin – IE | 100.00 | GC | Lending |
| KBC Financial Products (group) | Various locations | 100.00 | GC | Equities and derivatives trading |
| KBC Internationale Financieringsmaatschappij NV | Rotterdam – NL | 100.00 | MB | Issuance of bonds |
| KBC Lease (group) | Various locations | 100.00 | MB/CEE/B | Leasing |
| KBC Private Equity NV | Brussels – BE | 100.00 | MB | Private equity |
| KBC Real Estate NV | Brussels – BE | 100.00 | MB | Real estate |
| KBC Securities NV | Brussels – BE | 100.00 | MB | Stock exchange broker. corporate finance |
| K&H Bank Rt. | Budapest – HU | 100.00 | CEE | Credit institution |
| Kredyt Bank SA | Warsaw – PL | 80.00 | CEE | Credit institution |
| Associated companies | | | | |
| Nova Ljubljanska banka d.d. (group) | Ljubljana – SI | 30.57 | GC | Credit institution |
| **KBC INSURANCE** | | | | |
| Fully consolidated subsidiaries | | | | |
| ADD NV | Heverlee – BE | 100.00 | B | Insurance company |
| Assurisk SA | Luxembourg – LU | 100.00 | B | Insurance company |
| ČSOB Pojišťovna (Czech Republic) | Pardubice – CZ | 100.00 | CEE | Insurance company |
| ČSOB Poisťovňa a.s. (Slovak Republic) | Bratislava – SK | 100.00 | CEE | Insurance company |
| DZI Insurance | Sofia – BG | 90.35 | CEE | Insurance company |
| Fidea NV | Antwerp – BE | 100.00 | GC | Insurance company |
| VAB Group | Zwijndrecht – BE | 74.81 | B | Automobile assistance |
| K&H Insurance Rt. | Budapest – HU | 100.00 | CEE | Insurance company |
| KBC Banka A.D. | Belgrade – RS | 100.00 | GC | Credit institution |
| KBC Insurance NV | Leuven – BE | 100.00 | B | Insurance company |
| TUiR WARTA S.A. | Warsaw – PL | 100.00 | CEE | Insurance company |
| Proportionately consolidated subsidiaries | | | | |
| NLB Vita d.d. | Ljubljana – SI | 50.00 | GC | Insurance company |
| **KBL EPB** | | | | |
| Fully consolidated subsidiaries | | | | |
| Brown, Shipley & Co. Limited | London – GB | 99.91 | GC | Credit institution |
| KBL Richelieu Banque Privée | Paris – FR | 99.91 | GC | Credit institution |
| KBL European Private Bankers SA | Luxembourg – LU | 99.91 | GC | Credit institution |
| KBL (Switzerland) Ltd. | Geneva – CH | 99.90 | GC | Credit institution |
| Merck Finck & Co. | Munich – DE | 99.91 | GC | Credit institution |
| Puilaetco Dewaay Private Bankers SA | Brussels – BE | 99.91 | GC | Credit institution |
| Theodoor Gilissen Bankiers NV | Amsterdam – NL | 99.91 | GC | Credit institution |
| VITIS Life SA | Luxembourg – LU | 99.91 | GC | Insurance company |
| **KBC GROUP NV (other direct subsidiaries)** | | | | |
| Fully consolidated subsidiaries | | | | |
| KBC Global Services NV | Brussels – BE | 100.00 | GC | Cost-sharing structure |
| KBC Group NV | Brussels – BE | 100.00 | GC | Holding company |

* Business unit abbreviations (for presentation in the results): B = Belgium; CEE = Central & Eastern Europe; MB = Merchant Banking; GC = Group Centre.

- As set out in the accounting policies, all (material) entities (including special purpose entities) over which the consolidating entity exercises, directly or indirectly, exclusive control are consolidated according to the method of full consolidation. To assess whether or not special purpose entities have to be consolidated, KBC uses the principles set out in SIC 12, as well as materiality thresholds. Companies eligible for consolidation are effectively included in the consolidated accounts if two of the following criteria are met: (a) the group's share in equity exceeds 2.5 million euros; (b) the group's share in the results exceeds 1 million euros; (c) the balance sheet total exceeds 100 million euros. The combined balance sheet total of the companies excluded from consolidation may not amount to more than 1% of the consolidated balance sheet total. A number of special purpose entities meet only one of these criteria, which means that (as long as the combined balance sheet total of the companies excluded from consolidation is not more than 1% of the consolidated balance sheet total) these entities are not effectively consolidated. At year-end 2010, this related chiefly to the special purpose entities set up for CDO activities. Please note that these special purpose entities only exceed one of the materiality thresholds (balance sheet total) since their equity and net results are always very limited. However, the CDO-related results are recorded under KBC Financial Products, which is, of course, consolidated. Consequently, excluding these special purpose entities from the consolidated accounts only impacts presentation of the consolidated balance sheet, and not equity, the results or solvency.
- For a complete list of the companies included in or excluded from the scope of consolidation, as well as the associated companies, as at 31 December 2010, see 'Additional information'. The most up-to-date list is available at www.kbc.com.

## Note 45: Main changes in the scope of consolidation

| Parent company | Company | Consolidation method | Ownership percentage at group level 31-12-2009 | Ownership percentage at group level 31-12-2010 | Comments |
|---|---|---|---|---|---|
| **Additions** | | | | | |
| None | | | | | |
| **Exclusions** | | | | | |
| KBC Insurance | Secura | Full | 95.04 | – | Sold in 4Q 2010 |
| KBC Bank | KBC Peel Hunt | Full | 100.00 | – | Sold in 4Q 2010 |
| KBC Bank | KBC Financial Products | Full | 100.00 | 100.00 | Various activities sold |
| **Changes in ownership percentage and internal mergers** | | | | | |
| KBC Bank | CIBANK | Full | 81.69 | 100.00 | Increase in shareholding |

Apart from the gains realised on the sale of a number of companies and activities (mainly Secura and the Global Convertible Bonds and Asian Equity Derivatives businesses – see Note 8), changes in the scope of consolidation had only a limited impact on both the income statement and balance sheet in 2010.

## Note 46: Non-current assets held for sale and discontinued operations (IFRS 5)

- IFRS 5 specifies that a non-current asset (or disposal group) is to be classified as held-for-sale if its carrying amount will be recovered primarily through a sales transaction rather than through continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. To assess whether a sale is highly probable, IFRS 5 sets out a number of conditions that all have to be met before it can be applied, viz.:
  1. Management is committed to a plan to sell.
  2. An active programme to locate a buyer and complete the plan is initiated.
  3. The target price is reasonable in relation to its current fair value.
  4. The sale is within 12 months of classification.
  5. It is unlikely that the plan will be significantly changed or withdrawn.
- If all five of the above conditions are met, the assets and liabilities of the divestments are presented under a separate heading in the balance sheet (under 'Non-current assets held for sale and disposal groups' on the asset side and under 'Liabilities associated with disposal groups' on the liabilities side). As permitted under IFRS, the reference figures for 2009 have not been restated. If the disposal groups are also classified as discontinued operations, their results (and the reference figures) are recognised under a single heading in the income statement, i.e. 'Net post-tax result from discontinued operations'.
- In 2010, various divestments were agreed and finalised. The only material divestment that had not yet been finalised on 31 December 2010 was KBL EPB (including VITIS Life). At year-end 2010, this divestment fell under the scope of IFRS 5 and was also classified as a discontinued operation. It was announced in mid-March 2011 that the sale of KBL EPB to the Hinduja Group will not go ahead (for more information, see Note 48).
- The other participating interests qualifying for divestment had not met the relevant conditions at year-end: for some, the sale is not planned to take place within 12 months, and/or the sales project has not yet been initiated, and/or it is too early to ascertain whether the desired sales price is feasible given the current volatility on the financial markets, which means that significant changes could still be made to the plan. Please also note that IFRS 5 does not apply either to the discontinuation of activities through gradual run-down (e.g., the part of the international loan portfolios that is being run down).
- The following information relates to divestments that fell within the scope of IFRS 5 at year-end 2010.

**KBL EPB**

Activity: Credit institution

Segment: Group Centre

Date of sale agreement: 21 May 2010

Other information: The KBC group reached agreement with the Hinduja Group for the sale of its private banking subsidiary, KBL European Private Bankers, for a total consideration of 1.35 billion euros. Based on a calculation made on 30 June 2010, this transaction would free up around 1.3 billion euros' worth of capital (net impact, including the release of risk-weighted assets, goodwill and impairment of 0.3 billion euros that was recognised in the results for the second quarter). However, it was announced in mid-March 2011 that the sale of KBL EPB to the Hinduja Group will not go ahead (for more information, see Note 48).

- The table sets out additional information on discontinued operations and/or non-current assets held for sale and disposal groups, and liabilities associated with disposal groups.

| (in millions of EUR) | 31-12-2009 | 31-12-2010 |
|---|---|---|
| **A: DISCONTINUED OPERATIONS** | | |
| **Income statement** | | |
| **Income statement, KBL EPB (including VITIS Life)** | | |
| Net interest income | 249 | 159 |
| Net fee and commission income | 361 | 381 |
| Other net income | 75 | 62 |
| Total income | 685 | 602 |
| Operating expenses | -513 | -495 |
| Impairment | -52 | -42 |
| Share in results of associated companies | 3 | 2 |
| Result before tax | 123 | 66 |
| Taxes | -21 | -19 |
| Result after tax | 101 | 47 |
| **Result from sale agreement for KBL EPB (including VITIS Life)** | | |
| Impairment recognised on remeasurement to fair value less costs to sell | – | -301 |
| Tax income relating to remeasurement to fair value less costs to sell (deferred taxes) | – | 0 |
| Result from sale (after taxes) | – | -301 |
| **Net post-tax result from discontinued operations** | **101** | **-254** |
| **Cashflow statement, KBL EPB (including VITIS Life)** | **2009** | **2010** |
| Net cash from or used in operating activities | 195 | 202 |
| Net cash from or used in investing activities | -34 | -84 |
| Net cash from or used in financing activities | -70 | -33 |
| Net cash inflows/outflows | 91 | 85 |
| **Earnings per share from discontinued operations, KBL EPB (including VITIS Life)** | **2009** | **2010** |
| Basic | 0.30 | -0.75 |
| Diluted | 0.30 | -0.75 |
| **Commitments, KBL EPB (including VITIS Life)** | | |
| Credit commitments – undrawn amount (given) | | 2 774 |
| Credit commitments – undrawn amount (received) | | 2 621 |
| Financial guarantees (given) | | 4 403 |
| Financial guarantees (received) | | 33 217 |
| Other commitments (given) | | 594 |
| Other commitments (received) | | 0 |
| **Derivatives – notional amounts, KBL EPB (including VITIS Life)** | **2010 assets** | **2010 liabilities** |
| Held for trading | | |
| Interest rate contracts | 17 857 | 17 857 |
| Foreign exchange contracts | 5 244 | 5 267 |
| Equity contracts | 2 847 | 2 847 |
| Credit contracts | 1 | 1 |
| Commodity and other contracts | 15 | 15 |
| Micro hedging: fair value hedge | | |
| Interest rate contracts | 553 | 553 |
| Foreign exchange contracts | 7 | 9 |
| Equity contracts | 0 | 0 |
| Portfolio hedge of interest rate risk | | |
| Interest rate contracts | 168 | 168 |

| (in millions of EUR) | 31-12-2009 | 31-12-2010 |
|---|---|---|
| **B: NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS AND LIABILITIES ASSOCIATED WITH DISPOSAL GROUPS** | | |
| **Balance sheet (figures between brackets relate to discontinued operations)** | | |
| **Assets** | | |
| Cash and cash balances with central banks | 0 (0) | 437 (437) |
| Financial assets | 56 (0) | 11 359 (11 299) |
| Fair value adjustments of the hedged items in portfolio hedge of interest rate risk | 0 (0) | 7 (7) |
| Tax assets | 0 (0) | 83 (83) |
| Investments in associated companies | 0 (0) | 14 (14) |
| Investment property and other equipment | 0 (0) | 240 (234) |
| Goodwill and other intangible assets | 0 (0) | 690 (690) |
| Other assets | 14 (0) | 109 (101) |
| Total assets | 70 (0) | 12 938 (12 863) |
| **Liabilities** | | |
| Financial liabilities | 0 (0) | 12 489 (12 489) |
| Technical provisions (before reinsurance) | 0 (0) | 466 (466) |
| Tax liabilities | 0 (0) | 11 (11) |
| Provisions for risks and charges | 0 (0) | 28 (28) |
| Other liabilities | 0 (0) | 349 (348) |
| Total liabilities | 0 (0) | 13 341 (13 341) |
| **Other comprehensive income** | | |
| Available-for-sale reserve | 0 (0) | 9 (8) |
| Deferred tax on above reserve | 0 (0) | -6 (-6) |
| Translation differences | 0 (0) | 10 (10) |
| Total | 0 (0) | 12 (12) |

## Note 47: Risk management

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

## Note 48: Post-balance-sheet events

Events after balance sheet date are those events, favourable and unfavourable, that occur between the balance sheet date (31 December 2010) and the date when the financial statements are authorised for issue by the Board of Directors. They include both adjusting events after balance sheet date (events that provide evidence of conditions that existed at the balance sheet date) and non-adjusting events after balance sheet date (events that are indicative of conditions that arose after the balance sheet date). Adjusting events in principle lead to an adjustment of the financial statements for the financial period preceding the event, whereas non-adjusting events in principle only influence the financial statements for the following period.

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

- Early in March 2011, KBC reached an agreement with Crédit Agricole for the sale of Centea for a total consideration of 527 million euros. This deal will free up around 0.4 billion euros of capital for KBC, primarily by reducing risk-weighted assets by 4.2 billion euros, which will ultimately boost KBC's tier-1 ratio by around 0.4% (impact calculated at year-end 2010). The gain on this deal is negligible. Crédit Agricole, Centea and Fidea have agreed that, in an initial phase, Fidea will continue to offer its life and non-life insurance products through Centea's agents, as well as through Crédit Agricole's network. Finalisation of the deal depends on the customary approval of the regulator(s).
- On 21 May 2010, the KBC group announced that it had reached an agreement with the Hinduja Group for the sale of its private banking subsidiary, KBL European Private Bankers (KBL EPB). As is customary, the Hinduja Group subsequently submitted the deal for approval to the Luxembourg principal regulator (the CSSF) and the regulators in the nine other European countries where KBL EPB is present. Needless to say, KBC was not itself party to that approval process. In the middle of March 2011, the CSSF confirmed that it was stopping its evaluation of the acquisition, after concluding that its decision would have been to object to it. The CSSF reached this decision based on application of the criteria laid down in the law governing the financial sector and after consulting with the other competent authorities. In practice, this means that the sale of KBL EPB to the Hinduja Group will not go ahead. KBC takes note of this decision. In relation to implementing its strategic plan, it will thoroughly assess the various options so that, given current market conditions, and in close consultation with the European Commission, it can take the best decision regarding the future of KBL EPB. The impact of the various options on the results cannot currently be reliably estimated. However, KBL EPB is a healthy company, and, moreover has continued rolling out its efficiency improvement programme and attracted many new clients and private bankers over the past few months. Consequently, it remains in an excellent position to respond to the expanding market for private banking.

## Note 49: General information (IAS 1)

- Name: KBC Group NV
- Incorporated: 9 February 1935 as Kredietbank NV; the present name dates from 2 March 2005.
- Country of incorporation: Belgium
- Registered office: Havenlaan 2, 1080 Brussels, Belgium
- VAT: BE 0403.227.515
- RLP: Brussels
- Legal form: *Naamloze vennootschap* (company with limited liability) under Belgian law, which solicits or has solicited savings from the public; the company is a financial holding company that is subject to the prudential supervision of the Committee for Systemic Risks and System-related Financial Institutions (CSRSFI). As of 1 April 2011, prudential supervision will be carried out by the National Bank of Belgium.
- Life: indefinite
- Object: the company is a financial holding company which has as object the direct or indirect ownership and management of shareholdings in other companies, including – but not restricted to – credit institutions, insurance companies and other financial institutions. The company also has as object to provide support services to third parties, as mandatary or otherwise, in particular to companies in which the company has an interest – either directly or indirectly (Article 2 of the Articles of Association).
- Documents open to public inspection: the Articles of Association of the company are open to public inspection at the Registry of the Brussels Commercial Court. The financial statements have been filed with the National Bank of Belgium. Decisions on the appointment, resignation and dismissal of members of the Executive Committee and the Board of Directors are published in the *Appendices to the Belgian Official Gazette*. Financial reports about the company and convening notices of general meetings of shareholders are also published in the financial press and/or on www.kbc.com. Copies of the company's annual reports are available at its registered office and/or can be downloaded from www.kbc.com. They are sent annually to the holders of registered shares and to those who have requested a copy.
- General Meeting of Shareholders: a General Meeting is held every year at the company's registered office or at any other place designated in the convening notice, at 10 a.m. on the last Thursday of April, or, if this day is a public holiday, at 4 p.m. on the business day immediately before it. It will be proposed at the Extraordinary General Meeting of 28 April 2011 that a vote be taken to change the date of the General Meeting laid down in the Articles of Association to 10 a.m. on the first Thursday of May or, if this day is a public or bank holiday, to 10 a.m. on the business day immediately before it.
- In order to be admitted to the General Meeting, the holders of bearer shares, bearer bonds or bearer warrants, and the holders of bearer certificates issued in co-operation with the company, must deposit these securities at least four business days prior to the meeting at the registered office or at another place designated in the convening notice. The owners of registered shares, bonds, warrants or certificates issued in co-operation with the company must also notify the registered office in writing, at least four business days prior to the meeting, of their intention to attend the General Meeting. Holders of book-entry shares, bonds, warrants or certificates issued in co-operation with the company, who wish to be admitted to the General Meeting must, at least four business days prior to the meeting, deposit at the registered office or at another place designated in the convening notice, a certificate drawn up by the recognised account holder or by the clearing house, attesting to the non-availability of the shares, bonds, warrants or certificates until the date of the General Meeting. Holders of bonds, warrants or certificates issued in co-operation with the company are entitled to attend the General Meeting, but they have only advisory voting capacity. In derogation from what has been set out above, the Board of Directors may decide that the holders of shares, bonds, warrants or certificates issued in co-operation with the company, in order to gain access to the General Meeting, have to prove that they hold these securities at midnight on the registration date, regardless of the number of securities they hold on the day of the General Meeting. This registration date may not be earlier than fifteen days and not later than five business days prior to the General Meeting. In a register designated by the Board of Directors, the number of securities held by each holder of securities at midnight on the registration date will be entered. The registration date will be specified in the convening notice for the General Meeting, along with the way in which the holders of securities can register.
  It will be proposed at the Extraordinary General Meeting of 28 April 2011 that a vote be taken to amend the provisions in the Articles of Association relating to the admission of holders of securities to the General Meeting and relating to the exercise of the rights of shareholders, so that the Articles of Association are brought into line with the Act of 20 December 2010 on the exercise of certain rights of shareholders of listed companies.

# 3 Company annual accounts

The company annual accounts of KBC Group NV are presented here in abridged form. As required by law, the company annual accounts, the report of the Board of Directors and the auditor's report are filed with the National Bank of Belgium. These documents are available free of charge on request from: KBC Group NV, Investor Relations – IRO, Havenlaan 2, 1080 Brussels, Belgium. They can also be consulted at www.kbc.com after they have been filed.

The auditor has delivered an unqualified audit opinion on the company annual accounts of KBC Group NV.

The company annual accounts have been prepared according to Belgian accounting standards (B-GAAP) and are, therefore, not comparable with the figures prepared in accordance with IFRS in the other sections of this annual report.

## Company balance sheet (B-GAAP)

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

| (in millions of EUR) | 31-12-2009 | 31-12-2010 |
|---|---|---|
| **Fixed assets** | **17 094** | **16 928** |
| Financial fixed assets | 17 094 | 16 928 |
| Affiliated companies | 17 083 | 16 918 |
| Participating interests | 16 833 | 16 668 |
| Amounts receivable | 250 | 250 |
| Companies linked by participating interests | 11 | 11 |
| Participating interests | 1 | 1 |
| Amounts receivable | 10 | 10 |
| **Current assets** | **545** | **431** |
| Amounts receivable within one year | 23 | 25 |
| Trade debtors | 2 | 0 |
| Other amounts receivable | 22 | 25 |
| Investments | 467 | 370 |
| Own shares | 436 | 369 |
| Other investments | 30 | 0 |
| Cash at bank and in hand | 43 | 26 |
| Deferred charges and accrued income | 12 | 10 |
| **Total assets** | **17 638** | **17 359** |
| **Equity** | **9 415** | **8 198** |
| Capital | 1 245 | 1 245 |
| Issued capital | 1 245 | 1 245 |
| Share premium account | 4 336 | 4 336 |
| Reserves | 1 445 | 1 445 |
| Legal reserve | 124 | 124 |
| Reserves not available for distribution | 438 | 371 |
| Untaxed reserves | 190 | 190 |
| Reserves available for distribution | 693 | 760 |
| Accumulated profit (loss) | 2 390 | 1 171 |
| **Provisions and deferred taxes** | **0** | **0** |
| Provisions for risks and charges | 0 | 0 |
| **Amounts payable** | **8 223** | **9 162** |
| Amounts payable at more than one year | 7 835 | 7 633 |
| Financial debts | 7 835 | 7 633 |
| Subordinated loans | 7 000 | 7 000 |
| Non-subordinated bonds | 635 | 633 |
| Credit institutions | 0 | 0 |
| Other loans | 200 | 0 |
| Amounts payable within one year | 351 | 1 491 |
| Amounts payable at more than one year falling due within the year | 250 | 200 |
| Financial debts | 83 | 424 |
| Credit institutions | 0 | 240 |
| Other loans | 83 | 184 |
| Trade debts | 0 | 1 |
| Taxation, remuneration and social security | 1 | 1 |
| Taxes | 0 | 0 |
| Remuneration and social security charges | 1 | 1 |
| Other amounts payable | 16 | 865 |
| Accrued charges and deferred income | 38 | 37 |
| **Total liabilities** | **17 638** | **17 359** |

## Company profit and loss account (B-GAAP)*

| **Company profit and loss account, according to B-GAAP**<br>(in millions of EUR) | **31-12-2009** | **31-12-2010** |
|---|---|---|
| Operating income | 12 | 3 |
| Other operating income | 12 | 3 |
| Operating charges | 33 | 31 |
| Services and other goods | 30 | 27 |
| Remuneration, social security charges and pensions | 3 | 4 |
| Provisions for risks and charges: transfers (to (+) and from (-)) | 0 | 0 |
| Other operating charges | 0 | 0 |
| **Operating profit (+) / loss (-)** | **-22** | **-28** |
| Financial income | 277 | 45 |
| Income from financial fixed assets | 266 | 33 |
| Income from current assets | 6 | 4 |
| Other financial income | 5 | 7 |
| Financial charges | -61 | 709 |
| Debt charges | 57 | 641 |
| Write-downs on current assets: increase (+) / decrease (-) | -119 | 67 |
| Other financial charges | 1 | 1 |
| **Profit (+) / loss (-) on ordinary activities, before tax** | **316** | **-693** |
| Extraordinary income | 0 | 0 |
| Write-back of amounts written down on financial fixed assets | 0 | 0 |
| Extraordinary charges | 177 | 266 |
| Amounts written down on financial fixed assets | 177 | 266 |
| Losses on disposal of financial fixed assets | 0 | 0 |
| **Profit (+) / loss (-) for the period, before tax** | **139** | **-959** |
| Income taxes | -20 | 0 |
| Taxes | 0 | 0 |
| Adjustments to taxes and amounts written back from tax provisions | 20 | 0 |
| **Profit (+) / loss (-) for the period** | **159** | **-959** |
| ***Profit (+) / loss (-) for the period available for appropriation*** | ***159*** | ***-959*** |

* For the sake of uniformity, the profit and loss account is now based on the standard model used in the complete set of annual accounts instead of the lay-out used in the past (N.B.: in this lay-out, charges are also depicted with a plus sign, as opposed to the way they are presented in the consolidated income statement).

## Company profit appropriation (B-GAAP)

**Appropriation account, according to B-GAAP**

| (in millions of EUR) | **31-12-2009** | **31-12-2010** |
|---|---|---|
| Profit (+) / loss (-) to be appropriated | 2 390 | 1 431 |
| Profit (+) / loss (-) for the period to be appropriated | 159 | -959 |
| Profit (+) / loss (-) carried forward from the previous period | 2 230 | 2 390 |
| Transfers to equity | 0 | 0 |
| To the legal reserve | 0 | 0 |
| To other reserves | 0 | 0 |
| Profit (+) / loss (-) to be carried forward | 2 390 | 1 171 |
| Profit to be distributed | 0 | 260 |
| Dividends | 0 | 258 |
| Directors' entitlements | 0 | 1 |
| Other beneficiaries, employee profit-sharing | 0 | 0 |

It will be proposed to the general meeting of shareholders that the profit for appropriation for the 2010 financial year be appropriated as shown in the table. If this proposal is approved, the gross dividend will come to 0.75 euros per share entitled to dividend for the 2010 financial year (less Belgian withholding tax of 25%, the net dividend will amount to 0.5625 euros per ordinary share; less withholding tax of 15%, the net dividend for VVPR shares will be 0.6375 euros). In calculating the number of shares entitled to dividend (344 557 548), account was taken of the fact that the 20 068 shares issued under the capital increase reserved for staff in 2010 will only be entitled to dividend from the 2011 financial year and that dividends on 13 360 577 shares repurchased under the previous buyback programmes are suspended.

## Note 1: Financial fixed assets (B-GAAP; non-consolidated)

**Financial fixed assets, according to B-GAAP**

| (in millions of EUR) | Participating interests in affiliated companies | Amounts receivable from affiliated companies | Participating interests in companies linked by participating interests | Amounts receivable from companies linked by participating interests |
|---|---|---|---|---|
| Carrying value at 31-12-2009 | 16 833 | 250 | 1 | 10 |
| Acquisitions in 2010 | 101 | 0 | 0 | 0 |
| Disposals in 2010 | 0 | 0 | 0 | 0 |
| Other changes in 2010 | -266 | 0 | 0 | 0 |
| **Carrying value at 31-12-2010** | **16 668** | **250** | **1** | **10** |

KBC Group NV's participating interests in affiliated companies comprise mainly the shareholdings in:

- KBC Bank NV (99.99%);
- KBC Insurance NV (99.99%);
- KBC Asset Management NV (48.14%);
- KBL European Private Bankers SA (KBL EPB 99.91%). An agreement was reached in May 2010 for the sale of KBL EPB. Please note: it was announced in mid-March 2011 that the sale to the Hinduja Group will not go ahead (more information on this matter is provided under 'Group Centre' in the 'Report of the Board of Directors' section).
- KBC Global Services NV (99.99%).

The main changes compared with year-end 2009 concern the acquisition of KBL EPB shares held by Kredietcorp SA (101 million euros) and a write-down on KBL EPB shares (266 million euros).

The amounts receivable from affiliated companies are related to a subordinated perpetual loan of 250 million euros to KBC Bank NV. The amounts receivable from companies linked by participating interests are accounted for by the portion of a bond loan issued in 2005 by Nova Ljubljanska banka that KBC Group NV subscribed to.

## Note 2: Changes in equity (B-GAAP; non-consolidated)

| (in millions of EUR) | 31-12-2009 | Capital increase for staff | Appropriation of results | 31-12-2010 |
|---|---|---|---|---|
| Capital | 1 245 | 0 | 0 | 1 245 |
| Share premium account | 4 336 | 1 | 0 | 4 336 |
| Reserves | 1 445 | 0 | 0 | 1 445 |
| Profit (Loss) carried forward | 2 390 | 0 | -1 219 | 1 171 |
| **Equity** | **9 415** | **1** | **-1 219** | **8 198** |

## Note 3: Details of changes in capital and the share premium account (B-GAAP; non-consolidated)

**Changes in capital and the share premium account in 2009 and 2010, according to B-GAAP**

| (in EUR) | Date | Capital | Share premium account | Number of shares |
|---|---|---|---|---|
| Capital increase for staff | 31-12-2009 | 1 244 910 127 | 4 335 763 116 | 357 918 125 |
| Capital increase for staff | 31-12-2010 | 1 244 979 964 | 4 336 357 530 | 357 938 193 |

At year-end 2010, the company's issued share capital amounted to 1 244 979 964 euros, represented by 357 938 193 shares. The share capital is fully paid up.

In 2010, the share capital increased by 69 837 euros, and the number of shares by 20 068. These new VVPR shares were issued as a result of a capital increase decided upon by the Board of Directors under its authority to raise capital, and were reserved exclusively for the staff of KBC Group NV and some of its Belgian subsidiaries. Consequently, the pre-emption right of existing shareholders was suspended. The shares were issued at a price of 33.10 euros and are not blocked, since the issue price was not less than the market price of the KBC share. Through this capital increase, the group aims to strengthen its ties with staff. Given the limited extent of the capital increase, the financial ramifications for existing shareholders are minor. All of the shares issued in 2010 will only be entitled to dividend from the 2011 financial year. At year-end 2010, the number of VVPR strips issued came to 58 304 505 (a VVPR strip gives entitlement to the reduced rate of withholding tax on dividends, i.e. 15% instead of 25%).
The authorisation to increase capital may be exercised until 21 May 2014 for an amount of 899 354 909 euros. Based on a par value of 3.48 euros a share, a maximum of 258 435 318 new KBC Group NV shares can therefore be issued under this authorisation.

## Note 4: Shareholders

**Shareholder structure on 31 December 2010 on the basis of notifications received pursuant to the Belgian Act of 2 May 2007 concerning the disclosure of significant participations in issuers whose shares are admitted to trading on a regulated market**

Article 10bis of the *Articles of Association* of KBC Group NV stipulates the threshold at which individuals must disclose their shareholdings (the *Articles of Association* can be viewed at www.kbc.com). KBC publishes these notifications on its website (www.kbc.com/investor relations).

An overview of the notifications received during the course of 2010 is provided below. The following table provides an overview of the shareholder structure at year-end 2010, based on all the notifications received pursuant to the Belgian Act of 2 May 2007. Please note that the number of shares stated in the notifications may differ from the current number in possession, as a change in the number of shares held does not always give rise to a new notification.

**Notifications received in 2010**

| | Notification relating to | Explanation | Number of KBC shares on date concerned | % of total voting rights on date concerned |
|---|---|---|---|---|
| BlackRock Inc. | 2 February 2010 | Change in shareholding triggering a move below the 3% notification threshold | 10 709 212 | 2.99% |
| BlackRock Inc. | 4 August 2010 | Change in shareholding triggering the 3% notification threshold to be crossed | 10 810 030 | 3.02% |
| BlackRock Inc. | 12 August 2010 | Change in shareholding triggering a move below the 3% notification threshold | 10 693 173 | 2.99% |
| BlackRock Inc. | 15 September 2010 | Change in shareholding triggering the 3% notification threshold to be crossed | 11 047 165 | 3.09% |

After year-end 2010, a new notification was received from BlackRock Inc. regarding the situation on 2 March 2011 (decrease to 2.99% of total voting rights)

**Shareholder structure on 31-12-2010 (based on the most recent notifications received pursuant to the Act of 2 May 2007)**

| | Notification relating to | Address | Number of KBC shares (as a % of the sum of the outstanding number of shares at the time of disclosure) |
|---|---|---|---|
| KBC Ancora Comm.VA* | 1 September 2008 | Philipssite 5, box 10, 3001 Leuven, Belgium | 82 216 380 (23.15%) |
| Cera CVBA* | 1 September 2008 | Philipssite 5, box 10, 3001 Leuven, Belgium | 25 903 183 (7.29%) |
| MRBB CVBA* | 1 September 2008 | Diestsevest 40, 3000 Leuven, Belgium | 42 562 675 (11.99%) |
| Other core shareholders* | 1 September 2008 | C/o Ph. Vlerick, Ronsevaalstraat 2, 8510 Bellegem, Belgium | 39 867 989 (11.23%) |
| KBC group companies | 1 September 2008 | Havenlaan 2, 1080 Brussels, Belgium | 18 240 777 (5.14%) |
| BlackRock Inc. | 15 September 2010 | 33 King William Street, London EC4R 9AS, United Kingdom | 11 047 165 (3.09%) |

* Of these shares, the following quantities were contributed by the entities and individuals acting in concert: 32 634 899 by KBC Ancora Comm.VA, 10 080 938 by Cera CVBA, 26 436 213 by MRBB CVBA and all 39 867 989 by other core shareholders. These shares were the subject of a separate notification.

**Information on own shares held by companies belonging to the KBC group (Articles 624 and 631 of the Belgian Companies Code)**

**Shareholder structure on 31-12-2010 (disclosures in accordance with Article 631 of the Belgian Companies Code)**

| | **Address** | **Number of KBC shares** |
|---|---|---|
| Assurisk SA | 8-10, Avenue de la Gare, 1610 Luxembourg, Grand Duchy of Luxembourg | 300 |
| KBC Bank NV | Havenlaan 2, 1080 Brussels, Belgium | 3 919 045 |
| KBC Investments Limited | 111 Old Broad Street, EC2N 1FP London, United Kingdom | 341 |
| KBC Securities NV | Havenlaan 12, 1080 Brussels, Belgium | 2 |
| VITIS Life Luxembourg SA | 7, Boulevard Royal, postbox 803, 2018 Luxembourg, Grand Duchy of Luxembourg | 2 400 |
| **Total** | | **3 922 088** |
| *As a percentage of the total number of shares* | | *1.1%* |

| **KBC Group NV own shares, 31-12-2010** | **Address** | **Number of KBC shares** |
|---|---|---|
| KBC Group NV | Havenlaan 2, 1080 Brussels, Belgium | 14 249 707 |

The average par value of the KBC share came to 3.48 euros during 2010. At year-end, own shares held by group companies (including KBC Group NV itself) represented 5.1% of the issued share capital. The number of own shares held by group companies changed only slightly in 2010 (a decrease of 17 422 shares, par value of 0.06 million euros, or 0.005% of the issued capital; sales price of the transferred shares: 0.6 million euros).

Please note that the number of shares shown in the table may differ from the number stated in the notifications pursuant to the Belgian Act of 2 May 2007 as a change in the number of shares held does not always give rise to a new notification.

## Note 5: Balance sheet

At year-end 2010, total assets came to 17 359 million euros. 'Financial fixed assets' are discussed in Note 1. Listed under 'Current assets', 'Investments' came to 370 million euros, a year-on-year decline of 97 million euros that was accounted for by the decrease in term investments to zero (-30 million euros) and the drop in value of own shares (-67 million euros). This decrease in value was due primarily to write-downs being recorded according to the lower of cost or market (LOCOM) rule. 'Equity' is dealt with in Notes 2 and 3. 'Amounts payable at more than one year' amounted to 7 633 million euros. The year-on-year decrease (-202 million euros) was due chiefly to the transfer of a loan (200 million euros) to 'Amounts payable within one year'. 'Financial debts payable within one year' totalled 424 million euros, 341 million euros more than the year-earlier figure owing mainly to the drawdown of an advance in current account (240 million euros) and the amount owed to Kredietcorp SA following the purchase of KBL EPB shares (101 million euros). 'Other amounts payable' stood at 865 million euros, 850 million euros higher than in 2009. This increase was attributable chiefly to the coupon (595 million euros) due on the 7 billion euros' worth of core-capital securities subscribed by the Belgian Federal and Flemish Regional governments and dividends to be paid (258 million euros).

## Note 6: Profit and loss account

KBC Group NV generated a net loss of 959 million euros in 2010, as opposed to a net profit of 159 million euros a year earlier. The main financial income and expense items in 2010 were dividend receipts totalling 28 million euros (a year-on-year decrease of 231 million euros accounted for primarily by KBC Asset Management paying a lower dividend and by Kredietcorp SA and KBL EPB not paying any dividend), the write-down (67 million euros) due to the LOCOM valuation of own shares held in portfolio and the coupon payment on the core-capital securities issued to the Belgian Federal and Flemish Regional governments (8.5% of 7 billion euros, or 595 million euros). The main extraordinary expense items in 2010 concerned an additional write-down on the shareholding in KBL EPB (266 million euros).

## Note 7: Auditor's remuneration

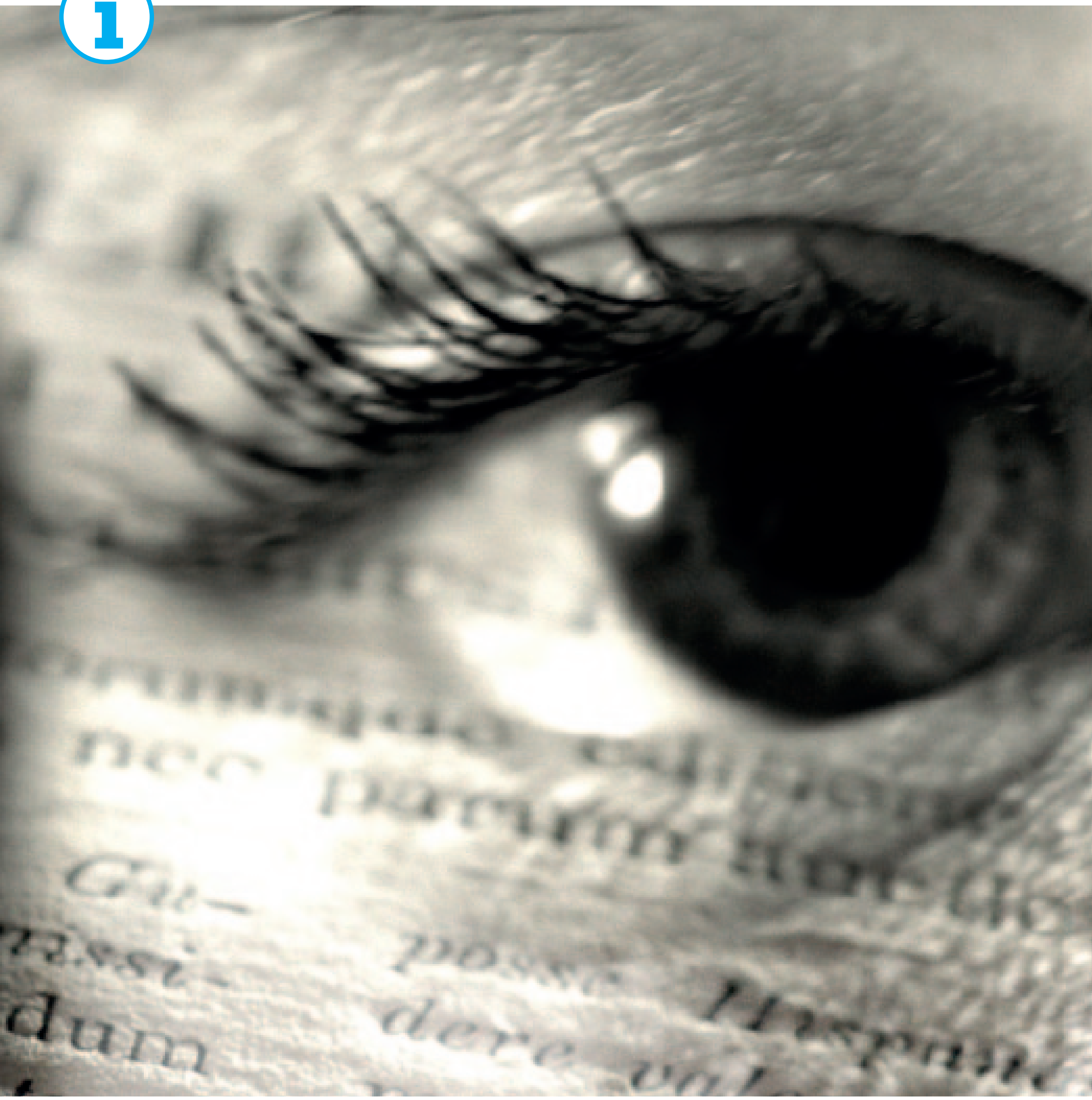
In 2010, KBC Group NV paid Ernst & Young Bedrijfsrevisoren BCVBA fees of 91 683 euros for standard audit services. Remuneration paid for non-audit services came to 197 030 euros, viz.: other certifications: 55 466 euros and other non-audit assignments: 141 564 euros.

## Note 8: Branch offices

KBC Group NV does not have any branch offices (either in Belgium or abroad).

## Note 9: Additional information

The information required by Article 96 of the Belgian Companies Code that has not been provided above appears in the 'Report of the Board of Directors' section, which also includes the 'Corporate governance statement' required by law.



# 4 Additional information

In order to maintain its capital base at a sufficiently high level, KBC issued capital-strengthening instruments to the Belgian Federal and Flemish Regional governments in 2008 and 2009. In addition, KBC signed a guarantee agreement with the Belgian State in 2009 in respect of CDO and MBIA-related exposure.

## 7 billion euros' worth of core-capital securities sold to the Belgian State and the Flemish Region

Since the end of 2008, KBC Group NV has issued a total of 7 billion euros in perpetual, non-transferable, non-voting core-capital securities that have equal ranking (*pari passu*) with ordinary shares upon liquidation. These have been subscribed by the Belgian State (the Federal Holding and Investment Company) and the Flemish Region (each in the amount of 3.5 billion euros). The transaction with the Belgian State was concluded in December 2008, while the agreement with the Flemish Region was signed in July 2009. KBC used the proceeds of these transactions to strengthen the core capital of its banking activities by 5.5 billion euros (via an ordinary capital increase at KBC Bank NV) and to raise the solvency margin of its insurance activities by 1.5 billion euros (via an ordinary capital increase at KBC Insurance NV).

Other features of the transactions (simplified):
- Issue price: 29.50 euros per security.
- Coupon: the higher of (i) 2.51 euros per security (corresponding to an interest rate of 8.5%), and (ii) 120% of the dividend paid on ordinary shares for 2009 (coupon payment in 2010) and 125% for 2010 and subsequent years (coupon payments in 2011 and later). No coupon is payable if there is no dividend.
- Buyback option: subject to the approval of the financial regulator, KBC Group NV may at any time repurchase all or some of the securities at 150% of the issue price (44.25 euros), payable in cash.
- Exchange option (only valid for the transaction with the Belgian State): after three years (i.e. in December 2011), KBC Group NV may at any time exchange all or some of the securities for ordinary shares on a one-for-one basis. Should KBC Group NV decide to do this, the State may choose to receive payment in cash for the securities. The cash amount will be equal to 115% of the issue price as of the fourth year and will increase each subsequent year by 5 percentage points (with a cap at 150%).

## Guarantee agreement in respect of CDO and MBIA-related exposure

In May 2009, KBC reached an agreement with the Belgian State regarding a guarantee for a substantial part of its structured credit portfolio. The plan basically comprises a notional amount that initially totalled 20 billion euros, with 5.5 billion euros relating to unhedged super senior CDO investments and 14.4 billion euros relating to counterparty exposure to MBIA. The transaction is structured as follows (the CDO portfolio consists of several different CDOs; the guarantee structure applies to each CDO; the following figures refer to the sum of all CDOs covered by the plan). As one of the CDOs (Aldersgate) reached maturity in 2010, the initial amounts have been changed.
- First tranche of 3.1 (initially 3.2) billion euros: KBC bears any credit losses in full.
- Second tranche of 1.9 (initially 2) billion euros: KBC bears any credit losses. It has the option of asking the Belgian State to subscribe to newly issued KBC shares at market value, for 90% of the loss in this tranche (KBC continues to bear 10% of the risk).
- Third tranche of 13.0 (initially 14.8) billion euros: 90% of any credit losses will be compensated in cash by the State (KBC continues to bear 10% of the risk).

This agreement largely mitigates the potential negative impact of the relevant MBIA and CDO exposure. Nevertheless, the results will remain volatile to a certain degree in the future, since rising market values, for instance, could lead to existing valuation losses being reversed (which would have a positive impact on the results). If, however, the market value of the products in question were then to decline once again, fresh valuation losses would have to be recorded. Whatever the case, the guarantee agreement will cap the cumulative total of valuation losses (and, as stated, KBC will have to bear part of the risk).

KBC has to pay a fee for this guarantee agreement. More information on the impact on the income statement in 2009 and 2010 can be found in Note 5 in the 'Consolidated financial statements' section.

## EU approval

On 30 September 2009, KBC submitted a detailed plan to the European Commission in respect of the support it had received from government. In addition to the renewed strategy, the plan included a repayment schedule for the aforementioned core-capital securities. The European Commission approved the plan on 18 November 2009.

## Glossary of ratios used

**Basic earnings per share**

[result after tax, attributable to equity holders of the parent] / [average number of ordinary shares, plus mandatorily convertible bonds, less treasury shares]. If a coupon is paid on the core-capital securities sold to the Belgian and Flemish governments, it will be deducted from the numerator.

**CAD ratio**

[regulatory capital] / [total risk-weighted volume]. For detailed calculations, see the 'Value and risk management' section.

**Combined ratio (non-life insurance)**

[technical insurance charges, including the internal cost of settling claims / earned insurance premiums] + [operating expenses / written insurance premiums] (after reinsurance in each case). The definition was refined in 2010 and the reference figures restated for 2009.

**Cost/income ratio**

[operating expenses of the banking activities] / [total income of the banking activities].

**Cover ratio**

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

**Credit cost ratio**

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

**Diluted earnings per share**

[result after tax, attributable to equity holders of the parent, adjusted for interest expense (after tax) for non-mandatorily convertible bonds] / [average number of ordinary shares, plus mandatorily convertible bonds, less treasury shares, plus the dilutive effect of options (number of stock options allocated to staff with an exercise price less than the market price) and non-mandatorily convertible bonds]. If a coupon is paid on the core-capital securities sold to the Belgian and Flemish governments, it will be deducted from the numerator.

**Dividend per share**

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

**Equity market capitalisation**

[closing price of KBC share] x [number of ordinary shares].

**Net expense ratio (insurance)**

[operating expenses / written insurance premiums] (after reinsurance in each case).

**Net interest margin**

[underlying net interest income of the banking activities] / [average interest-bearing assets of the banking activities].

**Non-performing loan ratio**

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

**Parent shareholders' equity per share**

[parent shareholders' equity] / [number of ordinary shares plus mandatorily convertible bonds, less treasury shares (at period-end)].

**Return on allocated capital for a particular business unit**

[result after tax (including minority interests) of a business unit, adjusted to take account of allocated capital instead of actual capital] / [average allocated capital of the business unit]. The result of a business unit is the sum of the net profit or loss made by all the companies in that business unit, adjusted to take account of allocated central overheads and the funding cost of goodwill paid. The capital allocated to a business unit is based on the risk-weighted assets for the banking activities and risk-weighted asset equivalents for the insurance activities.

**Return on equity**

[result after tax, attributable to equity holders of the parent] / [average parent shareholders' equity, excluding the revaluation reserve for available-for-sale assets]. If a coupon is paid on the core-capital securities sold to the Belgian and Flemish governments, it will be deducted from the numerator.

**Solvency ratio (insurance)**

[available solvency capital] / [minimum regulatory solvency capital].

**(Core) Tier-1 ratio**

[tier-1 capital] / [total risk-weighted volume]. For detailed calculations, see the 'Value and risk management' section. The calculation of the core tier-1 ratio does not include hybrid instruments (but does include the core-capital securities sold to the Belgian and Flemish governments).

# Management certification

*'I, Luc Philips, Chief Financial Officer of the KBC group, certify on behalf of the Executive Committee of KBC Group NV that, to the best of my knowledge, the financial statements, which are based on the relevant standards for annual accounts, fairly present in all material respects the assets, the financial condition and results of KBC Group NV and its consolidated companies, and that the annual report provides a fair overview of the development, results and the situation of KBC Group NV and its consolidated companies, as well as an overview of the main risks and uncertainties to which they are exposed.'*

## List of companies included in or excluded from the scope of consolidation, and associated companies as at 31 December 2010

| Name | Registered office | National identification number | Share of capital held at group level (in %) |
|---|---|---|---|
| KBC Bank: subsidiaries that are fully consolidated | | | |
| KBC Bank NV | Brussels – BE | 0462.920.226 | 100.00 |
| Commercial bank ‘Absolut Bank’ (ZAO) | Moscow – RU | – | 95.00 |
| Absolut Capital (Luxembourg) SA | Luxembourg – LU | – | 95.00 |
| Absolut Finance SA | Luxembourg – LU | – | 95.00 |
| Limited liability company ‘Absolut Leasing’ | Moscow – RU | – | 95.00 |
| Limited liability company Leasing company ‘Absolut’ | Moscow – RU | – | 95.00 |
| Antwerp Diamond Bank NV | Antwerp – BE | 0404.465.551 | 100.00 |
| ADB Asia Pacific Limited | Singapore – SG | – | 100.00 |
| Banque Diamantaire (Suisse) SA | Geneva – CH | – | 100.00 |
| Radiant Limited Partnership | Jersey – GB | – | 80.00 |
| CBC Banque SA | Brussels – BE | 0403.211.380 | 100.00 |
| Centea NV | Antwerp – BE | 0404.477.528 | 99.56 |
| Československá Obchodná Banka a.s. | Bratislava – SK | – | 100.00 |
| ČSOB Asset Management, spáv. spol., a.s. | Bratislava – SK | – | 100.00 |
| ČSOB d.s.s. a.s. | Bratislava – SK | – | 100.00 |
| ČSOB Factoring a.s. | Bratislava – SK | – | 100.00 |
| ČSOB Leasing a.s. | Bratislava – SK | – | 100.00 |
| ČSOB Leasing Poist’ovaci Maklér s.r.o. | Bratislava – SK | – | 100.00 |
| ČSOB Stavebná Sporitel’ňa a.s. | Bratislava – SK | – | 100.00 |
| Istrofinance s.r.o. | Bratislava – SK | – | 100.00 |
| Československá Obchodní Banka a.s. | Prague – CZ | – | 100.00 |
| Auxilium a.s. | Prague – CZ | – | 100.00 |
| Bankovní Informační Technologie s.r.o. | Prague – CZ | – | 100.00 |
| Centrum Radlická a.s. | Prague – CZ | – | 100.00 |
| ČSOB Asset Management a.s. | Prague – CZ | – | 100.00 |
| ČSOB Factoring a.s. | Prague – CZ | – | 100.00 |
| ČSOB Investiční Společnost a.s. | Prague – CZ | – | 100.00 |
| ČSOB Investment Banking Service a.s. | Prague – CZ | – | 100.00 |
| ČSOB Leasing a.s. | Prague – CZ | – | 100.00 |
| ČSOB Leasing Pojist’ovaci Maklér s.r.o. | Prague – CZ | – | 100.00 |
| ČSOB Penzijní fond Progres a.s. | Prague – CZ | – | 100.00 |
| ČSOB Penzijní fond Stabilita a.s. | Prague – CZ | – | 100.00 |
| ČSOB Property Fund a.s. | Prague – CZ | – | 100.00 |
| Merrion Properties a.s. | Prague – CZ | – | 100.00 |
| Property Skalika s.r.o. | Bratislava – SK | – | 100.00 |
| Hypoteční Banka a.s. | Prague – CZ | – | 100.00 |
| CIBANK AD | Sofia – BG | – | 100.00 |
| IIB Finance Ireland | Dublin – IE | – | 100.00 |
| KBC Finance Ireland | Dublin – IE | – | 100.00 |
| K&H Bank Zrt. | Budapest – HU | – | 100.00 |
| K&H Csoportszolgáltató Központ Kft. | Budapest – HU | – | 100.00 |
| K&H Equities Consulting Private Limited Company | Budapest – HU | – | 100.00 |
| K&H Ertékpapir Befektetési Alapkezelö Rt. | Budapest – HU | – | 100.00 |
| K&H Factor Zrt. | Budapest – HU | – | 100.00 |
| K&H Pannonlizing Rt. | Budapest – HU | – | 100.00 |
| K&H Alkusz Kft. | Budapest – HU | – | 100.00 |
| K&H Autófinanszirozó Pénzügyl Szolgátató Rt. | Budapest – HU | – | 100.00 |
| K&H Autópark Bérleti és Szolg Kft. | Budapest – HU | – | 100.00 |
| K&H Eszközfinanszirozó Rt. | Budapest – HU | – | 100.00 |
| K&H Eszközlizing Gép-és Thrgj. Bérleti Kft. | Budapest – HU | – | 100.00 |
| K&H Ingatlanlizing Kft. | Budapest – HU | – | 100.00 |
| K&H Lizing Zrt. | Budapest – HU | – | 100.00 |
| KBC Asset Management NV | Brussels – BE | 0469.444.267 | 100.00 |
| Eperon Asset Management Limited | Dublin – IE | – | 100.00 |
| KBC Asset Management SA | Luxembourg – LU | – | 100.00 |
| KBC Conseil Service SA | Luxembourg – LU | – | 100.00 |
| KBC Participations Access SA | Luxembourg – LU | – | 100.00 |

| Name | Registered office | National identification number | Share of capital held at group level (in %) |
|---|---|---|---|
| KBC Participations Bonds SA | Luxembourg – LU | – | 100.00 |
| KBC Participations Cash SA | Luxembourg – LU | – | 100.00 |
| KBC Participations Districlick SA | Luxembourg – LU | – | 100.00 |
| KBC Participations Equity SA | Luxembourg – LU | – | 100.00 |
| KBC Participations Invest SA | Luxembourg – LU | – | 100.00 |
| KBC Participations Life SA | Luxembourg – LU | – | 100.00 |
| KBC Participations Money SA | Luxembourg – LU | – | 100.00 |
| KBC Participations Partners SA | Luxembourg – LU | – | 100.00 |
| KBC Participations Renta SA | Luxembourg – LU | – | 100.00 |
| KBC Towarzystwo Funduszy Inwestycyjnych a.s. | Warsaw – PL | – | 94.00 |
| KBC Bank Deutschland AG | Bremen – DE | – | 100.00 |
| KBC Bank Funding LLC II | New York – US | – | 100.00 |
| KBC Bank Funding LLC III | New York – US | – | 100.00 |
| KBC Bank Funding LLC IV | New York – US | – | 100.00 |
| KBC Bank Funding Trust II | New York – US | – | 100.00 |
| KBC Bank Funding Trust III | New York – US | – | 100.00 |
| KBC Bank Funding Trust IV | New York – US | – | 100.00 |
| KBC Bank Ireland Plc. | Dublin – IE | – | 100.00 |
| Bencrest Properties Limited | Dublin – IE | – | 100.00 |
| Boar Lane Nominee (Number 1) Limited | Dublin – IE | – | 100.00 |
| Boar Lane Nominee (Number 2) Limited | Dublin – IE | – | 100.00 |
| Boar Lane Nominee (Number 3) Limited | Dublin – IE | – | 100.00 |
| Danube Holdings Limited | Dublin – IE | – | 100.00 |
| Glare Nominee Limited | Dublin – IE | – | 100.00 |
| IIB Finance Limited | Dublin – IE | – | 100.00 |
| IIB Asset Finance Limited | Dublin – IE | – | 100.00 |
| IIB Commercial Finance Limited | Dublin – IE | – | 100.00 |
| IIB Leasing Limited | Dublin – IE | – | 100.00 |
| Lease Services Limited | Dublin – IE | – | 100.00 |
| IIB Homeloans and Finance Limited | Dublin – IE | – | 100.00 |
| Cluster Properties Company | Dublin – IE | – | 100.00 |
| Demilune Limited | Dublin – IE | – | 100.00 |
| KBC Homeloans and Finance Limited | Dublin – IE | – | 100.00 |
| Premier Homeloans Limited | Surrey – GB | – | 100.00 |
| Intercontinental Finance | Dublin – IE | – | 100.00 |
| Irish Homeloans and Finance Limited | Dublin – IE | – | 100.00 |
| KBC Nominees Limited | Dublin – IE | – | 100.00 |
| KBC Mortgage Finance | Dublin – IE | – | 100.00 |
| Linkway Developments Limited | Dublin – IE | – | 100.00 |
| Maurevel Investment Company Limited | Dublin – IE | – | 100.00 |
| Meridian Properties Limited | Dublin – IE | – | 100.00 |
| Merrion Commercial Leasing Limited | Surrey – GB | – | 100.00 |
| Merrion Equipment Finance Limited | Surrey – GB | – | 100.00 |
| Merrion Leasing Assets Limited | Surrey – GB | – | 100.00 |
| Merrion Leasing Finance Limited | Surrey – GB | – | 100.00 |
| Merrion Leasing Industrial Limited | Surrey – GB | – | 100.00 |
| Merrion Leasing Limited | Surrey – GB | – | 100.00 |
| Merrion Leasing Services Limited | Surrey – GB | – | 100.00 |
| Monastersky Limited | Dublin – IE | – | 100.00 |
| Needwood Properties Limited | Dublin – IE | – | 100.00 |
| Perisda Limited | Dublin – IE | – | 100.00 |
| Phoenix Funding 2 Limited | Dublin – IE | – | 100.00 |
| Phoenix Funding 3 Limited | Dublin – IE | – | 100.00 |
| Phoenix Funding 4 Limited | Dublin – IE | – | 100.00 |
| Quintor Limited | Dublin – IE | – | 100.00 |
| Rolata Limited | Douglas – IM | – | 100.00 |
| Staple Properties Limited | Dublin – IE | – | 100.00 |
| Stepstone Mortgage Services Limited | Dublin – IE | – | 100.00 |
| KBC Clearing NV | Amsterdam – NL | – | 100.00 |
| KBC Commercial Finance NV | Brussels – BE | 0403.278.488 | 100.00 |
| KBC Consumer Finance IFN sa | Bucharest – RO | – | 100.00 |

| Name | Registered office | National identification number | Share of capital held at group level (in %) |
|---|---|---|---|
| KBC Consumer Finance NV | Brussels – BE | 0473.404.540 | 60.01 |
| KBC Credit Investments NV | Brussels – BE | 0887.849.512 | 100.00 |
| KBC Financial Products UK Limited | London – GB | – | 100.00 |
| Baker Street Finance Limited | Jersey – GB | – | 100.00 |
| Baker Street USD Finance Limited | Jersey – GB | – | 100.00 |
| Dorset Street Finance Limited | Jersey – GB | – | 100.00 |
| Hanover Street Finance Limited | Jersey – GB | – | 100.00 |
| KBC Financial Products Hong Kong Limited | Hong Kong – HK | – | 100.00 |
| Pembridge Square Limited | Jersey – GB | – | 100.00 |
| Picaros Funding Plc. | Dublin – IE | – | 100.00 |
| Picaros Purchasing No.3 Limited | Dublin – IE | – | 100.00 |
| Regent Street Finance Limited | Jersey – GB | – | 100.00 |
| Sydney Street Finance Limited | Jersey – GB | – | 100.00 |
| KBC Financial Holding Inc. | Wilmington – US | – | 100.00 |
| KBC Financial Products (Cayman Islands) Limited 'Cayman I' | George Town – KY | – | 100.00 |
| KBC Financial Products International Limited 'Cayman III' | George Town – KY | – | 100.00 |
| Corona Delaware LLC | Wilmington – US | – | 100.00 |
| KBC Financial Products USA Inc. | Wilmington – US | – | 100.00 |
| Pacifica Group LLC | Wilmington – US | – | 100.00 |
| Equity Key LLC | Wilmington – US | – | 100.00 |
| Equity Key Real Estate Option LLC | San Diego – US | – | 100.00 |
| EK002 LLC | San Diego – US | – | 100.00 |
| EK003 LLC | San Diego – US | – | 100.00 |
| EK045 LLC | San Diego – US | – | 100.00 |
| Lonsdale LLC | Wilmington – US | – | 100.00 |
| Midas Life Settlements LLC | Delaware – US | – | 100.00 |
| Upright RM Holdings LLC | New York – US | – | 100.00 |
| Reverse Mortgage Trust I | New York – US | – | 100.00 |
| Upright Holdings FP Inc. | New York – US | – | 100.00 |
| World Alliance Financial Corporation | New York – US | – | 100.00 |
| KBC Investments Hong Kong Limited | Hong Kong – HK | – | 100.00 |
| KBC Consultancy Services (Shenzhen) Limited | Shenzhen – CN | – | 100.00 |
| KBC Investments Asia Limited | Hong Kong – HK | – | 100.00 |
| KBC Investments Cayman Islands Limited 'Cayman IV' | George Town – KY | – | 100.00 |
| KBC Investments Cayman Islands V Limited | George Town – KY | – | 100.00 |
| KBC Investments Limited | London – GB | – | 100.00 |
| KBC Internationale Financieringsmaatschappij NV | Rotterdam – NL | – | 100.00 |
| KBC Lease Holding NV | Leuven – BE | 0403.272.253 | 100.00 |
| Fitraco NV | Leuven – BE | 0425.012.626 | 100.00 |
| INK Consultanta – Broker de Asigurare SRL | Bucharest – RO | – | 100.00 |
| KBC Autolease NV | Leuven – BE | 0422.562.385 | 100.00 |
| KBC Bail Immobilier France sas | Paris – FR | – | 100.00 |
| KBC Immolease NV | Leuven – BE | 0444.058.872 | 100.00 |
| KBC Lease Belgium NV | Leuven – BE | 0426.403.684 | 100.00 |
| KBC Autolease Polska Sp z.o.o. | Warsaw – PL | – | 100.00 |
| KBC Lease France SA | Lyon – FR | – | 100.00 |
| KBC Bail France sas | Lyon – FR | – | 100.00 |
| KBC Lease (Nederland) BV | Bussum – NL | – | 100.00 |
| Cathar BV | Bussum – NL | – | 100.00 |
| Gooieen BV | Bussum – NL | – | 100.00 |
| Hospiveen BV | Bussum – NL | – | 100.00 |
| Mercala 1 BV | Bussum – NL | – | 100.00 |
| Mercala 2 BV | Bussum – NL | – | 100.00 |
| KBC Lease (UK) Limited | Surrey – GB | – | 100.00 |
| KBC Lease (Deutschland) GmbH & Co. KG | Kronberg – DE | – | 92.00 |
| KBC Lease (Deutschland) Vermietungs GmbH | Kronberg – DE | – | 92.00 |
| KBC Vendor Lease (Deutschland) Service GmbH | Kronberg – DE | – | 92.00 |
| KBC Vendor Finance (Deutschland) GmbH | Kronberg – DE | – | 92.00 |
| Protection One Service GmbH | Kronberg – DE | – | 92.00 |
| KBC Lease (Deutschland) Verwaltungs GmbH | Kronberg – DE | – | 76.00 |
| KBC Lease España SA | Madrid – ES | – | 100.00 |

| Name | Registered office | National identification number | Share of capital held at group level (in %) |
|---|---|---|---|
| KBC Lease Italia S.p.A. | Verona – IT | – | 100.00 |
| KBC Lease (Luxembourg) SA | Strassen – LU | – | 100.00 |
| Romstal Leasing IFN SA | Bucharest – RO | – | 99.83 |
| Securitas sam | Monaco – MC | – | 100.00 |
| KBC North American Finance Corporation | New York – US | – | 100.00 |
| KBC Private Equity NV | Brussels – BE | 0403.226.228 | 100.00 |
| Boxco NV | Harelbeke – BE | 0874.529.234 | 100.00 |
| Allbox NV | Harelbeke – BE | 0417.348.339 | 100.00 |
| Degen Emballages SA | Herstal – BE | 0425.206.230 | 100.00 |
| Verkoopkantoor Allbox en Desouter NV | Harelbeke – BE | 0419.278.540 | 100.00 |
| Descar NV | Harelbeke – BE | 0405.322.613 | 100.00 |
| Dynaco Group NV | Moorsel – BE | 0893.428.495 | 89.54 |
| Dynaco Europe NV | Moorsel – BE | 0439.752.567 | 89.54 |
| Dynaco USA Inc. | Mundelein – US | – | 89.54 |
| KBC ARKIV NV | Brussels – BE | 0878.498.316 | 52.00 |
| Novaservis a.s. | Brno – CZ | – | 91.58 |
| 2 B Delighted NV | Roeselare – BE | 0891.731.886 | 99.58 |
| ILLUM BV | Leimuiden – NL | – | 99.58 |
| Wever & Ducré NV | Roeselare – BE | 0412.881.191 | 99.58 |
| Asia Pacific Trading & Investment Co Limited | Hong Kong – HK | – | 99.58 |
| Dark NV | Roeselare – BE | 0472.730.389 | 99.58 |
| Limis Beyond Light NV | Roeselare – BE | 0806.059.310 | 99.58 |
| Wever & Ducré Asia Pacific Limited | Hong Kong – HK | – | 99.58 |
| Wever & Ducré BV | The Hague – NL | – | 99.58 |
| Wever & Ducré GmbH | Herzogenrath – DE | – | 99.58 |
| Wever & Ducré Iluminación SL | Madrid – ES | – | 99.58 |
| Wever & Ducré Shanghai Limited | Shanghai – CN | – | 99.58 |
| KBC Real Estate Luxembourg SA | Luxembourg – LU | – | 100.00 |
| KBC Real Estate NV | Brussels – BE | 0404.040.632 | 100.00 |
| Almafin Real Estate NV | Brussels – BE | 0403.355.494 | 100.00 |
| Almafin Real Estate Services NV | Brussels – BE | 0416.030.525 | 100.00 |
| Immo Arenberg NV | Brussels – BE | 0471.901.337 | 100.00 |
| KBC Vastgoedinvesteringen NV | Brussels – BE | 0455.916.925 | 99.00 |
| KBC Vastgoedportefeuille België NV | Brussels – BE | 0438.007.854 | 100.00 |
| KBC Rusthuisvastgoed NV | Brussels – BE | 0864.798.253 | 100.00 |
| Novoli Investors BV | Amsterdam – NL | – | 83.33 |
| Poelaert Invest NV | Zaventem – BE | 0478.381.531 | 99.99 |
| Vastgoed Ruimte Noord NV | Brussels – BE | 0863.201.515 | 100.00 |
| KBC Securities NV | Brussels – BE | 0437.060.521 | 100.00 |
| KBC Equitas LLC | Budapest – HU | – | 100.00 |
| KBC Securitas a.d. Beograd | Belgrade – RS | – | 100.00 |
| KBC Securities Romania SA | Bucharest – RO | – | 100.00 |
| SAI Swiss Capital Asset Management SA | Bucharest – RO | – | 100.00 |
| Patria Finance a.s. | Prague – CZ | – | 100.00 |
| Patria Direct a.s. | Prague – CZ | – | 100.00 |
| Kredyt Bank SA | Warsaw – PL | – | 80.00 |
| Kredyt Lease SA | Warsaw – PL | – | 80.00 |
| Kredyt Trade Sp z.o.o. | Warsaw – PL | – | 80.00 |
| Reliz SA | Katowice – PL | – | 80.00 |
| Loan Invest NV 'Institutional company for investment in receivables under Belgian law' | Brussels – BE | 0889.054.884 | 100.00 |
| Old Broad Street Invest NV | Brussels – BE | 0871.247.565 | 100.00 |
| 111 OBS Limited Partnership | London – GB | – | 100.00 |
| 111 OBS (General Partner) Limited | London – GB | – | 100.00 |
| Quasar Securitisation Company NV | Brussels – BE | 0475.526.860 | 100.00 |
| Żagiel SA | Warsaw – PL | – | 100.00 |
| **KBC Bank: subsidiaries that are not fully consolidated** | | | |
| 111 OBS (Nominee) Limited[1] | London – GB | – | 100.00 |
| 2 B Delighted Italia Srl[1] | Turin – IT | – | 99.58 |
| Absolut Capital Trust Limited[1] | Limassol – CY | – | 95.00 |
| ADB Private Equity Limited[1] | Jersey – GB | – | 80.00 |
| ADB Private Equity Research BVBA[1] | Antwerp – BE | 0894.314.363 | 80.00 |

| Name | Registered office | National identification number | Share of capital held at group level (in %) |
|---|---|---|---|
| Aldersgate Finance Limited[1] | Jersey – GB | – | 100.00 |
| Almaloisir & Immobilier sas[1] | Nice – FR | – | 100.00 |
| Apicinq NV[1] | Brussels – BE | 0469.891.457 | 97.99 |
| Apitri NV[1] | Diegem – BE | 0469.889.873 | 99.98 |
| Applied Maths Inc.[1] | Austin – US | – | 65.92 |
| Applied Maths NV[1] | Sint-Martens-Latem – BE | 0453.444.712 | 65.92 |
| Avebury Limited[1] | Dublin – IE | – | 100.00 |
| Bankowy Fundusz Inwestycyjny Serwis Sp z.o.o.[1] | Warsaw – PL | – | 80.00 |
| Brussels North Distribution NV[1] | Brussels – BE | 0476.212.887 | 99.05 |
| Chiswell Street Finance Limited[1] | Jersey – GB | – | 100.00 |
| City Hotels NV[1] | Zaventem – BE | 0416.712.394 | 85.51 |
| Clifton Finance Street Limited[1] | Jersey – GB | – | 100.00 |
| ČSOB Foundation[1] | Bratislava – SK | – | 100.00 |
| Dala Beheer BV[1] | Amsterdam – NL | – | 100.00 |
| Dala Property Holding III BV[1] | Amsterdam – NL | – | 100.00 |
| Dala Property Holding XV BV[1] | Amsterdam – NL | – | 100.00 |
| Di Legno Interiors NV[1] | Genk – BE | 0462.681.783 | 62.50 |
| DLI International NV[1] | Genk – BE | 0892.881.535 | 62.50 |
| Eurincasso s.r.o.[1] | Prague – CZ | – | 100.00 |
| Fulham Road Finance Limited[1] | Jersey – GB | – | 100.00 |
| Gie Groupe KBC Paris[1] | Paris – FR | – | 100.00 |
| Gulliver Kereskedelmi és Szolgátáto Kft[1] | Budapest – HU | – | 100.00 |
| Immo-Antares NV[2] | Brussels – BE | 0456.398.361 | 95.00 |
| Immo-Basilix NV[2] | Brussels – BE | 0453.348.801 | 95.00 |
| Immo-Beaulieu NV[2] | Brussels – BE | 0450.193.133 | 50.00 |
| Immobilière Distri-Land NV[2] | Brussels – BE | 0436.440.909 | 87.52 |
| Immo Genk-Zuid NV[1] | Zaventem – BE | 0464.358.497 | 100.00 |
| Immo Kolonel Bourgstraat NV[2] | Brussels – BE | 0461.139.879 | 50.00 |
| Immolease-Trust NV[1] | Brussels – BE | 0406.403.076 | 100.00 |
| Immo-Llan NV[2] | Brussels – BE | 0448.079.820 | 99.56 |
| Immo Lux-Airport SA[2] | Luxembourg – LU | – | 100.00 |
| Immo Marcel Thiry NV[2] | Brussels – BE | 0450.997.441 | 95.00 |
| Immo-Quinto NV[1] | Brussels – BE | 0466.000.470 | 100.00 |
| Immo Zenobe Gramme NV[2] | Brussels – BE | 0456.572.664 | 99.99 |
| IPCOS BV[1] | Boxtel – NL | – | 60.00 |
| IPCOS NV[1] | Heverlee – BE | 0454.964.840 | 60.00 |
| Julienne S.à.r.l.[1] | Bertrange – LU | – | 100.00 |
| Julienne Holdings S.à.r.l.[1] | Luxembourg – LU | – | 90.00 |
| Julie LH BVBA[1] | Brussels – BE | 0890.935.201 | 90.00 |
| Juliette FH BVBA[1] | Brussels – BE | 0890.935.397 | 90.00 |
| KB-Consult NV[1] | Brussels – BE | 0437.623.220 | 100.00 |
| KBC Alternative Investment Management Belgium NV[1] | Brussels – BE | 0883.054.940 | 100.00 |
| KBC Alternative Investment Management Limited[1] | London – GB | – | 100.00 |
| KBC Alternative Investment Management (USA) Inc.[1] | Delaware – US | – | 100.00 |
| KBCAM Australia Limited[1] | Sydney – AU | – | 51.00 |
| KBC Concord Asset Management Co. Limited[1] | Taipei – TW | – | 55.46 |
| KBC Diversified Fund (part of KBC AIM Master Fund)[1] | George Town – KY | – | 100.00 |
| KBC Financial Services (Ireland) Limited[1] | Dublin – IE | – | 100.00 |
| KBC Life Harvest Capital Fund[1] | Dublin – IE | – | 63.06 |
| KBC International Finance NV[1] | Rotterdam – NL | – | 100.00 |
| KBC Life Opportunity Fund[1] | Dublin – IE | – | 100.00 |
| KBC Participations Frequent SA[1] | Luxembourg – LU | – | 100.00 |
| KBC Private Equity Advisory Services Limited Liability Company[1] | Budapest – HU | – | 100.00 |
| KBC Private Equity Advisory Services Sp.z.o.o.[1] | Warsaw – PL | – | 100.00 |
| KBC Securities Corporate Finance LLC[1] | Belgrade – RS | – | 60.00 |
| KBC Securities LLC[1] | Moscow – RU | – | 100.00 |
| KBC Structured Finance Limited[1] | Sydney – AU | – | 100.00 |
| Kredietfinance Corporation (June) Limited[1] | Surrey – GB | – | 100.00 |
| Kredietfinance Corporation (September) Limited[1] | Surrey – GB | – | 100.00 |
| Kredietlease (UK) Limited[1] | Surrey – GB | – | 100.00 |
| Kredyt Bank SA i TUiR WARTA SA[1] | Warsaw – PL | – | 90.00 |

| Name | Registered office | National identification number | Share of capital held at group level (in %) |
|---|---|---|---|
| Lancaster Place Finance Limited[1] | Jersey – GB | – | 100.00 |
| Lancier LLC[1] | Delaware – US | – | 100.00 |
| Ligeva NV[1] | Mortsel – BE | 0437.002.519 | 100.00 |
| Limited liability company 'Absolut Capital'[1] | Moscow – RU | – | 95.00 |
| LIZAR Sp z.o.o.[1] | Warsaw – PL | – | 80.00 |
| Luxembourg North Distribution SA[1] | Luxembourg – LU | – | 99.11 |
| Mechelen City Center NV[1] | Heffen – BE | 0471.562.332 | 100.00 |
| Mezzafinance NV[1] | Brussels – BE | 0453.042.260 | 100.00 |
| Motokov a.s.[1] | Prague – CZ | – | 69.10 |
| Newcourt Street Finance Limited[1] | Jersey – GB | – | 100.00 |
| NV ACTIEF NV[1] | Brussels – BE | 0824.213.750 | 66.67 |
| Oxford Street Finance Limited[1] | Jersey – GB | – | 100.00 |
| Parkeergarage De Panne NV[1] | Brussels – BE | 0881.909.548 | 90.00 |
| Patria Finance CF a.s.[1] | Prague – CZ | – | 100.00 |
| Patria Finance Slovakia a.s. [1] | Bratislava – SK | – | 100.00 |
| Patria Online a.s. [1] | Prague – CZ | – | 100.00 |
| Pericles Invest NV[1] | Brussels – BE | 0871.593.005 | 99.50 |
| Picaros Purchasing No.1 Limited[1] | Dublin – IE | – | 100.00 |
| Picaros Purchasing No.2 Limited[1] | Dublin – IE | – | 100.00 |
| Property LM s.r.o.[1] | Prague – CZ | – | 100.00 |
| Quercus Scientific NV[1] | Sint-Martens-Latem – BE | 0884.920.310 | 65.92 |
| Risk Kft.[1] | Budapest – HU | – | 100.00 |
| Servipolis Management Company NV[1] | Zaventem – BE | 0442.552.206 | 70.00 |
| Sicalis BV[1] | Amsterdam – NL | – | 100.00 |
| TEE Square Limited[1] | Road Town – VG | – | 100.00 |
| Tormenta Investment Sp.z.o.o.[1] | Warsaw – PL | – | 100.00 |
| Vermögensverwaltungsgesellschaft Merkur mbH[1] | Bremen – DE | – | 100.00 |
| Weyveld Vastgoedmaatschappij NV[1] | Brussels – BE | 0425.517.818 | 100.00 |
| Willowvale Company[1] | Dublin – IE | – | 100.00 |
| Zipp Skutery Sp.z.o.o.[1] | Przasnysz – PL | – | 100.00 |
| **KBC Bank: joint subsidiaries that are proportionately consolidated** | | | |
| Českomoravská Stavební Spořitelna a.s. | Prague – CZ | – | 55.00 |
| Immobiliare Novoli S.p.A. | Florence – IT | – | 44.80 |
| KBC Goldstate Fund Management Co. Limited | Shanghai – CN | – | 49.00 |
| UNION KBC Asset Mangement Private Limited | Mumbai – IN | – | 49.00 |
| **KBC Bank: joint subsidiaries that are not proportionately consolidated[1]** | | | |
| Atrium Development SA | Luxembourg – LU | – | 25.00 |
| Barbarahof NV | Leuven – BE | 0880.789.197 | 30.00 |
| Consorzio Sandonato Est | Florence – IT | – | 20.24 |
| Covent Garden Development NV | Brussels – BE | 0892.236.187 | 25.00 |
| Covent Garden Real Estate NV | Zaventem – BE | 0872.941.897 | 50.00 |
| Flex Park Prague s.r.o. | Prague – CZ | – | 50.00 |
| FM-A Invest NV | Diegem – BE | 0460.902.725 | 50.00 |
| Jesmond Amsterdam NV | Amsterdam – NL | – | 50.00 |
| Miedziana Sp. z.o.o. | Warsaw – PL | – | 47.75 |
| Panton Kortenberg Vastgoed NV 'Pako Vastgoed' | Sint-Niklaas – BE | 0437.938.766 | 50.00 |
| Amdale Holdings Limited NV | Diegem – BE | 0452.146.563 | 50.00 |
| Pakobo NV | Diegem – BE | 0474.569.526 | 49.99 |
| Rumst Logistics NV | Machelen – BE | 0862.457.583 | 49.99 |
| Perifund NV | Brussels – BE | 0465.369.673 | 50.00 |
| Prague Real Estate NV | Zaventem – BE | 0876.309.678 | 50.00 |
| Real Estate Participation NV | Zaventem – BE | 0473.018.817 | 50.00 |
| Resiterra NV | Leuven – BE | 0460.925.588 | 50.00 |
| Rumst Logistics II NV | Machelen – BE | 0880.830.076 | 50.00 |
| Rumst Logistics III NV | Machelen – BE | 0860.829.383 | 50.00 |
| Sandonato Parcheggi Srl | Florence – IT | – | 44.80 |
| Sandonato Srl | Florence – IT | – | 44.80 |
| UNION KBC Trustee Company Private Limited | Mumbai – IN | – | 49.00 |
| Val d'Europe Holding NV | Zaventem – BE | 0808.932.092 | 45.00 |
| Val d'Europe Invest sas | Paris – FR | – | 45.00 |
| Xiongwei Lighting (Guangzhou) Co., Ltd. | Guangzhou – CN | – | 49.79 |

| Name | Registered office | National identification number | Share of capital held at group level (in %) |
|---|---|---|---|
| **KBC Bank: companies accounted for using the equity method** | | | |
| Giro Elszámolásforgáltátó Rt. | Budapest – HU | – | 20.99 |
| HAGE Hajdúsági Agráripari Résvényatársaság | Budapest – HU | – | 25.00 |
| K&H Lizingház Rt. (in liquidation) | Budapest – HU | – | 100.00 |
| Kvantum Követeléskezelõ és Befektetési Rt. (in liquidation) | Budapest – HU | – | 100.00 |
| Nova Ljubljanska banka d.d. | Ljubljana – SI | – | 30.57 |
| **KBC Bank: companies not accounted for using the equity method[1]** | | | |
| Banking Funding Company NV | Brussels – BE | 0884.525.182 | 20.93 |
| BCC Corporate NV | Brussels – BE | 0883.523.807 | 23.95 |
| Bedrijvencentrum Noordoost-Antwerp NV | Antwerp – BE | 0455.474.485 | 21.28 |
| Bedrijvencentrum Regio Roeselare NV | Roeselare – BE | 0428.378.724 | 22.22 |
| Bedrijvencentrum Rupelstreek NV | Aartselaar – BE | 0427.329.936 | 33.33 |
| Brand and Licence Company NV | Brussels – BE | 0884.499.250 | 20.00 |
| Czech Banking Credit Bureau a.s. | Prague – CZ | – | 20.00 |
| Etoiles d'Europe sas | Paris – FR | – | 45.00 |
| Isabel NV | Brussels – BE | 0455.530.509 | 25.33 |
| Justinvest NV | Antwerp – BE | 0476.658.097 | 33.33 |
| Kattendijkdok NV | Antwerp – BE | 0863.854.482 | 39.00 |
| První Certifikační Autorita a.s. | Prague – CZ | – | 23.25 |
| Rabot Invest NV | Antwerp – BE | 0479.758.733 | 25.00 |
| Sea Gate Logistics NV | Aalst – BE | 0480.040.627 | 25.00 |
| Xenarjo cvba | Mechelen – BE | 0899.749.531 | 24.99 |
| **KBC Insurance: subsidiaries that are fully consolidated** | | | |
| KBC Insurance NV | Leuven – BE | 0403.552.563 | 100.00 |
| ADD NV | Heverlee – BE | 0406.080.350 | 100.00 |
| Assurisk SA | Luxembourg – LU | – | 100.00 |
| Anglesea Financial Products Limited | Dublin – IE | – | 100.00 |
| KBC Financial Indemnity Insurance SA | Luxembourg – LU | – | 100.00 |
| ČSOB Pojišt'ovna a.s. | Pardubice – CZ | – | 100.00 |
| ČSOB Poist'ovňa a.s. | Bratislava – SK | – | 100.00 |
| Double U Building BV | Rotterdam – NL | – | 100.00 |
| DZI Insurance Plc | Sofia – BG | – | 90.35 |
| DZI – General Insurance JSC | Sofia – BG | – | 90.35 |
| DZI – Health Insurance AD | Sofia – BG | – | 90.35 |
| Medical Center DZI EOOD | Sofia – BG | – | 90.35 |
| Fidea NV | Antwerp – BE | 0406.006.069 | 100.00 |
| Groep VAB NV | Zwijndrecht – BE | 0456.267.594 | 74.81 |
| Red Holding NV | Sint-Niklaas – BE | 0881.519.172 | 74.81 |
| VRG Rijscholen NV | Borgerhout – BE | 0448.109.811 | 74.81 |
| Baert Sint-Niklaas NV | Sint-Niklaas – BE | 0451.656.645 | 74.81 |
| VAB NV | Zwijndrecht – BE | 0436.267.594 | 74.80 |
| K&H Insurance Rt. | Budapest – HU | – | 100.00 |
| KBC Banka A.D. Beograd | Belgrade – RS | – | 100.00 |
| KBC Life Fund Management SA | Luxembourg – LU | – | 100.00 |
| KBC Verzekeringen Vastgoed Nederland I BV | Rotterdam – NL | – | 100.00 |
| RTI Invest Kft | Budapest – HU | – | 100.00 |
| Towarzystwo Ubezpieczeń i Reasekuracji WARTA SA | Warsaw – PL | – | 100.00 |
| KBC Alpha SFIO | Warsaw – PL | – | 100.00 |
| PTE WARTA SA | Warsaw – PL | – | 100.00 |
| Towarzystwo Ubezpieczeń na Życie WARTA SA | Warsaw – PL | – | 100.00 |
| **KBC Insurance: subsidiaries that are not fully consolidated[1]** | | | |
| Almarisk NV | Merelbeke – BE | 0420.104.030 | 100.00 |
| Antwerpse Rijscholenmaatschappij NV | Antwerp – BE | 0425.748.242 | 74.81 |
| Brika 2000 NV | Hoboken – BE | 0471.300.531 | 74.81 |
| Car Dent Benelux NV | Zwijndrecht – BE | 0460.861.351 | 74.81 |
| ČSOB Insurance Service Limited | Pardubice – CZ | – | 100.00 |
| Depannage 2000 NV | Hoboken – BE | 0403.992.429 | 74.81 |
| European Rental Systems NV | Antwerp – BE | 0444.503.785 | 74.81 |
| Fundacja WARTA | Warsaw – PL | – | 100.00 |
| Gdynia America Shipping Lines (London) Limited | London – GB | – | 73.68 |
| Immo Campus Blairon NV | Brussels – BE | 0475.910.902 | 100.00 |

| Name | Registered office | National identification number | Share of capital held at group level (in %) |
|---|---|---|---|
| KBC Life Fund Management Ireland Limited | Dublin – IE | – | 99.00 |
| KBC Life Group Services Ireland Limited | Dublin – IE | – | 100.00 |
| KBC Zakenkantoor NV | Leuven – BE | 0462.315.361 | 100.00 |
| Limburgse Autorijschool BVBA | Hasselt – BE | 0420.345.342 | 74.81 |
| Maatschappij voor Brandherverzekering cvba | Leuven – BE | 0403.552.761 | 90.55 |
| Net Fund Administration Sp z.o.o. | Warsaw – PL | – | 99.22 |
| Omnia NV | Leuven – BE | 0413.646.305 | 100.00 |
| Probemo Dubbele Bediening NV | Sint-Niklaas – BE | 0435.357.180 | 74.81 |
| Rijscholen Erasmus BVBA | Hoboken – BE | 0465.442.226 | 74.81 |
| Rijscholen Sanderus NV | Mechelen – BE | 0413.004.719 | 74.81 |
| Rij Wijs BVBA | Zwijndrecht – BE | 0861.204.701 | 74.81 |
| VAB Fleet Services NV | Zwijndrecht – BE | 0866.583.053 | 52.19 |
| VIV Docu Kft | Budapest – HU | – | 100.00 |
| VIV Server Kft | Budapest – HU | – | 100.00 |
| WARTA Finance SA | Warsaw – PL | – | 100.00 |
| WARTA 24 Plus Sp.z.o.o. | Warsaw – PL | – | 100.00 |
| WARTA Nieruchomosci Sp.z.o.o. | Warsaw – PL | – | 100.00 |
| 24+ NV | Zwijndrecht – BE | 0895.810.836 | 87.41 |
| **KBC Insurance: joint subsidiaries that are proportionately consolidated** | | | |
| NLB Vita d.d. | Ljubljana – SI | – | 50.00 |
| **KBC Insurance: joint subsidiaries that are not proportionately consolidated[1]** | | | |
| Sepia NV | Brussels – BE | 0403.251.467 | 50.00 |
| **KBC Insurance: companies accounted for using the equity method** | | | |
| – | | | |
| **KBC Insurance: companies accounted for not using the equity method[1]** | | | |
| AIA-Pool cvba | Brussels – BE | 0453.634.752 | 33.50 |
| AssurCard NV | Leuven – BE | 0475.433.127 | 33.33 |
| Optimobil Belgium NV | Brussels – BE | 0471.868.277 | 33.33 |
| **KBL EPB: subsidiaries that are fully consolidated** | | | |
| KBL European Private Bankers SA | Luxembourg – LU | – | 99.91 |
| Brown, Shipley & Co. Limited | London – GB | – | 99.91 |
| Cawood, Smithie & Co. | London – GB | – | 99.91 |
| Fairmount Group Nominees Limited | Leatherhead – GB | – | 99.91 |
| Fairmount Pension Trustee Limited | London – GB | – | 99.91 |
| Fairmount Trustee Services Limited | Leatherhead – GB | – | 99.91 |
| KBL Investment Funds Limited | London – GB | – | 99.91 |
| Slark Trustee Company | Leatherhead – GB | – | 99.91 |
| The Brown Shipley Pension Portfolio Limited | London – GB | – | 99.91 |
| White Rose Nominee Limited | London – GB | – | 99.91 |
| Fidef Ingénierie Patrimoniale SA | La Rochelle – FR | – | 99.91 |
| Financière et Immobilière SA | Luxembourg – LU | – | 99.91 |
| KB Lux Immo SA | Luxembourg – LU | – | 99.91 |
| Centre Europe SA | Luxembourg – LU | – | 99.91 |
| Rocher Limited | Douglas – IM | – | 99.91 |
| sci KB Luxembourg Immo III (Monaco) | Monaco – MC | – | 99.91 |
| KBL Beteiligungs AG | Mainz – DE | – | 99.91 |
| Merck Finck & Co. | Munich – DE | – | 99.91 |
| Merck Finck Pension Fund | Munich – DE | – | 99.91 |
| Merck Finck Treuhand AG | Munich – DE | – | 99.91 |
| Unterstützungseinrichtung des Bankhauses Merck Finck & Co | Munich – DE | – | 99.91 |
| Modernisierungsgesellschaft Lübecker Strasse | Mainz – DE | – | 78.99 |
| KBL Monaco Private Bankers SA | Monaco – MC | – | 99.91 |
| sci KB Luxembourg Immo I (Monaco) | Monaco – MC | – | 99.91 |
| KBL Monaco Conseil et Courtage en Assurance | Monaco – MC | – | 99.91 |
| KBL Richelieu Banque Privée SA | Paris – FR | – | 99.91 |
| KBL France Gestion | Paris – FR | – | 99.91 |
| S.E.V. | Paris – FR | – | 68,92 |
| Kredietbank Informatique GIE | Luxembourg – LU | – | 99.91 |
| KBL (Switzerland) Ltd. | Geneva – CH | – | 99.90 |
| Privagest SA | Geneva – CH | – | 99.90 |
| Kredietrust Luxembourg SA | Luxembourg – LU | – | 99.91 |

| Name | Registered office | National identification number | Share of capital held at group level (in %) |
|---|---|---|---|
| Puilaetco Dewaay Private Bankers SA | Brussels – BE | 0403.236.126 | 99.91 |
| Banque Puilaetco Luxembourg SA | Luxembourg – LU | – | 99.91 |
| Theodoor Gilissen Bankiers NV | Amsterdam – NL | – | 99.91 |
| Administratiekantoor Interland BV | Amsterdam – NL | – | 99.91 |
| Trust- en Administratiekantoor Mij. Interland BV | Amsterdam – NL | – | 99.91 |
| Lange Voorbehout BV | Amsterdam – NL | – | 99.91 |
| Stroeve Asset Mangement BV | Amsterdam – NL | – | 99.91 |
| TG Fund Management BV | Amsterdam – NL | – | 99.91 |
| TG Ventures BV | Amsterdam – NL | – | 99.91 |
| Theodoor Gilissen Global Custody BV | Amsterdam – NL | – | 99.91 |
| Theodoor Gilissen Trust BV | Amsterdam – NL | – | 99.91 |
| Wereldeffect BV | Amsterdam – NL | – | 99.91 |
| VITIS Life SA | Luxembourg – LU | – | 99.91 |
| Data Office NV | Leuven – BE | 0413.719.252 | 99.91 |
| **KBL EPB: subsidiaries that are not fully consolidated[1]** | | | |
| Plateau Real Estate Limited | Douglas – IM | – | 99.91 |
| sci KB Luxembourg Immo II (Monaco) | Monaco – MC | – | 99.91 |
| Steubag Gesellschaft für Betriebswirtschafts- und Bankendienstleistungsberatung in Rheinland-Pfalz mbH | Mainz – DE | – | 99.91 |
| **KBL EPB: joint subsidiaries that are proportionately consolidated** | | | |
| – | | | |
| **KBL EPB: joint subsidiaries that are not proportionately consolidated[1]** | | | |
| – | | | |
| **KBL EPB: companies accounted for using the equity method** | | | |
| EFA Partners SA | Luxembourg – LU | – | 52.65 |
| European Fund Administration SA | Luxembourg – LU | – | 52.65 |
| European Fund Administration France sas | Paris – FR | – | 52.65 |
| **KBL EPB: companies accounted for not using the equity method[1]** | | | |
| Damsigt scp | Utrecht – NL | – | 24.56 |
| Forest Value Management Investment SA | Luxembourg – LU | – | 26.67 |
| **KBC Group: subsidiaries that are fully consolidated** | | | |
| KBC Group NV | Brussels – BE | 0403.227 515 | 100.00 |
| KBC Bank NV | Brussels – BE | 0462.920.226 | 100.00 |
| KBC Global Services NV | Brussels – BE | 0465.746.488 | 100.00 |
| KBC Insurance NV | Brussels – BE | 0403.552.563 | 100.00 |
| KBL European Private Bankers SA | Luxembourg – LU | – | 99.91 |
| Kredietcorp SA | Luxembourg – LU | – | 100.00 |
| **KBC Group: subsidiaries that are not fully consolidated[1]** | | | |
| Gebema NV | Mortsel – BE | 0461.454.338 | 100.00 |
| ValueSource NV | Brussels – BE | 0472.685.453 | 100.00 |
| ValueSource Technologies Private Limited | Alwarpet – IN | – | 99.99 |
| **KBC Group: joint subsidiaries that are proportionately consolidated** | | | |
| – | | | |
| **KBC Group: joint subsidiaries that are not proportionately consolidated[1]** | | | |
| – | | | |
| **KBC Group: companies accounted for using the equity method** | | | |
| – | | | |
| **KBC Group: companies not accounted for using the equity method[1]** | | | |
| – | | | |

Reason for exclusion: 1 Insignificant
2 Real estate certificates and companies whose results are not allocated to the group.

Companies qualifying for consolidation are also effectively included in the scope of consolidation if two of the following criteria are met:

- Group share in capital and reserves exceeds 2.5 million euros.
- Group share in the results exceeds 1 million euros.
- The balance sheet total exceeds 100 million euros.

The combined balance sheet total of the companies excluded from consolidation may not amount to more than 1% of the consolidated balance sheet total.

The most recent version of this list is available at www.kbc.com.

# Contact details and financial calendar

## Contact details

Information on products, services and publications of the KBC group can be obtained from the KBC-Telecenter on weekdays between 8 a.m. and 10 p.m., and on Saturdays and bank holidays between 9 a.m. and 5 p.m. Shareholders and the press can also contact KBC's Press Office and Investor Relations Office, whose contact details are given in the table.

**Contact details**

| | |
|---|---|
| **KBC-Telecenter** | |
| Tel. | + 32 78 152 153 (Dutch), + 32 78 152 154 (French, English, German) |
| E-mail | kbc.telecenter@kbc.be |
| **Investor Relations Office** | |
| E-mail | investor.relations@kbc.com |
| Website | www.kbc.com |
| Address | KBC Group NV, Investor Relations Office – IRO, Havenlaan 2, 1080 Brussels, Belgium |
| **Press** | |
| Group Communication/Press Office | Viviane Huybrecht (General Manager of Group Communication/Company Spokesperson) |
| Tel. | + 32 2 429 85 45 |
| E-mail | pressofficekbc@kbc.be |
| Website | www.kbc.com |
| Address | KBC Group NV, Group Communication – GCM, Havenlaan 2, 1080 Brussels, Belgium |

## Communication with shareholders

KBC makes every effort to communicate as openly and transparently as possible with its shareholders. During the financial year, the group facilitates meetings between management and investors/shareholders by organising investor events, conferences, road shows (for example, following the release of the results or after other important events) and by arranging Investor Days or Investor Lunches to discuss specific matters. These events are organised by the Investor Relations Office, which also deals with questions from investors throughout the year. In addition, the group provides information all year round by issuing press releases, giving presentations and publishing quarterly, half-year and annual reports when the results are announced. This information is also available at www.kbc.com, as are various notifications required by law (relating to, for instance, AGMs), general company information and specific reports, such as risk and corporate social responsibility reports.

## Financial calendar

For the most up-to-date version of the financial calendar, including earnings release dates and dates for analyst and investor meetings, see www.kbc.com, under Investor Relations.

**Financial calendar**

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|---|---|
| 2010 financial year | Earnings release: 10 February 2011<br>Publication of the embedded value in the life insurance business: 1 April 2011<br>Annual Report, Risk Report and CSR Report for 2010 available: 8 April 2011<br>AGM: 28 April 2011 (agenda available at www.kbc.com)<br>Ex-coupon date and dividend payment: 3 May and 6 May 2011 |
| 1Q 2011 | Earnings release: 12 May 2011 |
| 2Q 2011 | Earnings release: 9 August 2011 |
| 3Q 2011 | Earnings release: 10 November 2011 |
| 4Q 2011 | Earnings release: 9 February 2012 |

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