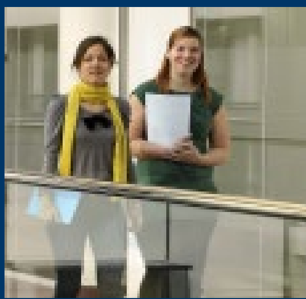
KBC Group

Annual Report 2012



KBC

KBC group passport

Our area of operation

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

Our core shareholders

KBC Ancora	19.7%
Cera	7.0%
MRBB	12.8%
Other core shareholders	9.5%*

* Situation mid-2012, prior to the capital increase (compared with the total number of shares at year-end 2012). For more information, see 'Information for shareholders and bondholders'.

Our clients, staff and network[1]

Clients (estimate)	9 million
Number of staff (in FTEs)	37 083
Bank branches	1 648
Insurance network	481 agencies in Belgium, various distribution channels in Central and Eastern Europe

Our long-term credit ratings[2] (28-02-2013)

	Fitch	Moody's	Standard & Poor's
KBC Bank NV	A-	A3	A-
KBC Insurance NV	A-	–	A-
KBC Group NV	A-	Baa1	BBB+

More information

Website	www.kbc.com
KBC Telecenter	kbc.telecenter@kbc.be

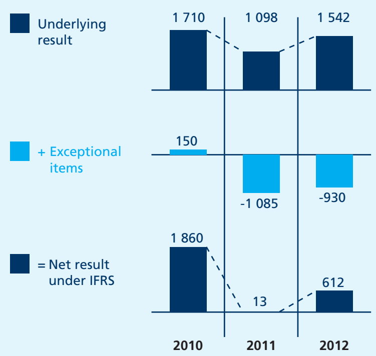
Data relates to year-end 2012, unless otherwise indicated. For definitions and comments, please see the detailed tables and analyses in this report.

1 Clients in Belgium and the four core markets in Central and Eastern Europe. Bank branches in the same geographical areas, plus the group's corporate branches abroad. In all cases: not including companies that fell within the scope of IFRS 5 at balance sheet date (Absolut Bank, KBC Banka, Nova Ljubljanska banka, Antwerp Diamond Bank, KBC Bank Deutschland) and companies that have been deconsolidated (e.g., Kredyt Bank).

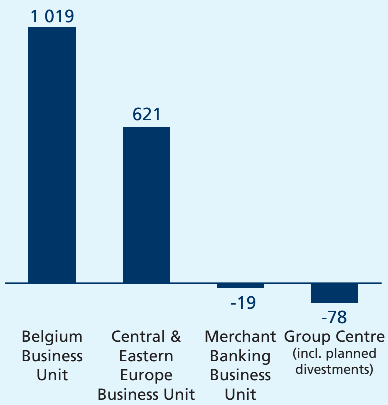
2 Where appropriate, outlook/watch/review data for these ratings is given elsewhere in this report.

Visit www.kbc.com

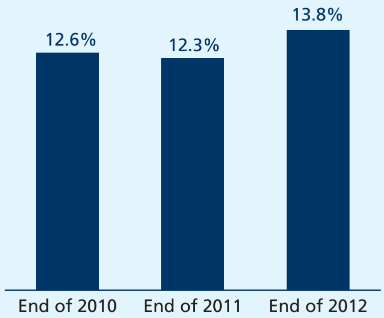
Results
(in millions of EUR)



Breakdown of underlying net result by business unit
(2012, in millions of EUR)



Group tier-1 ratio (Basel II)



Key figures

	2004	2005	2006	2007	2008	2009	2010	2011	2012
Consolidated balance sheet and assets under management, end of period (in millions of EUR)									
Total assets	285 163	325 801	325 400	355 597	355 317	324 231	320 823	285 382	256 886
Loans and advances to customers	111 177	119 475	127 152	147 051	157 296	153 230	150 666	138 284	128 492
Securities	98 862	125 810	111 959	105 023	94 897	98 252	89 395	65 036	67 295
Deposits from customers and debt securities	157 712	171 572	179 488	192 135	196 733	193 464	197 870	165 226	159 632
Technical provisions and liabilities under investment contracts, insurance	17 190	22 394	25 121	26 833	26 724	29 951	29 948	26 928	30 058
Total equity	14 099	17 466	18 453	18 487	15 376	17 177	18 674	16 772	15 961
Risk-weighted assets at group level (Basel II from 2007 on)	114 795	128 680	140 016	146 998	155 291	143 359	132 034	126 333	102 148
Assets under management	156 677	196 358	208 560	230 890	206 842	205 234	208 813	192 795	155 079
Consolidated income statement according to IFRS (in millions of EUR)									
Total income	7 632	8 370	9 650	9 802	4 827	4 625	8 378	7 310	7 733
Operating expenses	-4 944	-4 914	-4 925	-5 219	-5 600	-4 779	-4 436	-4 344	-4 248
Impairment	-365	-103	-175	-267	-2 234	-2 725	-1 656	-2 123	-2 511
Net result, group share	1 615	2 249	3 430	3 281	-2 484	-2 466	1 860	13	612
Basic earnings per share (in EUR)	4.48	6.26	9.68	9.46	-7.31	-7.26	3.72	-1.93	-1.09
Diluted earnings per share (in EUR)	4.39	6.15	9.59	9.42	-7.28	-7.26	3.72	-1.93	-1.09
Consolidated underlying results (in millions of EUR)									
Total income	–	8 323	8 738	9 481	9 172	9 111	8 744	8 182	7 549
Operating expenses	–	-4 794	-4 976	-5 164	-5 591	-4 888	-4 832	-4 686	-4 184
Impairment	–	-54	-175	-191	-743	-1 913	-1 525	-1 909	-1 195
Net result, group share	–	2 306	2 548	3 143	2 270	1 724	1 710	1 098	1 542
Basic earnings per share (in EUR)	–	6.42	7.19	9.06	6.68	5.08	3.28	1.26	1.57
Diluted earnings per share (in EUR)	–	6.27	7.13	9.02	6.66	5.08	3.28	1.26	1.57
Net result per business unit									
Belgium	–	–	–	–	–	–	1 051	802	1 019
Central & Eastern Europe (four core markets)	–	–	–	–	–	–	570	327	621
Merchant Banking	–	–	–	–	–	–	133	-110	-19
Group Centre (including planned divestments)	–	–	–	–	–	–	-44	79	-78
Environmental efficiency data for the KBC group in Belgium (per FTE)									
Electricity consumption (in GJ)	–	–	–	–	–	–	24.3	21.3	20.8
Gas and heating oil consumption (in GJ)	–	–	–	–	–	–	15.0	12.6	12.6
Distances travelled (in km; commuter and business travel)	–	–	–	–	–	–	14 836	14 563	14 440
Paper consumption (in tonnes)	–	–	–	–	–	–	0.17	0.14	0.13
Water consumption (in m^3)	–	–	–	–	–	–	9.3	8.2	8.5
Greenhouse gas emissions (in tonnes)	–	–	–	–	–	–	3.3	3.0	2.5
KBC share									
Number of shares outstanding, end of period ('000)	310 849	366 567	363 217	355 115	357 753	357 918	357 938	357 980	416 967
Parent shareholders' equity per share, end of period (in EUR)	33.6	43.8	49.2	50.7	31.5	28.4	32.8	28.7	29.0
Highest share price for the financial year (in EUR)	59.8	79.0	93.3	106.2	95.0	39.4	38.0	32.6	26.2
Lowest share price for the financial year (in EUR)	37.3	56.0	76.2	85.9	18.2	5.5	25.5	7.7	9.1
Average share price for the financial year (in EUR)	49.2	66.4	85.9	95.8	65.2	20.9	32.6	22.3	17.3
Share price at year-end (in EUR)	56.5	78.7	92.9	96.2	21.5	30.4	25.5	9.7	26.2
Gross dividend per share (in EUR)	1.84	2.51	3.31	3.78	0.00	0.00	0.75	0.01	1.00
Equity market capitalisation, end of period (in billions of EUR)	17.6	28.8	33.7	34.2	7.7	10.9	9.1	3.5	10.9
Ratios									
Return on equity	14%	18%	24%	21%	-18%	-23%	12%	-6%	1%
Return on equity (based on underlying profit)	–	18%	18%	20%	16%	16%	11%	5%	10%
Cost/income ratio, banking (based on underlying profit)	–	58%	58%	57%	64%	55%	56%	60%	57%
Combined ratio, non-life insurance	95%	96%	96%	96%	95%	101%	100%	92%	95%
Credit cost ratio, banking	0.20%	0.01%	0.13%	0.13%	0.70%	1.11%	0.91%	0.82%	0.71%
Tier-1 ratio, group (Basel II from 2007 on)	10.8%	10.2%	9.8%	8.8%	8.9%	10.8%	12.6%	12.3%	13.8%

For definitions and comments, please see the detailed tables, analyses and glossary of ratios in this report. The underlying results are explained in the 'Consolidated results in 2012' section (the figures for 2004 are not fully comparable with the figures for subsequent years because *inter alia* the IAS 32, IAS 39 and IFRS 4 standards had not been applied at that stage, and the data for the number of shares, market capitalisation and tier-1 ratio related to the KBC Bank and Insurance Holding Company). Historical comparisons can also be influenced by (minor) methodological changes, with the result that comparability is not 100% perfect. The dividend for 2012 is subject to the approval of the General Meeting of Shareholders.

2012	total assets	net result	underlying net result	KBC share price	tier-1 ratio	new targets
	257 billion EUR	612 million EUR	1 542 million EUR	+169%	13.8%	See the 'Strategy, company profile and structure' section

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To the reader

Company name 'KBC', 'we', 'the group' or 'the KBC group' as used in this annual report refer to the consolidated entity, i.e. KBC Group NV plus all the group companies included in the scope of consolidation. '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.

Disclaimers

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

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Annual reports of KBC Bank and KBC Insurance KBC is a bank-insurance 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 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 report. Pursuant to Article 119, KBC Group NV has combined the reports for its company and consolidated annual accounts. The Risk Report, the CSR Report and the www.kbc.com website referred to in certain sections do not form part of the annual report.

1 Report of the Board of Directors

Main events in 2012

January

- Repayment of 0.5 billion euros' worth of core-capital securities (plus a 15% penalty) to the Belgian Federal Government.
- Agreement is reached with Talanx for the sale of WARTA, KBC's Polish insurance company. The sale is completed mid-2012.

February

- Agreement is reached between Banco Santander and KBC regarding the merger of their Polish banking subsidiaries, Bank Zachodni WBK SA and Kredyt Bank SA. The Polish regulator approves the merger in December 2012. The most recent developments relating to this deal are given in Note 48 of the 'Consolidated financial statements' section.
- The KBC Mobile Banking app wins the 'Accenture Innovation Award (Public Prize)' in the Financial Services category.

March

- Agreement is reached with Value Partners Ltd. for the sale of KBC's stake in KBC Goldstate in China.
- Implementation of the agreement on Greek debt.
- The sale of Fidea to J.C. Flowers & Co. is completed.

May

- Publication of the first *Report to Society*.
- Johan Thijs succeeds Jan Vanhevel as CEO of the KBC group. Daniel Falque is appointed new CEO of the Belgium Business Unit.
- Publication of first-quarter results for 2012: consolidated net profit of 380 million euros. Adjusted for exceptional items, underlying net profit comes to 455 million euros.
- Agreement is reached with Business Lease Group regarding the sale of KBC Autolease Polska.
- The sale of the insurer WARTA is completed.

July

- The sale of the private banking group KBL EPB is completed.
- The consumer finance company Żagiel is sold to Banco Santander.

August

- Publication of second-quarter results for 2012: consolidated net loss of -539 million euros. The most important exceptional item is the recognition of significant impairment charges on the remaining planned divestments. Adjusted for exceptional items, underlying net profit comes to 372 million euros.

September

- Management buyout at KBC Lease Deutschland.

October

- Announcement that KBC Bank has achieved the target of a core tier-1 ratio of 9%, including the buffer for sovereign exposure, recommended by the European Banking Authority.
- The modified strategy, management structure and financial aspirations are unveiled. The new structure is implemented on 1 January 2013.
- KBC sells 18.2 million treasury shares, which generates 350 million euros.

November

- Publication of third-quarter results for 2012: consolidated net profit of 531 million euros. Adjusted for exceptional items, underlying net profit comes to 406 million euros.

December

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

Early 2013

- January 2013: KBC Bank successfully places 1 billion US dollars' worth of contingent capital notes.
- January 2013: decision taken to repay the LTRO of 8.3 billion euros to the European Central Bank in the first quarter of 2013.
- February 2013: publication of fourth-quarter results for 2012: consolidated net profit of 240 million euros. Adjusted for exceptional items, underlying net profit comes to 309 million euros. For 2012 as a whole, the result totals 612 million euros, or 1 542 million euros on an underlying basis.

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

2012 was the year in which the new KBC took more definite shape. We have largely completed our divestment plan, repaid a substantial amount of state aid, further reduced our exposure to CDOs and Southern European government bonds, and increased our capital base. We also adjusted our strategy and structure in line with the renewed, slimmed-down and more focused group we are today. However, the worldwide economic situation remained uncertain. Although this, together with our divestment programme, has also obviously influenced our results, we nevertheless closed the year with a positive net result of 0.6 billion euros, thanks to the strong underlying performance of our business.

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

Johan Thijs and Thomas Leysen

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

The consolidated net result for 2012 came to 0.6 billion euros. Are you satisfied with that?

Thomas Leysen: Although much higher than in 2011, our net result is still being influenced by a number of significant non-operating items, one of which was the substantial markdowns on our remaining divestments. Disregarding these items, we achieved a satisfactory underlying net profit of over 1.5 billion euros in 2012, which is roughly 40% more than in 2011. That is a decent return on our capital.

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

Where are we with the divestment programme?

Johan Thijs: The programme is now largely completed. In 2012, we sold WARTA, our insurance company in Poland, Fidea in Belgium and KBL EPB, our private banking group in Luxembourg. We signed an agreement with Banco Santander on the merger of our subsidiaries in Poland, and we reached an agreement for the sale of Absolut Bank in Russia and for the sale of our minority stake in Nova Ljubljanska banka in Slovenia. The remaining divestments essentially relate to KBC Bank Deutschland, KBC Banka and Antwerp Diamond Bank. We completed some of the preparatory work for these divestments in 2012 and, as Thomas Leysen has already said, we recorded markdowns on them.

Thomas Leysen: The Executive Committee has done exceptionally well to bring all of these transactions to a successful conclusion, despite the turbulence on the markets. What's more, we continued to take other risk-mitigating measures, just as we had done in 2011. For instance, we scaled down our exposure to GIIPS sovereign bonds even more to 1.7 billion euros. That represents a reduction of no less than 90% in the space of three years. And we further lowered our exposure to CDOs and ABS.

KBC issued new shares and has already repaid a significant proportion of the state aid it received.

Thomas Leysen: That's right. We carried out a capital increase of 1.25 billion euros at the end of 2012, and further strengthened our capital buffer in January 2013 by issuing contingent capital notes to the value of 1 billion US dollars. I'd also like to mention the sale of the 18.2 million treasury shares in portfolio which likewise boosted our capital position. These and a number of other factors, including the profit we have made and the capital that was released following the divestments, enabled us to repay a total of 3.5 billion euros – plus a 15% penalty – to the Belgian Federal Government. That means we have now redeemed all the core-capital securities issued to the Belgian State in 2008. We will now concentrate on repaying the remaining 3.5 billion euros to the Flemish Regional Government. We are pleased to say that the financial support provided to KBC will not cost the taxpayer anything in the end. In fact, it is generating revenue for the government.

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

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

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

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

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

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

Johan Thijs: We also intend to start gradually incorporating more non-financial elements into our reports, in addition to the financial information they already contain. Besides explaining our results, we will provide even more information on our ecological footprint, our role in society as a major employer and as an intermediary between depositors and borrowers, our contribution to society as an insurer, and – last but not least – as a recipient of state aid. As you will see, we are taking a significant step in that direction with this annual report.

How do you see things down the line?

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

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

Johan Thijs
President of the Executive Committee

Thomas Leysen
Chairman of the Board of Directors

Strategy, company profile and structure

By the end of 2012, we had largely completed the divestment plan approved by the European Commission in November 2009. We have turned our group into a more focused, regional European bank-insurer with a lower risk profile, while preserving our strengths. We have also repaid a substantial proportion of the state aid provided to us. The virtual completion of the divestment plan was the prompt to further fine-tune the group's strategy and to adjust the management structure accordingly.

> 'Working together creates the best results for everyone.'
>
> *Jo David*
> *Private Banking Relationship Manager*
> *Belgium*

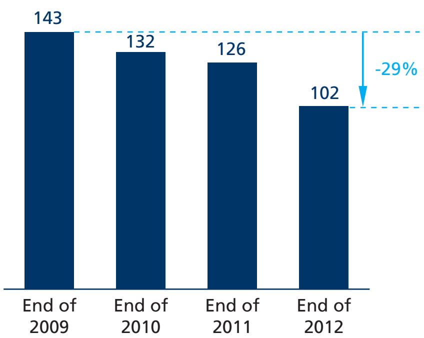
Divestment programme now largely completed

The group's restructuring plan includes a summary of the operations we were required or still have to divest. By the end of 2012, the plan had largely been implemented. A simplified overview of the situation is presented in the table below (more details can be found in the sections devoted to the individual business units).

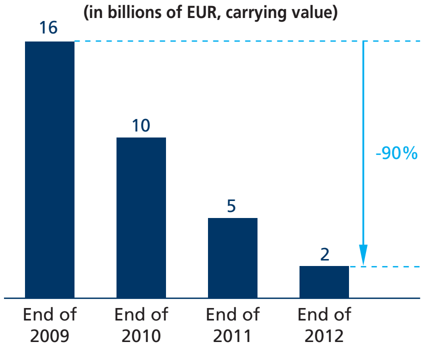
Implementation of divestment programme (simplified)

Project	Situation (up to beginning of March 2013)
Sale of complementary distribution channels in Belgium	Completed. Centea sold mid-2011. Fidea sold in March 2012.
Sale, termination or run-down of various non-core activities (chiefly investment banking)	Sold: Secura, KBC Peel Hunt, KBC Securities Baltic Investment Company, KBC Asset Management's UK and Irish operations, KBC Business Capital, various KBC Financial Products operations, stake in KBC Concord Asset Management (Taiwan), KBC Securities' Romanian and Serbian operations, stake in KBC Goldstate (China), KBC Autolease Polska, KBC Lease Deutschland, participating interests held by KBC Private Equity. Preparatory phase: divestment of KBC Bank Deutschland and Antwerp Diamond Bank.
Run-down of a significant proportion of the loan portfolios outside the core markets	The risk-weighted assets of the corporate banking operations in the Merchant Banking Business Unit have been reduced by 10 billion euros in the space of three years.
Sale of the European private banking network	Completed. KBL EPB sold in late July 2012.
Divestment of Kredyt Bank and WARTA (Poland)	WARTA sold mid-2012. Announcement in late February 2012 that agreement had been reached with Banco Santander regarding the merger of Bank Zachodni WBK and Kredyt Bank. Following the merger, KBC ultimately aims to divest its shareholding in the merged bank (see Note 48 of the 'Consolidated financial statements' section). The Polish regulator approved the merger in December. KBC also sold its Polish consumer finance company, Żagiel, at the end of July.
Sale of the activities in Russia, Serbia and Slovenia	Agreement reached for the sale of Absolut Bank in Russia (still to be completed) and the sale of the minority interest in Nova Ljubljanska banka in Slovenia. Divestment of KBC Banka in Serbia still at preparatory stage.
Sale or run-down of certain CDO and ABS assets	CDO and ABS exposure reduced to a greater extent than envisaged at this stage in the plan (see 'Further improvement in the risk profile and significant reduction in state aid').

RWA of the group
(Basel II, in billions of EUR)



Government bonds issued by Portugal, Italy, Ireland, Greece and Spain
(in billions of EUR, carrying value)



'End of 2009' relates to 31-03-2010.

Further improvement in the risk profile and significant reduction in state aid

The divestments performed in the past years have made KBC a smaller, more focused group.

The first graph, which shows the reduction in the group's risk-weighted assets (RWA), illustrates this situation. Although this development was also influenced by other factors, including changes in the activities to be retained and new regulations, the reduction primarily reflects the divestments already completed and activities already run down.

We have also lowered our risk profile in recent years through a number of other measures. These included reducing the portfolio of sovereign bonds issued by riskier Southern European countries and Ireland (GIIPS countries) by 90% over three years, bringing it to less than 2 billion euros at year-end 2012.

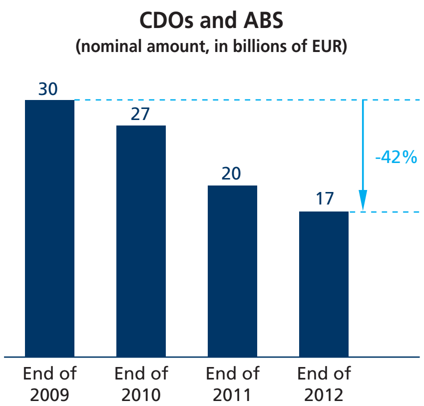
We further scaled back our historical portfolios of CDO and ABS paper, reducing them to a greater extent than envisaged in the European plan. Holdings of CDOs and ABS have been trimmed by a nominal amount of roughly 13 billion euros in three years, meaning we have now reduced the original amount by 42%.

KBC signed a guarantee agreement with the Belgian Federal Government in 2009 concerning a substantial proportion of the CDO exposure. This related initially to a nominal amount of 20 billion euros, but this has been scaled down in the past few years to approximately 12.2 billion euros at year-end 2012.

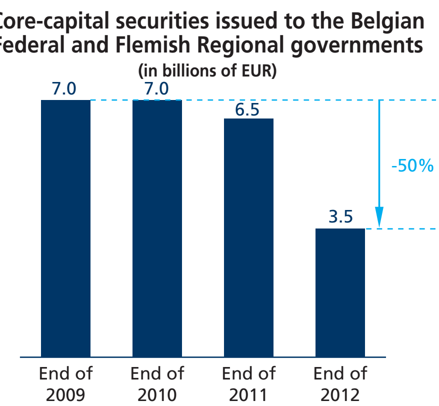
KBC sold a total of 7 billion euros' worth of core-capital securities to the Belgian State and Flemish Region (3.5 billion euros each) in 2008 and 2009. Since then, we have repaid the Belgian State 0.5 billion euros plus a 15% penalty in January 2012 (included in the figures for year-end 2011 in the graph) and 3 billion euros and a 15% penalty in December 2012. At 31 December 2012, therefore, the group's capital base still included 3.5 billion euros in outstanding core-capital securities issued to the Flemish Regional Government. KBC intends to redeem these securities within a reasonable period of time. We aim to repay 1.17 billion euros of this amount (plus penalty) in the first half of 2013.

We will ensure at all times that our solvency remains at a high level, as illustrated by the capital increase we carried out at the end of December 2012 and the contingent capital notes issued by KBC Bank at the start of 2013 (see 'Information for shareholders and bondholders').

More details regarding the government bond and CDO portfolio are provided under 'Credit risk' in the 'Value and risk management' section. Further information on the CDO guarantee agreement and the core-capital securities sold to the Belgian Federal and Flemish Regional governments can be found in the 'Additional information' section of this report.



Nominal amount (excluding deduction of value adjustments). It should also be noted that a significant portion of the exposure to CDOs is covered by the guarantee agreement with the Belgian State.



Focus on the future: renewed strategy and structure

Johan Thijs, Group CEO

'We are passionate about being the reference for bank-insurance in our core markets. That's why we've adapted our strategy. In so doing, we took account of our group's strengths, which are an integrated bank-insurance model, and a skilled and professional workforce. We then made clear business choices, optimised our organisational structure and committed ourselves to a clearly defined corporate culture. We intend to become more versatile and more efficient, and hence more competitive. That way, KBC will adapt itself not only to the changing attitudes of our clients, but also to the legitimate expectations of society as a whole.'

Like other businesses in the financial sector, we have to contend with shifting customer attitudes, the different expectations of other stakeholders, tighter regulations, a challenging macroeconomic climate, the fact that different European countries each demand a specific approach and a changing financial landscape.

A great deal of our efforts in recent years has gone into implementing the divestment plan we agreed with the European Commission in 2009. We have made exceptionally good progress since then in executing that plan, which has resulted in a significant reduction in our total assets and risk-weighted assets.

Consolidated balance sheet and risk-weighted assets at group level (in billions of EUR)	**year-end 2008**	**year-end 2012**	**change**
Total assets	355	257	-28%
Risk-weighted assets at group level	155	102	-34%

The renewed strategy – the key drivers of which are given in the diagram on the following page – provides a framework for the smaller, more focused group we have become following our divestment phase. At the same time, it places us in an ideal position to meet the challenges ahead. When we unveiled our renewed strategy, we also announced our financial aspirations for 2015. These aspirations are set out in the table below, together with the additional objectives announced subsequently. A definition of the ratios is provided in the 'Additional information' section. We also aligned the group's organisational structure to take full account of the new strategy. The new structure includes a separate new business unit for the Czech Republic and a reallocation of merchant banking operations. More details in this regard are provided elsewhere in this report.

Group financial targets for 2015	
Underlying cost/income ratio, banking	maximum 55%
Combined ratio, non-life insurance	maximum 95%
Common equity ratio, group (Basel III fully loaded*)	10% (from 2013)
Net stable funding ratio (NSFR)	minimum 105%
Liquidity coverage ratio (LCR)	minimum 100%

* Including the remaining state aid.

Within the group, we use the acronym 'PEARL' to define our new culture and values. These letters stand for *'Performance'* (we are dedicated to delivering outstanding results in everything we do and strive to continuously improve the quality of our products and services), *'Empowerment'* (we give our employees the room and opportunity to develop their professional skills), *'Accountability'* (we accept our individual responsibilities and disclose our results in a transparent manner), *'Responsiveness'* (we anticipate and respond readily to the questions and suggestions of our clients and employees) and *'Local Embeddedness'* (we embrace and respond to the diversity of our clients in our core markets). We also champion three values for all our employees, i.e. those of being *Respectful* (sharing respect for our internal and external clients), *Responsive* (listening to clients and colleagues, and endeavouring to find a solution to their needs) and *Results-driven* (delivering what we promise).

Key drivers of the renewed strategy

1 Integrated bank-insurance

KBC confirms its commitment to the bank-insurance model, which has generated excellent results throughout the cycle. This model is a fully integrated business model. It delivers cost synergies by avoiding overlaps between support entities and offers clients clear added value, thanks to a complementary and optimised offering of banking and insurance products and services.

2 Core markets

KBC defines core markets as those in which it has a banking and insurance presence, namely Belgium, the Czech Republic, Hungary, Slovakia and Bulgaria. The group is firmly embedded in the local economies there. All other activities that do not contribute to supporting client relationships in these core markets will, in principle, be discontinued. Ireland remains an exception. In the years ahead, KBC Bank Ireland will focus on raising profitability through the provision of personal banking services.

3 Local responsiveness

Local responsiveness means that we respond readily to local opportunities. KBC focuses on the client and wishes to build and deepen sustainable relationships with private individuals, SMEs and mid-caps. Local responsiveness implies that we understand local clients better, that we pick up signals effectively and respond to them proactively, and that we offer products and services tailored to these local needs. Relationship bank-insurance is key to local responsiveness. In other words, KBC will focus on those banking and insurance activities that are needed to support sustainable client relationships.

4 Co-operation

KBC fosters cross-border collaboration and leverage effects at group level in order to enhance cost-efficiency across the group. International product factories and service providers focus on offering products and services tailored to the distribution strategy of the different business units, and to local responsiveness. Exchange of know-how, best practices, experience, products and services between the different business units and corporate functions is stimulated by means of communities. Their mission is to promote synergy, dialogue and exchange wherever deemed useful within the group.

5 Business unit structure

With effect from 2013, KBC is implementing a new, business-driven organisational or management structure, which is fully aligned with our strategic choices (local responsiveness, bank-insurance, client focus, etc.) and which supports effective decision-making and accountability. The new structure includes a separate new business unit for the Czech Republic and clarifies the future role of the activities of the former Merchant Banking Business Unit (more details are provided under 'New management structure' below).

6 Group culture

KBC is committed to a clearly defined group culture. The group aims to become more versatile and alert by focusing on streamlined performance management and accountability for all employees. Using performance indicators, we establish a clear link between strategic priorities and accountability.

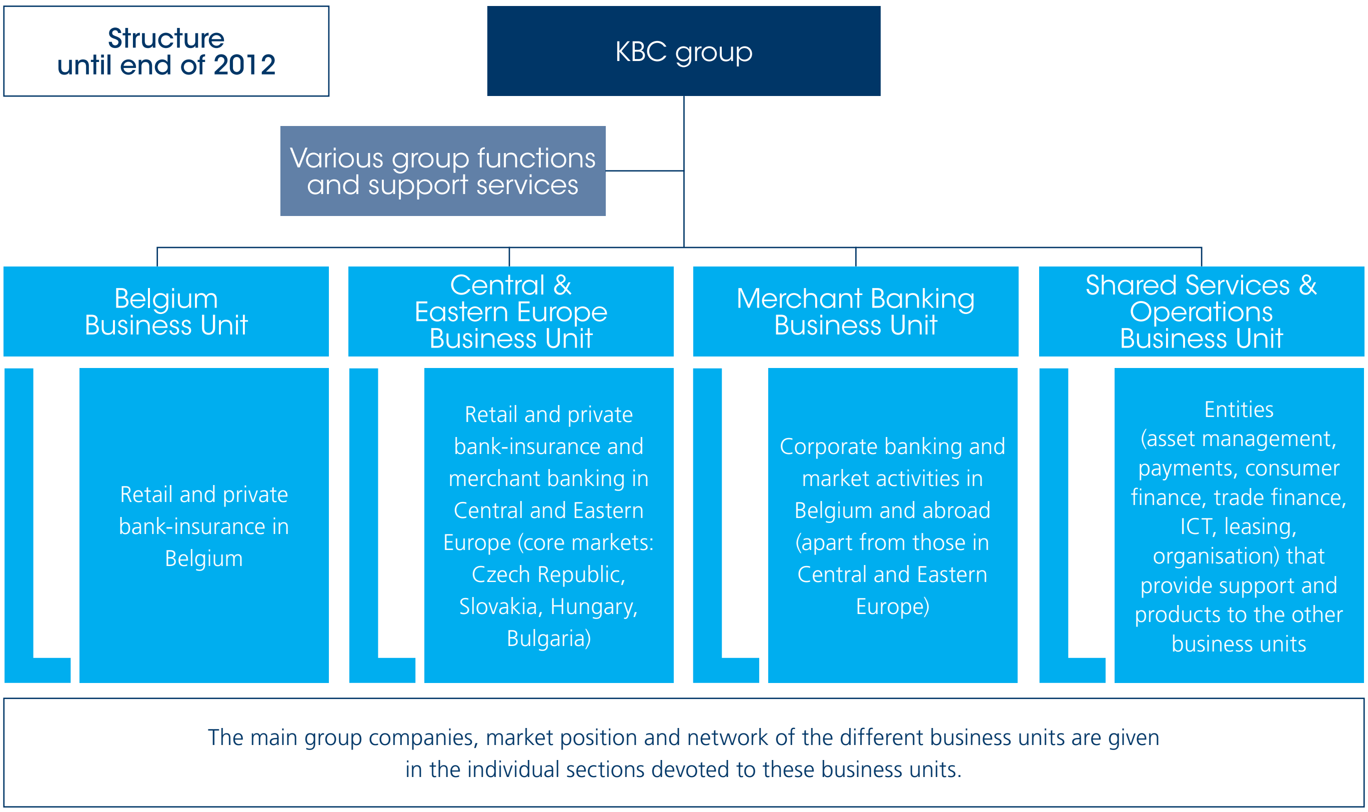
New management structure

Up until the end of 2012, the group's management structure was built around the Belgium, Central & Eastern Europe, Merchant Banking and Shared Services & Operations business units. This breakdown is based on geographic criteria (Belgium and Central and Eastern Europe, the group's two core markets) and business criteria (either retail bank-insurance or merchant banking). The Shared Services & Operations Business Unit incorporates a number of services that provide support and products to the other business units.

The results by segment or business unit that we discuss in this annual report are based on the management structure applying until the end of 2012. Therefore, the group results are broken down according to the *old* business units, with two exceptions:

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

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



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

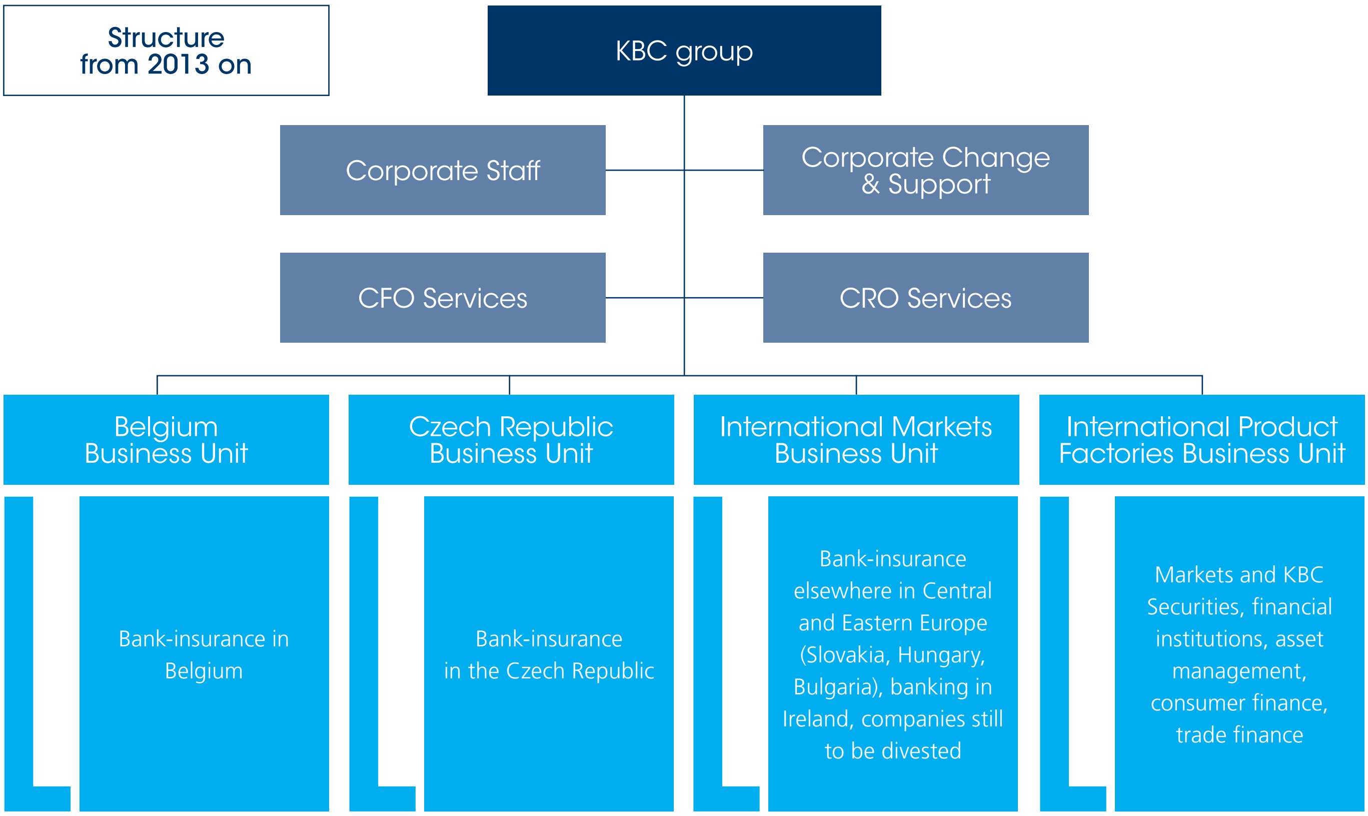
The new group structure comprises three building blocks and eight pillars, each focused on its contribution to the group.

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

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

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

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



The main differences with the previous structure are set out in the sections devoted to each of the business units.

Legal structure

The legal structure of the group essentially comprises one holding company – KBC Group NV – in control of two large companies, namely KBC Bank and KBC Insurance. Each of these companies has several subsidiaries and sub-subsidiaries. The group's legal structure as at 31 December 2012 is discussed in Note 44 of the 'Consolidated Financial Statements' section.

Group Executive Committee

More information about the members of the Executive Committee and the changes arising from the new management structure can be found in the 'Corporate governance statement' section. The members of the Executive Committee are given in the table below, together with their position in the old and new organisational structure.

1 Johan Thijs

Group Chief Executive Officer (CEO)

2 Danny De Raymaeker

Position until end of 2012: Chief Operating Officer (COO)
Position in the new structure: CEO of the International Markets Business Unit

3 Daniel Falque

CEO of the Belgium Business Unit

4 Luc Gijsens

Position until end of 2012: CEO of the Merchant Banking Business Unit
Position in the new structure: CEO of the International Product Factories Business Unit

5 John Hollows

Chief Risk Officer (CRO)

6 Luc Popelier

Chief Financial Officer (CFO)

7 Marko Voljč

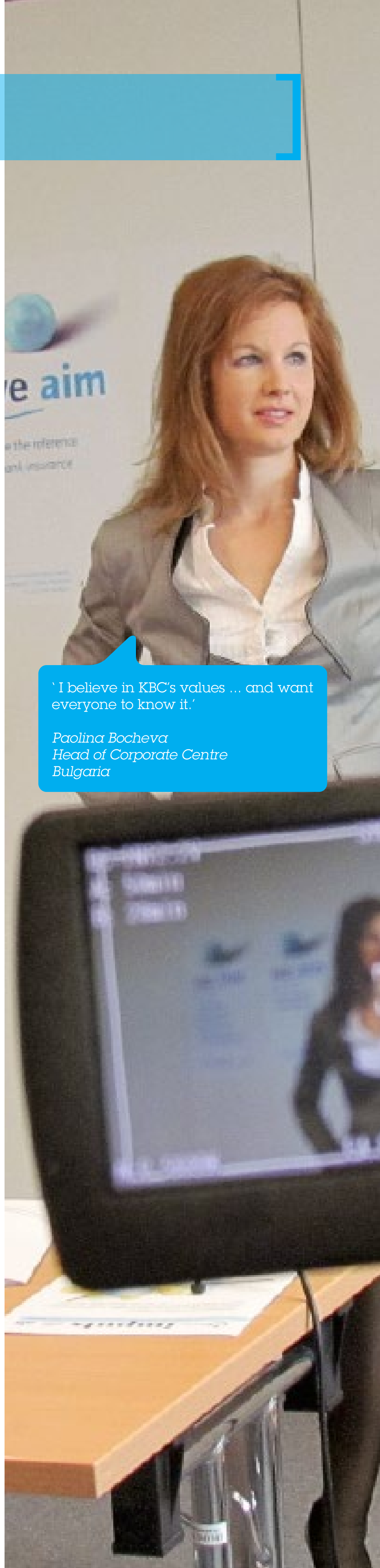
Position until end of 2012: CEO of the Central & Eastern Europe Business Unit
Position in the new structure: Chief Change Officer (CCO, Corporate Change & Support)

8 Pavel Kavánek

Not a member of the Group Executive Committee in 2012
Position in the new structure: CEO of the Czech Republic Business Unit

KBC in society

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



'I believe in KBC's values ... and want everyone to know it.'

Paolina Bocheva
Head of Corporate Centre
Bulgaria

Thomas Leysen, Chairman of the Board of Directors
'Now that we are accelerating repayment of the money borrowed from the government (while also generating revenue for the taxpayer), we want to position ourselves in a new way in society. And that means operating to the benefit of the economy, being transparent and focusing on the creation of lasting value.'

Our clients

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

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

Customer satisfaction surveys performed at our various entities all paint the same positive picture, i.e. KBC clients are generally satisfied with the service, accessibility and products of their bank. In Belgium, the most recent survey showed a high satisfaction level of 95%, with as many as 80% describing themselves as 'very satisfied' (the number of clients giving their branch a score of eight or more out of ten). In Central and Eastern Europe, roughly 80% of bank clients rated themselves as being satisfied. For more detailed information on the individual results, please refer to our *CSR Report for 2012*.

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

Our employees

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

Some colleagues who participated in the IGNITE Graduate Programme in Ireland.

By continually assessing and adjusting its remuneration policy to take account of the latest labour-market trends, KBC aims to increase its employees' potential for development and to pay them a salary commensurate with their performance.

In 2011, KBC embarked on a thorough updating of its HR policy in Belgium, which it called 'HRinEvolution'. Since then, we have continued to update the job classification system, formulated a policy on developing talent, drew up a career growth path for new junior managerial staff and introduced further alternative remuneration schemes. An example of that particular scheme is the 'cafeteria plan', where staff can opt for a salary-only package or a salary package plus benefits they choose themselves, such as a company car or additional holidays.

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

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

We want to offer people a challenge and to give them the opportunity to further develop their talents. This applies not just to the younger generation, but also to all the generations that make up our workforce. 'Lifelong learning' is our motto. Accordingly, the group devotes considerable attention to the training of its employees and offers them an extensive range of development opportunities. They can choose from a number of training programmes which complement and reinforce each other, including conventional training courses, individual study, e-learning, learning on the job and mentoring. Developmental needs are also an important element in the annual performance appraisal reviews held between employees and their managers. In 2012, KBC employees followed roughly six days training on average per full-time equivalent.

The table below provides an overview of the total workforce and a breakdown into various categories. The total number of employees fell in 2012, which was almost entirely accounted for by the sale of group companies in accordance with the divestment plan and because this total also excluded companies that fell under the scope of IFRS 5 at the end of the financial year (year-end 2012: Absolut Bank, KBC Banka, Antwerp Diamond Bank and KBC Bank Deutschland; year-end 2011: KBL EPB, Fidea and WARTA). Additional information on staff expenses 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 (excluding entities that fell under the scope of IFRS 5 on the respective reporting dates)	31-12-2011	31-12-2012
In FTEs	47 530	37 083*
In %		
Belgium	35%	44%
Central & Eastern Europe and Russia	60%	52%
Rest of the world	4%	4%
Belgium Business Unit	24%	31%
Central & Eastern Europe Business Unit	33%	42%
Merchant Banking Business Unit	6%	8%
Shared Services & Operations Business Unit and group functions	18%	19%
Group Centre	18%	0%
Men	41%	42%
Women	59%	58%
Full-time	84%	81%
Part-time	16%	19%
Average age	40	41
Average seniority	11.6	14.1

* The sharp decline was due almost entirely to divestments that were completed in 2012 (Kredyt Bank, Żagiel, KBC Concord Asset Management, etc.) and to companies that fell within the scope of IFRS 5 at year-end 2012 (Absolut Bank, KBC Banka, Antwerp Diamond Bank, KBC Bank Deutschland, etc.).

Our place in the economic fabric

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

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

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

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

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

Lastly, as an employer, we are a major driving force behind the economy, with – as already stated – around 37 000 people (in FTEs) working for our group worldwide.

Our relationship with government

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

After years of hard work, and with the loyal support of our employees, clients and shareholders, we repaid 3 billion euros in financial aid (plus a 15% penalty) to the Belgian Federal Government on 17 December 2012 – on top of the 0.5 billion euros (plus a 15% penalty) that we had paid back at the start of the year – bringing the cumulative total amount in repayments, penalties, coupon payments and fees for the CDO guarantee to 6.4 billion euros at year-end 2012. By the time KBC has repaid all the aid it received, the total amount in repayments, coupon payments, penalties and fees for the CDO guarantee will have risen to at least 13 billion euros.

We are especially pleased that we were able to repay the entire capital injection of 3.5 billion euros from the Belgian Federal Government earlier than planned, and we hope to continue this momentum as regards our commitment towards the Flemish Regional Government and the 3.5 billion euros in aid it provided. We aim to repay 1.17 billion euros of this amount (plus a 50% penalty) in the first half of 2013 (subject to the customary approval of the National Bank of Belgium).

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

Our impact on society

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

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

Our ecological footprint

KBC makes a continuous effort to reduce its ecological footprint, concentrating on both its direct and indirect impact on the environment. Tables containing environmental efficiency data for Belgium and the Czech Republic can be found elsewhere in this annual report.
The following is just a selection of what we have done recently in this regard:

- In Hungary, K&H Bank launched campaigns in its branches and new head office to raise awareness about a range of issues, including sorting waste. By centralising all head-office departments in a single building, the number of printers was reduced by 50% and work-related travel between the various head offices avoided.
- At KBC Bank Ireland, the in-house 'Travel to work' survey resulted in improvements being made to the facilities for staff coming to work by bicycle. In this way, we hope to encourage more employees to travel to work in a healthier and more environmentally friendly way.

- At ČSOB in the Czech Republic, concerted efforts are being made to produce less waste and to sort it more efficiently, to reduce work-related travel, to cut back on paper consumption and to replace as much lighting as possible by LED lighting.
- In Belgium, KBC introduced a digital archiving system for commercial credit that generated savings of between 30% and 50% in paper per credit file. An additional benefit to this system is that fewer filing cabinets are needed in the branches.
- In March 2012, KBC Belgium decided to link the non-recurrent results-based bonus for 2012 to a number of environmental targets, which were duly achieved. A similar type of system will continue to apply in the years to come. At the end of 2012, we also obtained EMAS certification for our environmental management system in Belgium.

Open communication with our stakeholders

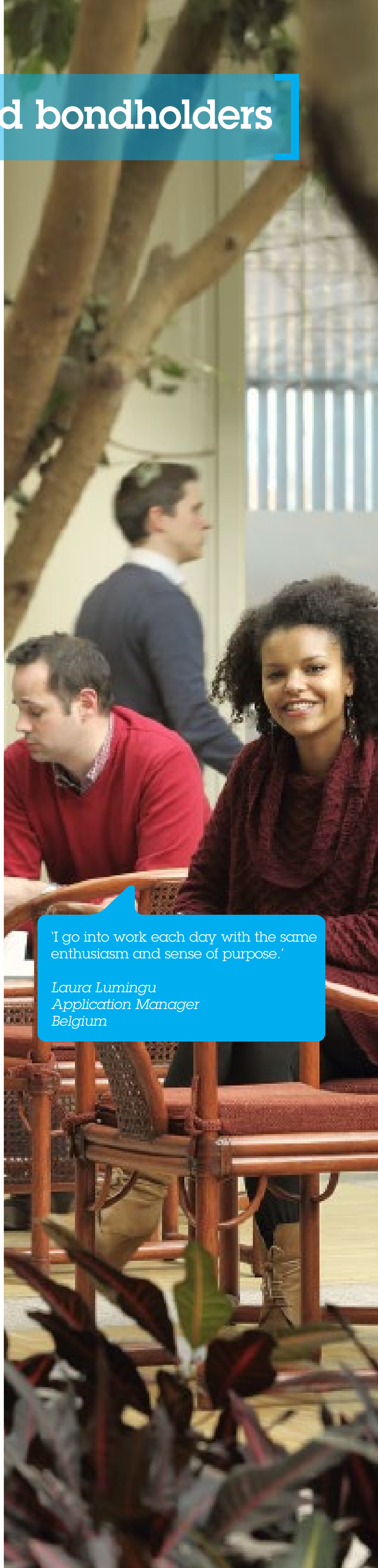
KBC aims to communicate as openly and transparently as possible with its stakeholders. To that end, we organise various contact opportunities between them and management. These include things like investor events, employee satisfaction surveys, customer satisfaction surveys, conferences, road shows and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

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

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

Information for shareholders and bondholders

The price of our share rose by almost 170% in 2012. As part of our strategic plan, we sold virtually all treasury shares held in portfolio, generating 350 million euros. We successfully completed a 1.25-billion-euro capital increase at the end of 2012. We also successfully launched our first issue of covered bonds, followed by a contingent capital notes issue in January 2013. We propose that a gross dividend of 1.00 euro per share entitled to dividend be paid for 2012.



Shareholders

The shareholder structure shown in the table below is based on the most recent notifications made under the transparency rules or (if they are more recent) on disclosures made under the law on public takeover bids or other available information. For KBC group companies, this is the situation on 31 December 2012.
Notifications received under the transparency rules and information on treasury shares held by group companies are listed in the 'Corporate governance statement' and 'Company annual accounts'.

Shareholder structure of KBC Group NV (based on notifications)	Number of shares at the time of disclosure	% (rounded) of the current number of shares
KBC Ancora (on 13 December 2012)	82 216 380	19.7%
Cera (on 13 December 2012)	29 227 166	7.0%
MRBB (start of 2013)	53 539 864	12.8%
Other core shareholders (mid-2012)	39 738 518*	9.5%
KBC group companies (on 31 December 2012)	302	0.0%
BlackRock Inc. (on 6 December 2012*)	11 026 587	3.1%

* Please note that this information dates from before the capital increase described below. In mid-2013, the 'Other core shareholders' will make a new disclosure under Article 74 of the Belgian Act on public takeover bids. They have subscribed to approximately 3 million new shares in total.

Two important events had an impact on the shareholder structure in 2012:

- The number of KBC shares held by KBC group companies fell by 18.2 million to virtually zero, following the sale of all KBC shares held by KBC Group NV and KBC Bank. This occurred under the terms of the strategic plan agreed with the European Commission.
- We increased our capital by 1.25 billion euros at the end of 2012 through the issue of approximately 58.8 million new ordinary shares at 21.25 euros per share. The issue comprised about 35.8 million new ordinary shares, which were listed immediately on the market, and 23 million shares to be listed at a later date. This capital increase, together with 1 billion US dollars' worth of non-dilutive contingent capital notes issued by KBC Bank in January 2013, fits in with the strengthening of our capital base and repayment of state aid.

Credit ratings

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

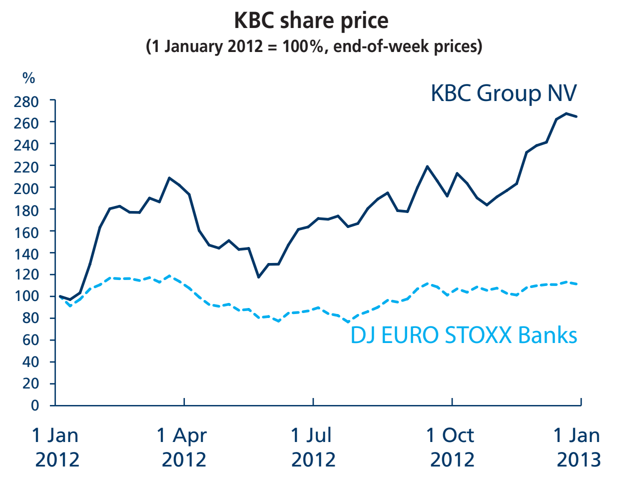
- January 2012: Fitch lowered the long-term ratings of KBC Bank, KBC Insurance and KBC Group NV from A to A- (with stable outlook).
- June 2012: Moody's lowered the long-term ratings of KBC Bank from A1 to A3 and KBC Group NV from A2 to Baa1. It also lowered the short-term ratings from P-1 to P-2. The outlook was placed on 'stable'.
- December 2012: Standard & Poor's upgraded the outlook for the ratings from 'stable' to 'positive'.

Credit ratings* on 28-02-2013	Long-term rating	Outlook/watch/review	Short-term rating
Fitch			
KBC Bank NV	A-	(Stable outlook)	F1
KBC Insurance NV	A-	(Stable outlook)	–
KBC Group NV	A-	(Stable outlook)	F1
Moody's			
KBC Bank NV	A3	(Stable outlook)	P-2
KBC Group NV	Baa1	(Stable outlook)	P-2
Standard & Poor's			
KBC Bank NV	A-	(Positive outlook)	A-2
KBC Insurance NV	A-	(Positive outlook)	–
KBC Group NV	BBB+	(Positive outlook)	A-2

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

Financial calendar and contact details

The financial calendar and contact details can be found under 'Additional information'.
For the most up-to-date version of the financial calendar, see www.kbc.com/InvestorRelations.



KBC share in 2012

KBC share	2011	2012
Number of shares outstanding at year-end (in millions)	358.0	417.0
Change in the number of shares in 2012	Increase of approx. 59 million due to capital increase[1] in December 2012	
Number of shares entitled to dividend at year-end (in millions)	344.6	417.0
Share details[2]		
Highest share price for the financial year (in EUR)	32.6	26.2
Lowest share price for the financial year (in EUR)	7.7	9.1
Average share price for the financial year (in EUR)	22.3	17.3
Closing share price for the financial year (in EUR)	9.7	26.2
Difference between share price at the beginning and end of the financial year	-62%	+169%
Equity market capitalisation at year-end (in billions of EUR)	3.5	10.9[3]
Average daily volume traded (NYSE Euronext Brussels – source: Bloomberg)		
millions of shares	0.89	1.72
millions of EUR	19.3	30.0
Equity per share (in EUR)	28.7	29.0

1 As announced on 10 December 2012 plus the (much more limited) capital increase reserved for staff. For more information, see the 'Company annual accounts' section.
2 Based on closing prices and rounded to one decimal place.
3 Based on total number of shares (including shares only listed after 31 December 2012).

Dividend on shares and coupon on core-capital securities

We propose that a gross dividend of 1.00 euro per share entitled to dividend be paid for financial year 2012 (payment in 2013), subject to the approval of the General Meeting of Shareholders. We do not intend to pay a dividend for financial year 2013, (i.e. no payment in 2014).

Payment of a coupon on the core-capital securities sold to the Belgian Federal and Flemish Regional governments is related to payment of a dividend on ordinary shares. For financial year 2012, therefore, we will pay a total of approximately 543 million euros in this regard to the relevant governments in 2013. The accounting treatment of this payment under IFRS is comparable with that for dividends.

First issue of covered bonds

In November 2012, we announced a programme for the issue of 10 billion euros' worth of Belgian covered bonds. The programme followed the implementation of the Act of 3 August 2012, which created a regulatory framework for bonds of this kind. We welcome the opportunity to widen our investor base and diversify our funding mix and sources in the long-term by means of such bonds.

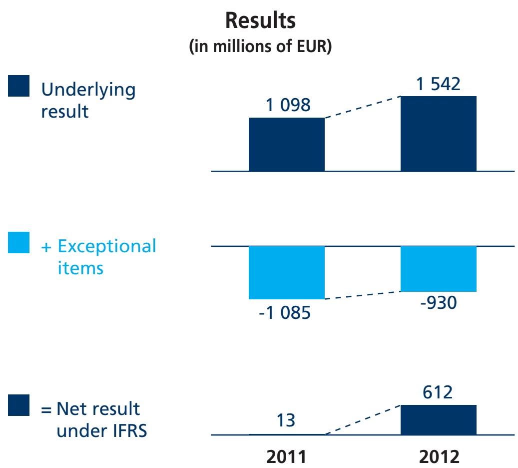
In December 2012, we launched a first, highly successful issue of covered bonds for an amount of 1.25 billion euros. The bonds will mature on 11 December 2017 and have a coupon of 1.125% payable annually. A new issue of bonds followed in January 2013, raising 750 million euros.

Consolidated results in 2012

'I love going to the communal reading area to do my research. It makes it all the more enjoyable.'

Michal Nosek
Investor Relations
Czech Republic

- Net result under IFRS of 0.6 billion euros
- Underlying net result of 1.5 billion euros, compared with 1.1 billion euros in 2011
- Underlying net interest income down 10% on a comparable basis
- Sound non-life insurance performance, with a combined ratio of 95%
- Increase in sales of life insurance by no less than 44% on a comparable basis
- Good dealing room income, lower realised gains and significantly higher level of other income
- Slight increase in net fee and commission income on a comparable basis
- Underlying cost/income ratio for banking at a good 57%
- Impairment on loans and receivables down one-fifth, but a considerable amount still being recognised for Ireland
- Substantial impairment on the remaining companies scheduled for divestment
- Tier-1 solvency ratio at an excellent 13.8% (Basel II)
- Total equity of 16 billion euros



Overview of the income statement

Consolidated income statement, KBC group (in millions of EUR)	IFRS 2011	IFRS 2012	Underlying result 2011	Underlying result 2012
Net interest income	5 479	4 669	5 404	4 534
Interest income	11 883	10 134	*	*
Interest expense	-6 404	-5 465	*	*
Earned premiums, insurance (before reinsurance)	4 119	2 975	4 122	2 975
Non-life	1 861	1 500	1 861	1 500
Life	2 258	1 475	2 261	1 475
Technical charges, insurance (before reinsurance)	-3 541	-2 593	-3 556	-2 593
Non-life	-996	-878	-996	-878
Life	-2 545	-1 714	-2 560	-1 714
Ceded reinsurance result	-44	-13	-44	-13
Dividend income	85	45	74	41
Net result from financial instruments at fair value through profit or loss	-178	420	509	917
Net realised result from available-for-sale assets	169	181	191	150
Net fee and commission income	1 164	1 315	1 535	1 328
Fee and commission income	2 043	2 005	*	*
Fee and commission expense	-878	-690	*	*
Other net income	56	734	-52	209
Total income	**7 310**	**7 733**	**8 182**	**7 549**
Operating expenses	-4 344	-4 248	-4 686	-4 184
Impairment	-2 123	-2 511	-1 909	-1 195
on loans and receivables	-1 333	-1 072	-1 335	-1 072
on available-for-sale assets	-417	-95	-453	-37
on goodwill	-120	-421	0	0
other	-253	-923	-121	-86
Share in results of associated companies	-58	2	-57	-31
Result before tax	**786**	**976**	**1 530**	**2 139**
Income tax expense	-320	-362	-397	-567
Net post-tax result from discontinued operations	-419	27	0	0
Result after tax	**47**	**641**	**1 133**	**1 572**
Result after tax, attributable to minority interests	34	29	35	30
Result after tax, attributable to equity holders of the parent	**13**	**612**	**1 098**	**1 542**
Breakdown by business unit				
Belgium Business Unit	421	1 300	802	1 019
Central & Eastern Europe Business Unit	289	591	327	621
Merchant Banking Business Unit	-208	-114	-110	-19
Group Centre	-489	-1 165	79	-78
Return on equity	-6%	1%	5%	10%
Cost/income ratio, banking	61%	63%	60%	57%
Combined ratio, non-life insurance	92%	95%	92%	95%
Credit cost ratio, banking	0.82%	0.71%	0.82%	0.71%

For a definition of the ratios, see 'Glossary of ratios used'. The underlying results are defined in this section of the report.

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

We discuss the consolidated results in this section of the annual report. A 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), we publish results which exclude certain exceptional and non-operating items and in which certain items have been rearranged to provide a clearer picture of how the results from ordinary business activities are developing ('underlying results').

These results are presented in segment reporting in the consolidated financial statements and thus comply with IFRS 8. This standard specifies that IFRS principles should be deviated from if such deviation reflects the management view. That is indeed the case, as the underlying results are an important element in assessing and managing the business units. The statutory auditor has audited the segment reporting presentation as part of the consolidated financial statements.

A description of the differences between the results according to IFRS 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 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, changes in the value of CDOs, impairment on goodwill, etc.)	Included	Excluded
Income from professional trading activities	Divided up among different items	Grouped together under 'Net result from financial instruments at fair value'
Contribution to results from discontinued operations	Under 'Net post-tax result from discontinued operations'	Under the different result components

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

Reconciliation of the net result under IFRS and the underlying result (in millions of EUR)	2011	2012
Underlying net result	1 098	1 542
Exceptional and non-operating items		
Changes in fair value of ALM hedging instruments	-273	-46
Gains/losses relating to CDOs (including the fee for the CDO guarantee agreement)	-468	431
Impairment on goodwill	-115	-24
Result from legacy structured derivatives business	50	-6
Changes in fair value of own debt instruments	359	-531
Divestments	-640	-754
Net result under IFRS	**13**	**612**

The main exceptional and non-operating items in 2012 were the results and impairment recognised in respect of divestments. The figure includes primarily the positive impact of the sale of WARTA (+0.4 billion euros after tax) and the merger of Kredyt Bank (+0.1 billion euros after tax) and the negative effect of the impairment charges taken on Absolut Bank, KBC Bank Deutschland, Antwerp Diamond Bank, KBC Banka and Nova Ljubljanska banka (an aggregate -1.2 billion euros after tax). Other significant exceptional and non-operating items in 2012 were the results relating to CDOs (due chiefly to the narrowing of credit spreads on corporate bonds and ABS) and the valuation of own debt instruments (the improvement in KBC's credit spread had a negative impact).

Key consolidated balance sheet and solvency figures

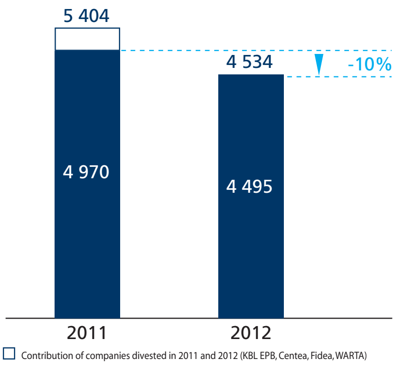
Selected balance-sheet and solvency items, KBC group (in millions of EUR)	**2011**	**2012**
Total assets	285 382	256 886
Loans and advances to customers	138 284	128 492
Securities (equity and debt instruments)	65 036	67 295
Deposits from customers and debt securities	165 226	159 632
Technical provisions (before reinsurance) and liabilities under investment contracts, insurance	26 928	30 058
Risk-weighted assets	126 333	102 148
Total equity*	16 772	15 961
Parent shareholders' equity	9 756	12 099
Non-voting core-capital securities	6 500	3 500
Minority interests	516	362
Parent shareholders' equity per share (in EUR)	28.7	29.0
Tier-1 ratio, group (Basel II)	12.3%	13.8%
Core tier-1 ratio, group (Basel II)	10.6%	11.7%

* For movements in equity, see 'Consolidated statement of changes in equity' in the 'Consolidated financial statements' section.

Additional information

- The ongoing divestment programme obviously influences the comparison of results between 2011 and 2012:
  - We recognise realised gains, losses and impairment charges on divestments as exceptional items and have, therefore, excluded them from the underlying results.
  - The results for the divested group companies are included in principle in both the IFRS and underlying group results until the moment of sale. An indication of the period for which the results of the most important of these companies are recognised in the group result can be found in the table 'Main acquisitions, divestments or changes in the ownership percentage of consolidated subsidiaries or operations', in the 'Consolidated financial statements' section. In addition to the actual figures, the graphs on the following pages show the corresponding amounts excluding the most important companies deconsolidated during 2011 and 2012 (Centea, Fidea, WARTA, KBL EPB) in order to correct the percentage comparisons as much as possible for changes in the scope of consolidation.
  - KBL EPB is recognised as a discontinued operation. Therefore, we grouped all the relevant headings together under 'Net post-tax result from discontinued operations' in the IFRS figures until the moment of sale (mid-2012). KBL EPB's results are still recognised under all the relevant headings in the underlying results in 2011, but were excluded in 2012.
  - The assets and liabilities of divested/deconsolidated companies no longer appear, of course, in the balance sheet. Several group companies scheduled for divestment fell, moreover, under the scope of IFRS 5 on 31 December 2012 (Absolut Bank, KBC Banka, Antwerp Diamond Bank, KBC Bank Deutschland and Nova Ljubljanska banka). This means that the entities' assets and liabilities are grouped together under 'Non-current assets held for sale and disposal groups' and 'Liabilities associated with disposal groups'. The reference figures have not been restated. Comparable *pro forma* figures can be found in Note 18 of the 'Consolidated financial statements' section.
- The overall impact on the net result of fluctuations in the exchange rates of the main non-euro currencies was very limited (in the order of 10 million euros).
- Information on financial instruments, hedge accounting and the use thereof is provided in the 'Consolidated financial statements' section (Notes 1b, 5 and 18–29 among others) and in the 'Value and risk management' section.

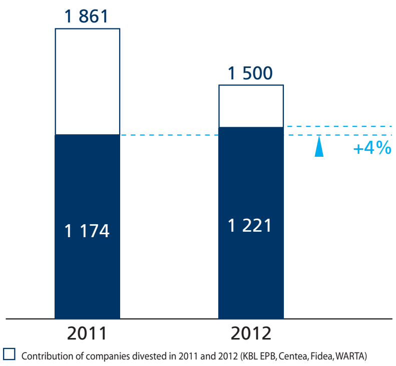
Net interest income
(underlying, in millions of EUR)



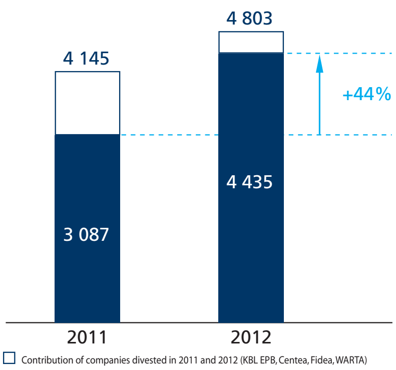
Net interest income

Net interest income came to 4 669 million euros in 2012, or 4 534 million euros on an underlying basis. Excluding changes in the scope of consolidation, the underlying figure was 10% below its year-earlier level, due to factors such as lower yields on reinvestments (owing to the run-down of the high-yield GIIPS government bond portfolio and generally lower level of interest rates) and higher senior debt costs. Consequently, the underlying net interest margin for the banking activities came to 1.81%, roughly 16 basis points lower than in 2011. On a comparable basis, the group's total volume of credit outstanding rose overall by 1% in 2012, with increases of 5% at the Belgium Business Unit and 4% at the Central & Eastern Europe Business Unit (where the contraction in Hungary was amply offset by growth in the other countries), and a decline of 6% at the Merchant Banking Business Unit (due to the scaling back of lending in non-core countries). On a comparable basis, the total volume of deposits grew by almost 9% on balance in 2012, with the Belgium Business Unit recording an increase of 5% and the Central & Eastern Europe Business Unit 2%. At the Merchant Banking Business Unit, which had experienced a sharp decline in deposits from corporate and institutional entities outside the core markets at the end of 2011, deposits were up again (rising by 23%).

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



Sales of life insurance
(in millions of EUR, non-IFRS figures)



Insurance premiums

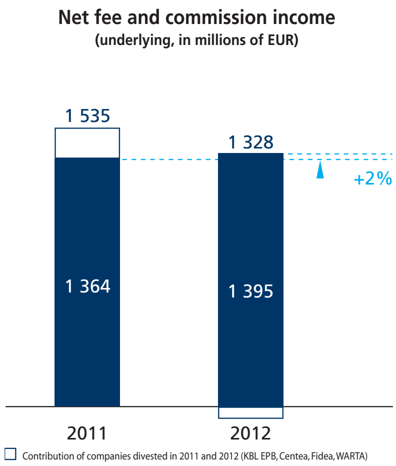
Earned premiums in non-life insurance came to 1 500 million euros in 2012, up 4% on the year-earlier figure (excluding changes in the scope of consolidation). They grew by 5% in Belgium and remained virtually unchanged in the four Central and Eastern European core markets combined. The technical insurance charges were somewhat higher year-on-year, due in part to technical factors. Consequently, the combined ratio at group level amounted to (what is still a good) 95%, down 3 percentage points on the 92% recorded in 2011.

Earned premiums in life insurance came to 1 475 million euros in 2012. However, in compliance with IFRS, certain types of life insurance (i.e. unit-linked products) have been excluded from this figure. If the premium income from such products is included, premium income from the life insurance business totalled around 4.8 billion euros, 44% higher than the figure for 2011 (this percentage increase excludes changes in the scope of consolidation).
There was an increase in both Belgium and Central and Eastern Europe, with lower sales of guaranteed-interest products being more than offset by sharply increased sales of unit-linked products in each case. Overall, products offering guaranteed rates accounted for about 25% of premium income from the life insurance business, and unit-linked products for 75%.

On 31 December 2012, the group's life reserves came to 25.1 million euros for the Belgium Business Unit and to 1.7 billion euros for the Central & Eastern Europe Business Unit.

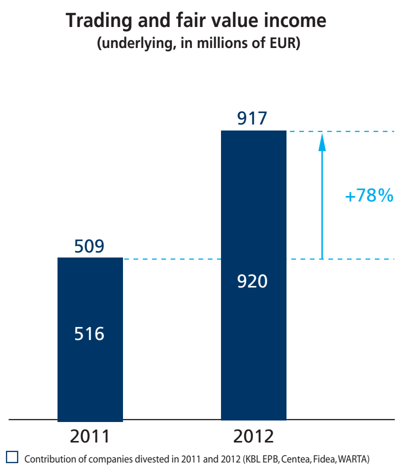
Net fee and commission income

Net fee and commission income came to 1 315 million euros in 2012. On an underlying basis it was 1 328 million euros, edging up 2% year-on-year (excluding changes in the scope of consolidation). This was attributable to a number of factors, including the positive impact of the sharp increase in sales of unit-linked products (the margin on which is recognised under 'Net fee and commission income') and – to a lesser extent – the slightly higher fee and commission income from investment funds. At the end of 2012, the group's total assets under management (investment funds and assets managed for private and institutional investors) amounted to approximately 155 billion euros, 4% more than the year-earlier figure on a comparable basis, due primarily to higher prices. The Belgium Business Unit was responsible for the bulk of assets under management (144 billion euros) at year-end 2012, while the Central & Eastern Europe Business Unit accounted for almost 11 billion euros.



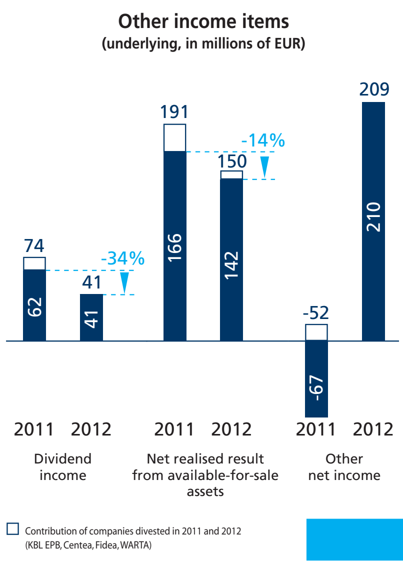
Trading and fair value income

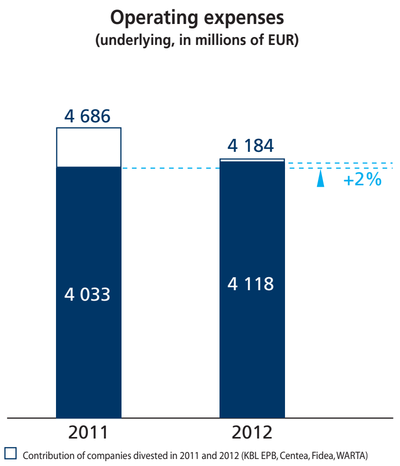
The net result from financial instruments at fair value through profit or loss (trading and fair value income) came to 420 million euros in 2012, as opposed to -178 million euros in 2011. Various exceptional and non-operating items influenced this item (see the 'Reconciliation of the net result under IFRS and the underlying result' table), the main ones being valuation markdowns on CDOs and changes in the fair value of own debt instruments. If all exceptional items are excluded from this trading and fair value income, and trading-related income recorded under IFRS in various other income items is included, underlying trading and fair value income amounted to a positive 917 million euros in 2012, well up on the 509 million euros recorded a year earlier, due in part to a more robust performance in the dealing rooms and positive credit valuation adjustments for derivative financial instruments.



Other income

Dividends, realised gains and other net income came to an aggregate 960 million euros in 2012. On an underlying basis (i.e. disregarding *inter alia* the gains realised on the sale of WARTA and divestment of Kredyt Bank), that is 400 million euros, or 187 million euros more than in 2011. The difference is mainly attributable to the considerably higher level of other net income, which had been negatively impacted in 2011 by the recognition of 334 million euros for the 5-5-5 investment product, compared with 56 million euros in 2012 (see Note 8 of the 'Consolidated financial statements' section for more information on this product), and positively impacted in 2012 by the recovery of 126 million euros in relation to an earlier fraud case at KBC Lease UK.

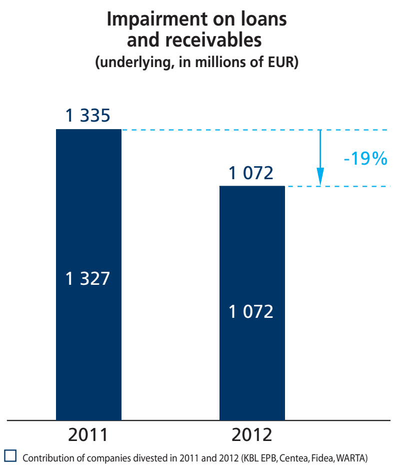




Operating expenses

Operating expenses came to 4 248 million euros in 2012, or 4 184 million euros on an underlying basis. Excluding changes in the scope of consolidation, the underlying figure was up 2% on its year-earlier level, due in part to slightly higher staff expenses, exchange rate effects and higher special bank taxes. In particular, that held true for Hungary (a special bank tax of 54 million euros in 2012, compared with just 6 million euros in 2011), where the figures for 2011 had been favourably influenced by the partial compensation of losses related to the legislation on foreign-currency mortgage loans.

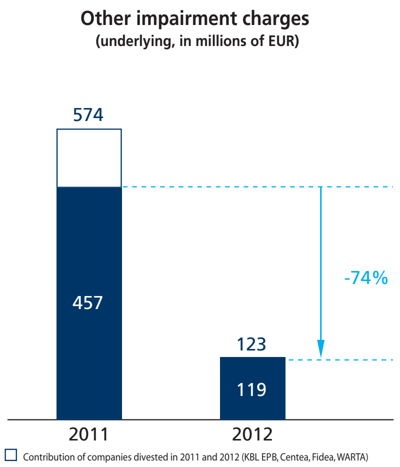
The underlying cost/income ratio for the group's banking activities was approximately 57% in 2012, a clear improvement on the 60% in 2011. It was 59% for the Belgium Business Unit, 59% for the Central & Eastern Europe Business Unit and 42% for the Merchant Banking Business Unit.



Impairment on loans and receivables

Impairment on loans and receivables (loan loss provisions) amounted to 1 072 million euros in 2012, compared with 1 335 million euros in 2011 (underlying figures). The decline resulted primarily from considerably lower provisioning in Hungary and Bulgaria, which more than offset the increase at the Group Centre (at KBC Finance Ireland, among other companies). Loan loss provisions remained at a high level in Ireland (547 million euros in 2012, compared with 510 million euros in 2011).

Overall, the group's credit cost ratio improved from 82 basis points in 2011 to 71 basis points in 2012 (142 basis points at the Merchant Banking Business Unit, 40 basis points at the Central & Eastern Europe Business Unit and a very favourable 11 basis points yet again at the Belgium Business Unit). The proportion of non-performing loans in the total loan portfolio was 5.3% at year-end 2012, compared with 4.9% in 2011.



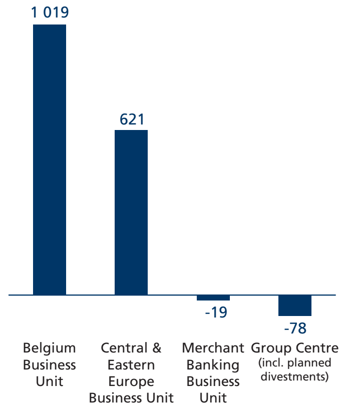
Other impairment charges

At an aggregate 1 439 million euros in 2012, other impairment charges related primarily to the remaining companies earmarked for divestment (impairment on goodwill and impairment on other, particularly in respect of Absolut Bank, KBC Banka, Nova Ljubljanska banka, Antwerp Diamond Bank and KBC Bank Deutschland, which had a combined net impact of -1.2 billion euros in 2012). In 2011, this item related chiefly to the recognition of 0.4 billion euros for Greek government bonds and 0.1 billion euros for shares. Impairment charges relating to companies earmarked for divestment are classified as an exceptional item and have, therefore, been eliminated from the underlying results in the graph.

Net results per business unit

The group's net result under IFRS in 2012 breaks down as follows among its business units: Belgium 1 300 million euros, Central & Eastern Europe 591 million euros, Merchant Banking -114 million euros and the Group Centre (which also includes the results of companies being divested) -1 165 million euros. When adjusted for exceptional items, the underlying result stood at 1 019 million euros for the Belgium Business Unit, up 27% on the figure for 2011, which had been heavily impacted by provisioning for the 5-5-5 investment product and by impairment charges relating to Greece. For the Central & Eastern Europe Business Unit, the underlying result amounted to 621 million euros, 90% more than in 2011, which had been adversely affected by high impairment charges in Hungary and Bulgaria, and for Greece. The underlying result for the Merchant Banking Business Unit totalled -19 million euros, 91 million euros more than in 2011, which had been negatively impacted by the 5-5-5 investment product, whereas 2012 was positively affected by amounts recovered in relation to an earlier fraud case. Lastly, the Group Centre accounted for an underlying result of -78 million euros in 2012. An analysis of the results for each business unit can be found in the relevant sections of this annual report. As already indicated, a new business unit structure was introduced at the start of 2013.

Breakdown of underlying net result by business unit
(2012, in millions of EUR)

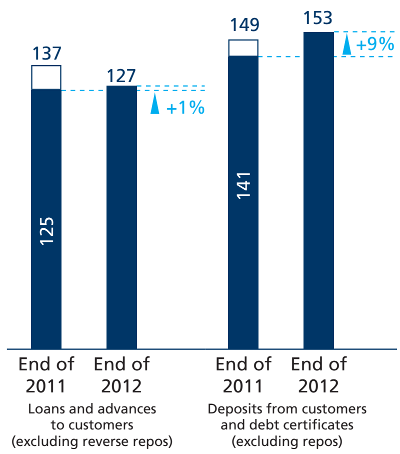


Balance sheet and solvency

At the end of 2012, the group's consolidated total assets came to 257 billion euros, down 10% year-on-year. Risk-weighted assets fell by 19% to 102 billion euros in 2012, due primarily to the divestments.
Loans and advances to customers (127 billion euros in loans at the end of 2012, not including reverse repos) and securities (67 billion euros, 96% of which were debt instruments) continued to be the main products on the assets side of the balance sheet. On a comparable basis (i.e. excluding divestments and companies that fall under the scope of IFRS 5), lending was up 1%, due primarily to an increase of 5% at the Belgium Business Unit and of 4% at the Central & Eastern Europe Business Unit, and a decline of 6% at the Merchant Banking Business Unit. The main credit products (including reverse repos) were again term loans (59 billion euros) and mortgage loans (54 billion euros). On a comparable basis, total customer deposits (excluding repos) rose by 9% to 153 billion euros at group level. Deposits increased by 5% at the Belgium Business Unit, by 2% at the Central & Eastern Europe Business Unit, and by 23% at the Merchant Banking Business Unit (following the 45% decline there in 2011). As in 2011, the main products (including repos) were time deposits (51 billion euros), demand deposits (37 billion euros) and savings deposits (35 billion euros). Technical provisions and liabilities under investment contracts of the insurer totalled 30 billion euros at year-end 2012.

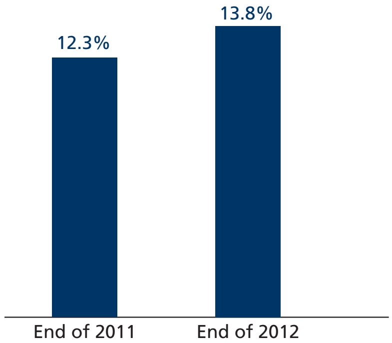
On 31 December 2012, the group's total equity came to 16 billion euros. This figure included 12.1 billion euros in parent shareholders' equity, 0.4 billion euros in minority interests and the remaining 3.5 billion euros in non-voting core-capital securities sold to the Flemish Regional Government. On balance, total equity fell by 0.8 billion euros in 2012, due primarily to the repayment of the financial support received from the Belgian State (-3 billion euros, plus a 15% penalty, recognised in 2012; the other repayment of 0.5 billion euros plus penalty at the beginning of January had been recognised in 2011); the inclusion of the annual profit (+0.6 billion euros); the coupon payments on the core-capital securities sold to the governments in respect of 2011 (-0.6 billion euros); changes in the available-for-sale reserve and cashflow hedge reserve (+1.2 billion euros); the sale of treasury shares (+0.35 billion euros); and the capital increase at the end of 2012 (+1.25 billion euros). At year-end 2012, the group's tier-1 ratio (Basel II) amounted to 13.8% and its core tier-1 ratio to 11.7%.

Loans and customer deposits
(in billions of EUR)



Contribution of companies divested and falling under the scope of IFRS 5 in 2012

Group tier-1 ratio (Basel II)



Belgium Business Unit

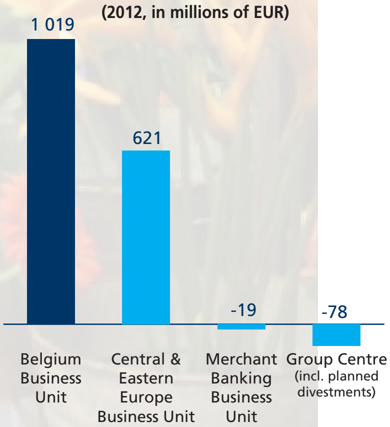
The Belgium Business Unit comprises the group's retail and private bank-insurance activities in Belgium. The main group companies that belonged to this unit in 2012 were ADD, CBC Banque, KBC Asset Management, KBC Bank (Belgian retail and private banking activities), KBC Insurance, KBC Lease (Belgian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

The business unit contributed 1 300 million euros to the results in 2012. The underlying figure was 1 019 million euros, or 66% of the results for the group as a whole in 2012.

'Every client is unique in my eyes.'

Erwin Spiessens
Insurance Agent
Belgium

Breakdown of underlying net result by business unit
(2012, in millions of EUR)



Market position in 2012*

- **820** retail and private banking branches and **481** insurance agencies
- Estimated market share of **20%** for traditional bank products, **35%** for investment funds, **17%** for life insurance and **9%** for non-life insurance
- **3.4** million customers
- Loan portfolio of **58** billion euros and deposits of **75** billion euros

* Market shares and customer numbers: based on own estimates (mostly at 30 September 2012). Share for traditional bank products: average estimated market share for loans and deposits (retail and corporate customers). Market share for life insurance: guaranteed-interest and unit-linked products (combined). Loan portfolio: loans and advances to customers (amount drawn down, excluding reverse repos). Deposits: deposits from customers and debt securities (excluding repos). The number of branches includes the CBC Banque branches that cater for both corporate and retail customers, as well as the group's social profit and public sector branches.

A new management and business unit structure was introduced at the start of 2013.
For more details, see the end of this section.

Contribution to group results

Belgium Business Unit[1] (in millions of EUR)	2011 IFRS	2012 IFRS	2011 Underlying	2012 Underlying
Net interest income	2 320	2 219	2 320	2 219
Earned premiums, insurance (before reinsurance)	2 135	1 763	2 135	1 763
Technical charges, insurance (before reinsurance)	-2 025	-1 694	-2 025	-1 694
Ceded reinsurance result	-24	-11	-24	-11
Dividend income	52	33	52	33
Net result from financial instruments at fair value through profit or loss	-512	445	45	55
Net realised result from available-for-sale assets	98	101	98	101
Net fee and commission income	700	782	700	782
Other net income	-31	84	-39	83
Total income	**2 712**	**3 721**	**3 260**	**3 330**
Operating expenses	-1 790	-1 768	-1 790	-1 768
Impairment	-316	-102	-312	-102
on loans and receivables	-59	-67	-59	-67
on available-for-sale assets	-230	-35	-230	-35
on goodwill	-4	0	0	0
other	-22	0	-22	0
Share in results of associated companies	0	0	0	0
Result before tax	**607**	**1 851**	**1 159**	**1 460**
Income tax expense	-183	-550	-355	-440
Net post-tax result from discontinued operations	0	0	0	0
Result after tax	**423**	**1 301**	**804**	**1 020**
attributable to minority interests	2	1	2	1
attributable to equity holders of the parent	**421**	**1 300**	**802**	**1 019**
Banking	297	664	534	647
Insurance	124	636	268	372
Risk-weighted assets (period-end) (Basel II)	28 929	25 660	28 929	25 660
Allocated capital (period-end)	2 746	2 483	2 746	2 483
Return on allocated capital	13%	48%	27%	37%
Cost/income ratio, banking	74%	58%	63%	59%
Combined ratio, non-life insurance	90%	96%	90%	96%

Reconciliation of IFRS and underlying figures[2] (in millions of EUR)	2011	2012
Result after tax, attributable to equity holders of the parent (underlying)	802	1 019
Changes in fair value of ALM hedging instruments	-251	9
Gains/losses relating to CDOs (including fee for CDO guarantee agreement[3])	-127	271
Impairment on goodwill	-4	0
Results on divestments	0	2
Result after tax, attributable to equity holders of the parent (IFRS)	421	1 300

1 The results of companies scheduled for divestment have been reallocated to the Group Centre. For information on how the underlying figures are calculated, see the reconciliation table.
2 A more detailed explanation can be found under 'Notes on segment reporting' in the 'Consolidated financial statements' section.
3 For more information, see Note 5 of the 'Consolidated financial statements'.

In 2012, the Belgium Business Unit generated a net result of 1 300 million euros, compared with 421 million euros a year earlier. The underlying figure was 1 019 million euros, up 217 million euros on the previous year, which had been very adversely affected by impairment recorded on Greek government bonds and the recognition of a provision for the 5-5-5 investment product.

Net interest income totalled 2 219 million euros at year-end, 4% less than in 2011. The net interest margin at KBC Bank narrowed by 16 basis points to 1.26%, due in part to the run-down of the portfolio of high-yield government bonds issued by GIIPS countries. Loan and deposit volumes each went up by 5% in the space of a year. The loan volume rose on account of several factors, including 5% growth in the mortgage loan portfolio over a one-year period.

Earned insurance premiums came to 1 763 million euros, 847 million euros of which related to life insurance and 916 million euros to non-life insurance. Non-life premiums rose by roughly 5%. The claims level was slightly higher – attributable in part to technical adjustments made in 2012 (including the introduction of new indicative tables for bodily injury claims) – bringing the combined ratio to 96% for the year (90% in 2011). Sales of life insurance – including investment contracts without a discretionary participation feature (roughly equivalent to unit-linked life insurance policies), which are excluded from the IFRS figures – ended the year at 3.9 billion euros. That was 50% higher than in 2011 and reflected the sharp increase in sales of unit-linked products, which more than compensated for the drop in sales of guaranteed-interest products. Overall, products offering guaranteed rates thus accounted for 22% of life insurance sales in 2012, and unit-linked products for as much as 78%. At year-end 2012, the outstanding life reserves in this business unit totalled 25.1 billion euros, up 13% on the year-earlier figure.

Net fee and commission income amounted to 782 million euros, up 12% on the 2011 figure and attributable primarily to increased sales of unit-linked insurance products (since the margin on which is recognised under 'Net fee and commission income'), and, to a lesser extent, to higher fee and commission income from investment funds. At 144 billion euros, assets under management in this business unit rose by 5% year-on-year, due to the combined effect of slightly lower volumes and a greater positive price effect.

As regards the other income items, the net realised result from available-for-sale assets came to 101 million euros (in line with the previous year, and reflecting significant gains on the sale of shares and Belgian government bonds being partially offset by losses on the sale of Greek, Italian and Spanish bonds), dividend income amounted to 33 million euros, and the net result from financial instruments at fair value through profit or loss totalled 445 million euros. On an underlying basis, i.e. after excluding exceptional and non-operating items (such as the impact of CDOs), among other things, and after reallocating all trading-related income to this heading, the net result from financial instruments at fair value stood at 55 million euros. Other net income came to 84 million euros, 115 million euros more than in 2011, which had been very negatively affected by the recognition of -167 million euros for the 5-5-5 investment product. Further details of the 5-5-5 investment product can be found in Note 8 of the 'Consolidated financial statements' section.

Operating expenses totalled 1 768 million euros in 2012, down 1% on the year-earlier figure, with various factors cancelling each other out (slightly lower ICT expenses, slightly higher staff expenses, etc.). As a result, the underlying cost/income ratio for the banking activities came to a favourable 59%, compared with 63% in 2011.

Impairment recorded on loans and receivables in the loan portfolio of the Belgium Business Unit amounted to just 67 million euros in 2012, resulting in a very favourable credit cost ratio of 11 basis points in 2012 (compared with 10 basis points in 2011). Approximately 1.6% of the Belgian retail loan portfolio was non-performing at year-end 2012, roughly the same as the year-earlier figure. The 35 million euros in other impairment charges related to shares. In addition to shares, the 2011 figure included -156 million euros in impairment recorded on Greek government bonds.

Macroeconomic trends

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

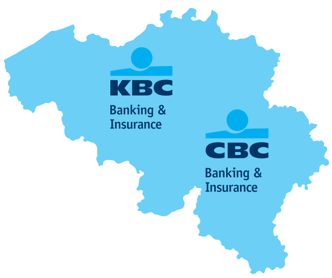
Against that backdrop, the Belgian economy generally marked time in 2012. Export growth naturally suffered from the weakness of key export markets, but consumer spending was also rather weak, and investment demand fell back, too. The increase in unemployment remained relatively limited. Confidence in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

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

Activity in 2012

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

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



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

We adjust our product and service offering all the time to take account of the changing needs of our clients, new legislation and social trends. Examples of new products include Start2Save – a formula that, among other things, enables new savers to set aside small amounts regularly and get a higher return than from a traditional savings account but without increased risk; Start2Enjoy – a unit-linked insurance product that allows investors to withdraw amounts at fixed times by switching from one fund to another at appropriate moments; and KBC Funeral Insurance, which we launched in April 2012.

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

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

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

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

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

Our wide-ranging and bespoke product offering makes us one of Belgium's leading financial institutions. Based on provisional data and our own estimates, our share of the Belgian market amounted to roughly 23% in lending and 17% in deposits at year-end 2012. Our share of the insurance market came to an estimated 17% for life insurance (guaranteed-interest and unit-linked products, combined) and between 8% and 9% for non-life insurance. As in previous years, we did very well in the investment fund market, as illustrated by an estimated share of 35%. Generally speaking, however, 2012 saw a shift from investment funds and guaranteed-interest life insurance to unit-linked life insurance.

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

KBC in society

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

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

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

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

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

Our involvement in society is also visible in our product offering. In 2012, for instance, we temporarily added free extra protection to our KBC/CBC Family Insurance policy, to cover children living in the parental home against the risk of natural disaster while attending summer festivals, in the wake of the fatal events at Pukkelpop in 2011. During our traditional savings and investment campaign in October and November, KBC donated 250 000 euros to three charities, namely informal carers, foster carers and care network professionals. Once they had saved a certain amount, clients could join in the decision as to how the sum was to be shared among the projects, each of which meets real social needs and has a lasting impact on society.

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

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

The KBC building in Ghent, which came into operation in 2012, is a fine example of ecologically responsible construction.

Employees who cycle to work also receive an additional financial stimulus, rail-users have their season tickets fully reimbursed, car-poolers are given guaranteed parking spaces and the company car fleet now also includes hybrid vehicles. In addition, KBC takes part in initiatives like ‘Bike to Work’ and ‘Mobility Week’. In December 2012, we opened our first energy-efficient branch in Belgium (Gooik-Leerbeek). The building has been given a rating of E1 for its energy efficiency (the legal standard on 1 January 2012 was E70) and a K-value of 25 for overall heating and insulation (the legal standard is K40). The way this branch was constructed illustrates how sustainability and a modern bank branch can go hand in hand.

Environmental efficiency data for the KBC group in Belgium is shown below.

Environmental efficiency data for the KBC group in Belgium (per FTE)	2011	2012
Energy consumption (in GJ)		
Electricity	21.3	20.8
Provided by renewable energy sources	100%	100%
Fossil fuels (gas and heating oil)	12.6	12.6
Distances travelled (in km)		
Commuter travel	9 175	8 867
Business travel	5 388	5 573
Paper and water consumption, waste		
Paper (in tonnes)	0.14	0.13
Water (in m^3)	8.2	8.5
Waste (in tonnes)	0.30	0.29
Greenhouse gas emissions (in tonnes)	3.0	2.5

Belgium in the new group structure from 2013

KBC unveiled its renewed strategy in October 2012. This strategy and the new group management structure associated with it are described in the ‘Strategy, company profile and structure’ section.

Within the new structure, the Belgium Business Unit has been extended to include Belgium Corporate Banking, which was previously part of the Merchant Banking Business Unit.

Central & Eastern Europe Business Unit

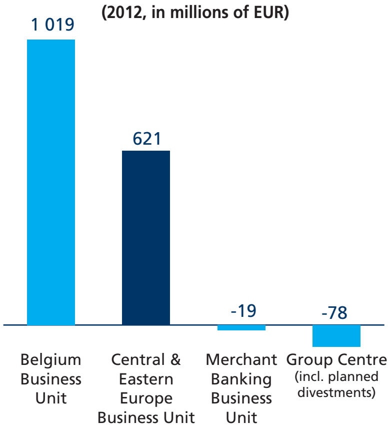
The Central & Eastern Europe (CEE) Business Unit comprises all activities pursued in Central and Eastern Europe. The main group companies that belonged to this unit in 2012 were CIBANK and DZI Insurance (Bulgaria), ČSOB and ČSOB Poisťovňa (Slovakia), ČSOB and ČSOB Pojišťovna (Czech Republic), and K&H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

The business unit contributed 591 million euros to the results in 2012. The underlying figure was 621 million euros, or 40% of the results for the group as a whole in 2012.

'I work for KBC. And KBC works for me.'

Gabriela Suchancová
Operational Excellence
Czech Republic

Breakdown of underlying net result by business unit
(2012, in millions of EUR)



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

- **799** bank branches; insurance sold through various channels
- **6** million customers
- Loan portfolio of **27** billion euros and deposits of **37** billion euros
- **Market share**

	bank products	investment funds	life insurance	non-life insurance
Czech Republic	20%	30%	8%	6%
Slovakia	10%	8%	5%	3%
Hungary	8%	20%	3%	4%
Bulgaria	2%	–	13%	11%

* Market shares and customer numbers: based on own estimates. Share for traditional bank products: average estimated market share for loans and deposits. Share for life insurance: guaranteed-interest and unit-linked products (combined) (taking account of modified calculation for the Czech Republic). Loan portfolio: loans and advances to customers (amount drawn down, excluding reverse repos). Deposits: deposits from customers and debt securities (excluding repos). Bank branches by country: 322 in the Czech Republic (ČSOB Bank + Postal Savings Bank), 132 in Slovakia, 236 in Hungary, 109 in Bulgaria. Loan portfolio by country (in billions of EUR): 19 in the Czech Republic, 4 in Slovakia, 4 in Hungary, 0.6 in Bulgaria.

A new management and business unit structure was introduced at the start of 2013.
For more details, see the end of this section.

Contribution to group results

Central & Eastern Europe Business Unit[1] (in millions of EUR)	IFRS 2011	IFRS 2012	Underlying 2011	Underlying 2012
Net interest income	1 524	1 389	1 524	1 389
Earned premiums, insurance (before reinsurance)	745	778	745	778
Technical charges, insurance (before reinsurance)	-548	-588	-548	-588
Ceded reinsurance result	-21	-13	-21	-13
Dividend income	2	1	2	1
Net result from financial instruments at fair value through profit or loss	131	208	74	214
Net realised result from available-for-sale assets	32	7	32	7
Net fee and commission income	329	298	329	298
Other net income	32	42	38	42
Total income	**2 226**	**2 123**	**2 175**	**2 129**
Operating expenses	-1 192	-1 278	-1 192	-1 278
Impairment	-694	-165	-619	-142
on loans and receivables	-477	-123	-477	-123
on available-for-sale assets	-127	-1	-127	-1
on goodwill	-75	-23	0	0
other	-14	-18	-14	-18
Share in results of associated companies	1	2	1	2
Result before tax	**341**	**681**	**365**	**710**
Income tax expense	-53	-90	-38	-89
Net post-tax result from discontinued operations	0	0	0	0
Result after tax	**289**	**591**	**327**	**621**
attributable to minority interests	0	0	0	0
attributable to equity holders of the parent	**289**	**591**	**327**	**621**
Banking	266	570	291	585
Insurance	23	21	36	36
Risk-weighted assets (period-end) (Basel II)	26 128	24 468	26 128	24 468
Allocated capital (period-end)	2 184	2 048	2 184	2 048
Return on allocated capital	9%	23%	11%	25%
Cost/income ratio, banking	52%	59%	54%	59%
Combined ratio, non-life insurance	93%	96%	93%	96%

Reconciliation of IFRS and underlying figures[2] (in millions of EUR)	2011	2012
Result after tax, attributable to equity holders of the parent (underlying)	327	621
Changes in fair value of ALM hedging instruments	43	-7
Gains/losses relating to CDOs	-1	0
Impairment on goodwill and associated companies	-75	-23
Results on divestments	-5	0
Result after tax, attributable to equity holders of the parent (IFRS)	289	591

Underlying results by country (in millions of EUR)	Czech Republic 2011	Czech Republic 2012	Slovakia 2011	Slovakia 2012	Hungary 2011	Hungary 2012	Bulgaria 2011	Bulgaria 2012	Other[3] 2011	Other[3] 2012
Result after tax, attributable to equity holders of the parent	**481**	**581**	**78**	**70**	**-19**	**74**	**2**	**15**	**-215**	**-119**
Banking	452	556	66	59	-26	68	-3	10	-198	-108
Insurance	28	25	12	11	7	6	5	5	-17	-11
Risk-weighted assets (period-end) (Basel II)	14 869	14 145	4 261	4 092	6 123	5 301	848	804	–	–
Allocated capital (period-end)	1 241	1 186	352	338	507	438	82	76	–	–
Return on allocated capital	33%	40%	18%	16%	-9%	8%	-22%	4%	–	–
Cost/income ratio, banking	46%	47%	62%	66%	48%	69%	76%	67%	–	–
Combined ratio, non-life insurance	90%	95%	81%	80%	96%	96%	100%	104%	–	–

1 The results of companies scheduled for divestment have been reallocated to the Group Centre. For information on how the underlying figures are calculated, see the reconciliation table.
2 A more detailed explanation can be found under 'Notes on segment reporting' in the 'Consolidated financial statements' section.
3 The 'Other' heading comprises the funding for the goodwill paid for companies in this business unit and certain items not allocated to individual countries/companies.

In 2012, the Central & Eastern Europe Business Unit generated a net profit of 591 million euros, compared with 289 million euros in 2011. Underlying net profit came to 621 million euros, 90% more than the year-earlier figure, due primarily to lower impairment recorded on Greek government bonds, a robust trading result and a sharp fall in loan loss provisioning in Hungary and Bulgaria.

Net interest income at this business unit came to 1 389 million euros in 2012, down 9% on its level in 2011 (7% excluding the effects of currency exchange). Besides lower yields on reinvestments (mainly in the Czech Republic), a key cause of this decline was the 15% contraction in the loan portfolio in Hungary, resulting from, among other things, measures taken in that country in 2011 in respect of foreign-currency mortgage loans. This decrease was offset, however, by growth in the other countries, so that the business unit's loan portfolio rose overall in 2012 by 4% (adjusted for currency exchange effects). Deposit volumes rose by 2% in 2012, with increases particularly in Slovakia, but also in the Czech Republic, once again compensating for a decline in Hungary. The average net interest margin amounted to 3.03% in 2012, compared with 3.29% in 2011.

Earned insurance premiums came to 778 million euros, 447 million euros of which related to life insurance and 331 million euros to non-life insurance. Non-life insurance premiums remained more or less unchanged, and, as in previous years, were generated chiefly in the Czech Republic (51%). The combined ratio deteriorated from 93% in 2011 to 96% in 2012. Earned life insurance premiums, including premiums on certain life insurance products which – as required under IFRS – are not recognised under earned premiums, totalled 0.5 billion euros in 2012, up 5% on the previous year. More than 75% of the total premium income from life insurance was earned in the Czech Republic. There was robust growth for the region as a whole in unit-linked products, which more than made up for the decline in sales of guaranteed-interest products. As a result, unit-linked products accounted for 73% of total life insurance sales in 2012. At year-end, outstanding life reserves for the four core markets combined stood at approximately 1.7 billion euros, 8% above the year-earlier figure.

Net fee and commission income came to 298 million euros in 2012, a fall of 9% compared with the previous year that was due mainly to a decline in the Czech Republic. Assets under management in the business unit stood at around 10.9 billion euros at year-end, a year-on-year increase of some 3% that was accounted for by price effects. As regards the other income items, the net realised result from available-for-sale assets totalled 7 million euros, dividend income amounted to 1 million euros, the net result from financial instruments at fair value through profit or loss stood at 208 million euros (considerably higher than the year-earlier figure), and other net income came to 42 million euros.

Operating expenses amounted to 1 278 million euros, up 7% on the figure for 2011, with various factors cancelling each other out (such as restructuring costs in the fourth quarter, slightly higher staff and ICT expenses and, in particular, higher special bank taxes). This last item includes the special bank tax in Hungary, which had an impact of 54 million euros in 2012. By comparison, the impact of this tax was just 6 million euros in 2011, when it was possible to set off some of the loan loss provisions for foreign-currency mortgage loans against the tax. The underlying cost/income ratio for the banking activities of this business unit stood at 59% in 2012, compared with 54% a year earlier.

Impairment on loans and receivables (loan loss provisions) came to 123 million euros in 2012, which was a significant improvement on the 477 million euros recorded for 2011. The decrease reflected factors including significantly lower loan loss provisions in Hungary. These were relatively high in 2011 owing to a new law that allows foreign-currency loans to be repaid in local currency at a preferential exchange rate, with the banks bearing the difference. Loan loss provisions were also lower for Bulgaria, following the relatively substantial amount in 2011. Consequently, the business unit's overall credit cost ratio improved from 159 basis points in 2011 to 40 basis points in 2012. At year-end 2012, around 5.2% of the loan portfolio in the four core markets combined was non-performing, compared with 5.6% a year earlier. Other impairment charges totalled 42 million euros, significantly lower than in 2011, when 129 million euros was recognised on Greek government bonds and 75 million euros on goodwill, largely related to Bulgaria.

Macroeconomic trends

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

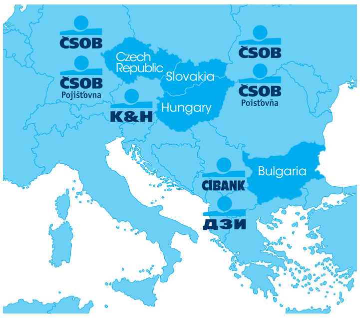
2013 is likely to be another economically challenging year. Broadly speaking, we anticipate zero economic growth for the Czech Republic, whereas the Bulgarian economy should expand by around 1.5%. We expect the Hungarian economy to grow slightly and growth in Slovakia to slow to around 1%. This outlook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

K&H's head office building in Hungary.

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

Activity in 2012

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



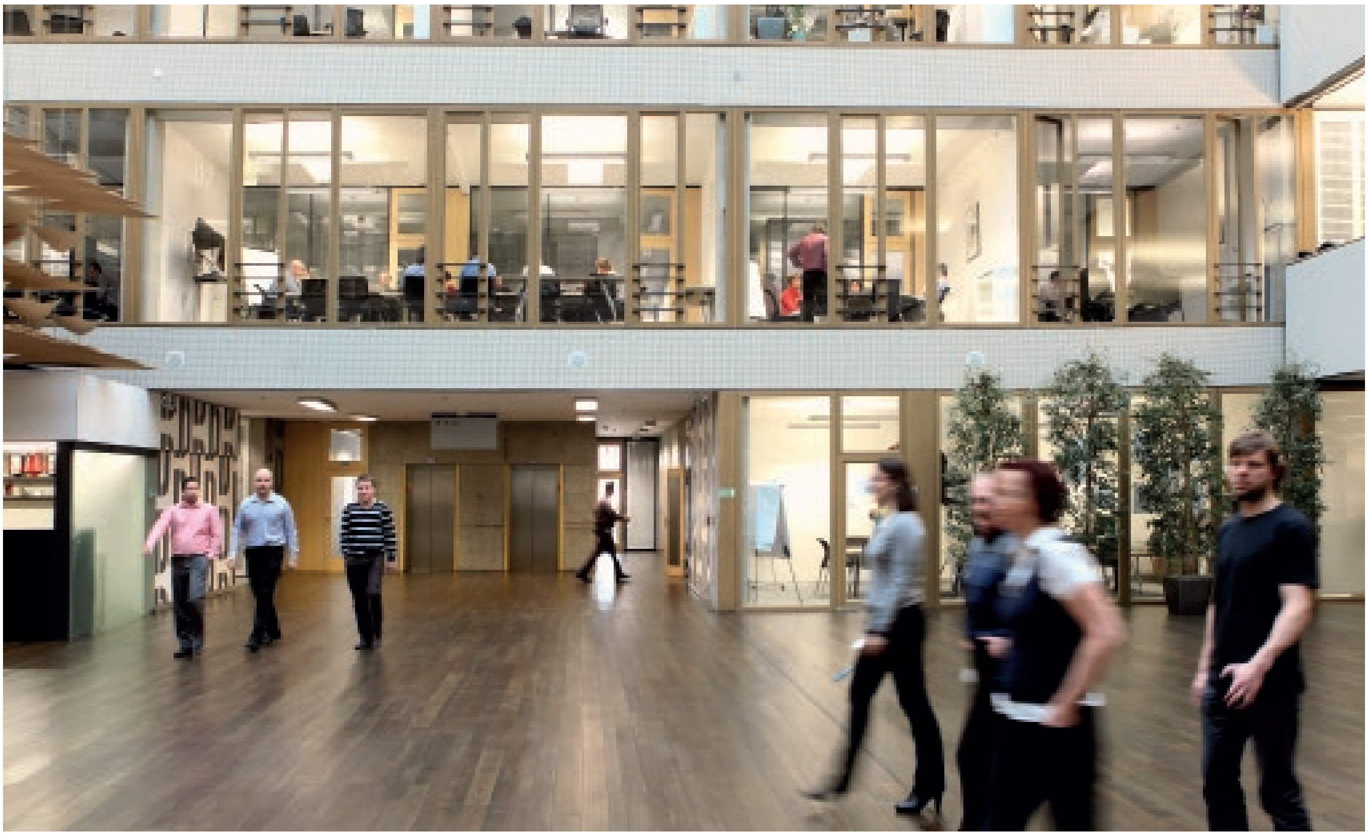
K&H Bank and K&H Insurance in Hungary have the same logo.

The group's strategic plan requires us to divest our holdings in the other markets in the region. We made a start on that in 2012 when we sold the Polish insurer, WARTA. At the end of February 2012, moreover, we concluded an agreement with Banco Santander SA with regard to the merger of our respective Polish banking subsidiaries, Bank Zachodni WBK SA and Kredyt Bank SA. For more information on this transaction, see 'Group Centre'.

In addition to selling our Polish operations, we also have to divest Absolut Bank in Russia, KBC Banka in Serbia, and our minority interest in the Nova Ljubljanska banka group (NLB) in Slovenia. We concluded sale agreements for Absolut Bank and for the minority stake in NLB at the end of December 2012.

The group does not intend to make any significant acquisitions in the region in the years ahead.

As in Belgium, our group companies in each of the four Central and Eastern European core markets offer a wide range of bank products (including loans, deposits and various specialised financial services), insurance products (life and non-life) and asset management products (except in Bulgaria).



KBC group's companies in Central and Eastern Europe are also aware of their ecological footprint and are taking various initiatives to reduce it. The new head offices in the Czech Republic and Hungary, for instance, are models of ecological and sustainable construction.

This product range is constantly screened and adjusted. For example, in Hungary, K&H Bank launched a CPPI fund (an actively managed fund that complements the existing range of open-ended and capital-protected funds) and made a number of improvements in its payments offering for corporate clients (including a new intraday clearing system for local currencies and new cross-border cash-pooling solutions). In Bulgaria, CIBANK came out with new products for every client segment, ranging from consumer loans linked to energy subsidies for private individuals to new products for members of the liberal professions, and extended its range of trade finance products for SME and corporate clients. In Slovakia, ČSOB Bank introduced numerous new products and product variations, including for mortgages, investments and payments.

We are a major player in the region. In 2012, we had a market share in traditional bank products (average of loans and deposits) of an estimated 20% in the Czech Republic, more than 10% in Slovakia, more than 8% in Hungary and just above 2% in Bulgaria. As in Belgium, our share of the market in investment funds is greater in the Czech Republic and Hungary than that of the market in traditional deposit products. At year-end, we estimate it at 30% in the Czech Republic, 20% in Hungary and 8% in Slovakia. We estimate our share of the insurance market (life and non-life respectively in each instance) at 8% and 6% in the Czech Republic, 5% and 3% in Slovakia, 3% and 4% in Hungary and 13% and 11% in Bulgaria.

KBC in society

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

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

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

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

Marko Voljč, Central & Eastern Europe Business Unit CEO (until the end of 2012)
'Our Central and Eastern European group companies once again won a series of awards in 2012. For instance, DZI in Bulgaria was named 'Superbrand' in the 'Financial Services, Insurance' category. K&H Insurance in Hungary was awarded the title of 'Consumer-Friendly Insurer of the Year' and the CEO of K&H Bank was among the winners of the 'MasterCard Banker of the Year 2012' award. International Service Check's survey of bank branches in Central and Eastern Europe gave top scores to various KBC group companies, with ČSOB in the Czech Republic topping the 'Service, Assistance and Advice' category, and CIBANK in Bulgaria occupying a top-three place among all the banks surveyed in the region. K&H Bank in Hungary came top in the 'Appearance' category.'

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

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

Examples of environmental and social engagement initiatives in Central and Eastern Europe are provided in our *CSR Report* at www.kbc.com. The following table shows environmental efficiency data for ČSOB in the Czech Republic.

Environmental efficiency data for ČSOB in the Czech Republic (2012; per FTE)*	
Energy consumption (in GJ)	
Electricity	16.9
Provided by renewable energy sources	2.0
Fossil fuels (gas and heating oil)	6.1
Paper and water consumption	
Paper (in tonnes)	0.14
Water (in m^3)	14.6

* Reference figures will be included for comparison purposes in this table from 2013 on.

Central and Eastern Europe in the new group structure from 2013

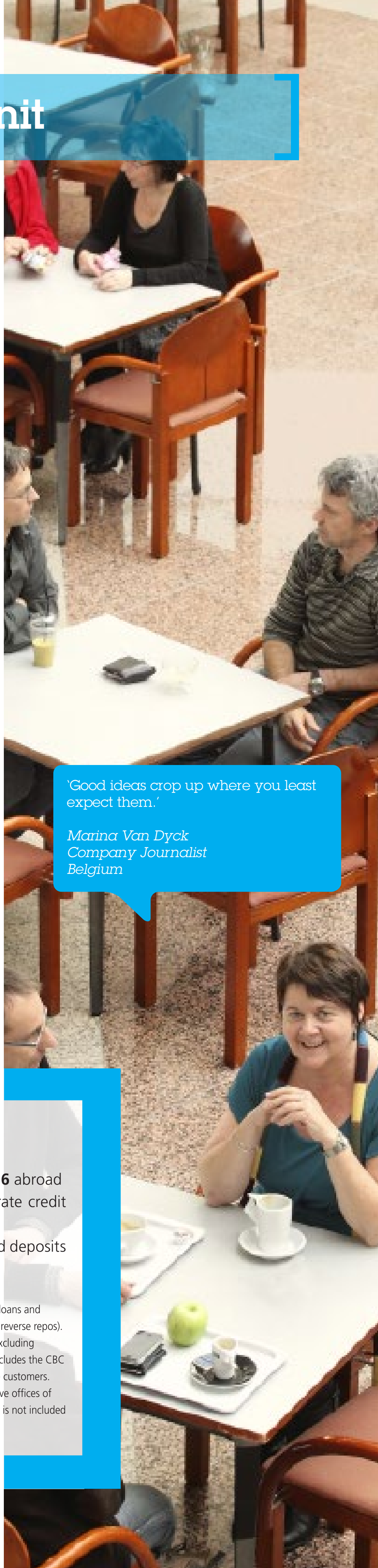
KBC unveiled its renewed strategy in October 2012. This strategy and the new group management structure associated with it are described in the 'Strategy, company profile and structure' section.

In simple terms, the Central & Eastern Europe Business Unit will be split up within the new management structure and a separate Czech Republic Business Unit created, reflecting the exceptional importance of that country within the group's overall Central and Eastern European operations. Operations in the other core countries – Hungary, Slovakia and Bulgaria – will be grouped under the International Markets Business Unit.

Merchant Banking Business Unit

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

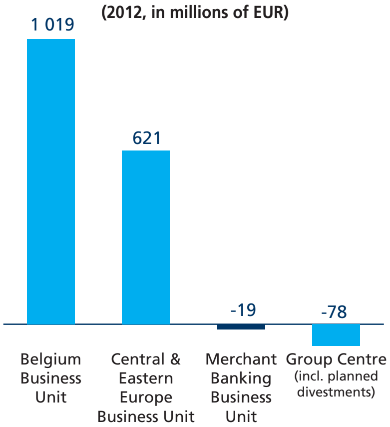
The business unit contributed -114 million euros to the results in 2012. The underlying figure was -19 million euros, or -1% of the results for the group as a whole in 2012.



'Good ideas crop up where you least expect them.'

Marina Van Dyck
Company Journalist
Belgium

Breakdown of underlying net result by business unit
(2012, in millions of EUR)



Market position in 2012*

- **13** corporate branches in Belgium, **16** abroad
- Estimated **26%** share of the corporate credit market in Belgium
- Loan portfolio of **40** billion euros and deposits of **41** billion euros

* Market shares: based on own estimates. Loan portfolio: loans and advances to customers (amount drawn down, excluding reverse repos). Deposits: deposits from customers and debt securities (excluding repos). The number of corporate branches in Belgium excludes the CBC Banque branches that cater for both retail and corporate customers. Branches abroad are the bank branches and representative offices of KBC Bank and KBC Bank Ireland. KBC Bank Deutschland is not included in these figures.

A new management and business unit structure was introduced at the start of 2013. For more details, see the end of this section.

Contribution to group results

Merchant Banking Business Unit[1] (in millions of EUR)	2011	IFRS 2012	2011	Underlying 2012
Net interest income	944	678	663	542
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	18	10	7	6
Net result from financial instruments at fair value through profit or loss	-3	308	405	579
Net realised result from available-for-sale assets	31	45	35	13
Net fee and commission income	194	183	202	199
Other net income	-36	78	-76	65
Total income	**1 148**	**1 301**	**1 236**	**1 405**
Operating expenses	-576	-581	-569	-581
Impairment	-785	-765	-768	-751
on loans and receivables	-725	-704	-725	-704
on available-for-sale assets	-6	-8	-6	-1
on goodwill	-17	-1	0	0
other	-37	-52	-37	-46
Share in results of associated companies	0	0	0	0
Result before tax	**-214**	**-46**	**-101**	**72**
Income tax expense	20	-56	6	-79
Net post-tax result from discontinued operations	0	0	0	0
Result after tax	**-194**	**-101**	**-95**	**-7**
attributable to minority interests	14	12	15	13
attributable to equity holders of the parent	**-208**	**-114**	**-110**	**-19**
Banking	-212	-118	-114	-23
Insurance	4	4	4	4
Risk-weighted assets (period-end) (Basel II)	42 126	36 970	42 126	36 970
Allocated capital (period-end)	3 370	2 958	3 370	2 958
Return on allocated capital	-6%	-2%	-3%	1%
Cost/income ratio, banking	50%	45%	46%	42%

Reconciliation of IFRS and underlying figures[2] (in millions of EUR)	2011	2012
Result after tax, attributable to equity holders of the parent (underlying)	-110	-19
Changes in fair value of ALM hedging instruments	-58	-48
Gains/losses relating to CDOs	-7	0
Impairment on goodwill	-17	-1
Results on divestments	-17	-46
Result after tax, attributable to equity holders of the parent (IFRS)	-208	-114

Breakdown by activity of the underlying results of the Merchant Banking Business Unit (in millions of EUR)	Corporate banking (figure in brackets excludes Ireland) 2011	2012	Market activities 2011	2012
Result after tax, attributable to equity holders of the parent	**-229 [93]**	**-195 [193]**	**119**	**176**
Banking	-233 [89]	-199 [189]	119	176
Insurance	4 [4]	4 [4]	0	0
Risk-weighted assets (period-end) (Basel II)	31 065	30 528	11 061	6 441
Allocated capital (period-end)	2 485	2 442	885	515
Return on allocated capital	-9%	-7%	12%	27%
Cost/income ratio, banking	41%	41%	58%	43%

1 The results of companies scheduled for divestment have been reallocated to the Group Centre. For information on how the underlying figures are calculated, see the reconciliation table.

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

In 2012, the net result at the Merchant Banking Business Unit amounted to -114 million euros, compared with -208 million euros a year earlier. The underlying figure came to -19 million euros, which was an improvement on the -110 million euros recorded in 2011. This improvement was due in part to significant provisioning for the 5-5-5 investment product in Belgium in 2011, and the better dealing room results and recovery of a substantial amount relating to an earlier fraud case in 2012. Significant loan loss provisions were recorded again in 2012 for Ireland. Excluding Ireland, the underlying net result for the business unit would have been 369 million euros for the year.

Total income amounted to 1 301 million euros. On an underlying basis, it came to 1 405 million euros, up 14% on the figure for 2011.

Net interest income totalled 678 million euros in 2012, which – on an underlying basis – was 18% less than its year-earlier level, attributable in part to the reduced activities and lower reinvestment income. The latter reflected, among other things, the scaling back of the GIIPS government bond portfolio. The size of the loan portfolio fell by 6% in 2012. Its contraction in recent years reflects the group’s focus on its core markets, which has resulted in a gradual run-down in the international loan portfolios not related to those markets. Following the decline in 2011 resulting from the significant outflow of short-term deposits at the end of the year, the volume of deposits at this business unit rose again by 23% in 2012.

The net result from financial instruments at fair value through profit or loss came to 308 million euros. After reallocating all trading-relating income – which is recognised in various other income items under IFRS – and excluding exceptional items, the underlying result stood at 579 million euros. That is approximately 43% more than in 2011, due to stronger dealing room results and positive credit value adjustments for derivatives in 2012, compared with negative credit value adjustments in 2011.

Net fee and commission income totalled 183 million euros, a slight decline (-2%) on an underlying basis that was attributable in part to the deconsolidation of a number of smaller companies. As regards the other income items, the net realised result from available-for-sale assets came to 45 million euros, dividend income to 10 million euros, and other net income to a positive 78 million euros (compared with a negative 36 million euros in 2011). In 2011, this item included the recognition of -167 million euros in respect of the 5-5-5 investment product (see Note 8 in the ‘Consolidated financial statements’ section). 2012 was also favourably influenced by 126 million euros recovered in respect of an earlier fraud case at KBC Lease UK.

Operating expenses at this business unit came to 581 million euros, an increase of 2% on an underlying basis on the year-earlier figure (with the impact of a reduction in activities, higher special bank taxes and a number of other factors partially offsetting each other). The underlying cost/income ratio ended the year at 42%, compared with 46% in 2011.

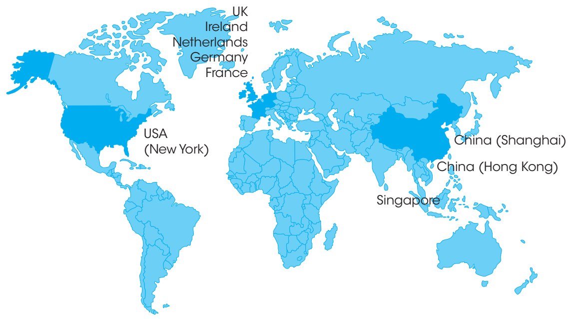
Impairment recorded on loans and receivables amounted to 704 million euros in 2012, slightly lower than the 725 million euros recorded for the previous year. Relatively high impairment charges were again recorded at KBC Bank Ireland (547 million euros compared with 510 million euros in 2011). At business unit level, the credit cost ratio stood at 142 basis points, compared with 136 basis points in 2011. Excluding Ireland, the figure was 48 basis points in 2012 and 59 basis points in 2011. At 31 December 2012, around 9.8% of the business unit’s loan portfolio was non-performing, compared with 7.8% a year earlier. Other impairment charges amounted to 61 million euros and related primarily to investment property. The previous year’s figure was 60 million euros, and, besides investment property, also related in part to Greek government bonds.

The bottom part of the table on the previous page contains the business unit’s underlying net result, broken down into corporate banking (services provided to SMEs and larger companies) and market activities (e.g., currency dealing, securities trading and corporate finance).

Activity in 2012

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

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



KBC Bank corporate branches abroad
(outside the home markets), year-end 2012

In line with the group's strategic focus, we have re-oriented our operations abroad to the maximum possible extent in recent years to support clients from our core markets. We have scaled back the other activities, including the divestment of KBC Peel Hunt, several subsidiaries of KBC Securities, various KBC Financial Products activities, KBC Business Capital and KBC Private Equity's portfolio, all of which has happened over the past three years. We have allocated the results of the main companies scheduled for divestment to the Group Centre, and discuss them in that section. Over the past few years, we also closed a number of our branches outside Belgium. An overview of KBC Bank's remaining corporate branches abroad (including KBC Bank Deutschland and KBC Bank Ireland) at year-end 2012 is provided in the diagrammatic map.

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

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

Luc Gijsens, Merchant Banking Business Unit CEO (until the end of 2012)
'As a major Belgian bank, we are also involved in Public Private Partnerships (PPPs). A good example of a PPP project is KBC's funding for the construction of nine municipal sports centres in Flanders as part of the Flemish Sports Infrastructure Plan. KBC is the sole bank and is providing full debt funding. The sports centres are being constructed through a PPP project, in collaboration with the developer, Sport in Vlaanderen NV. A key factor in landing the project was the effective collaboration between different KBC entities, namely Project Finance, the Limburg Corporate Centre, the Legal Division and the Dealing Room's Swap Desk.'

Merchant Banking in the new group structure from 2013

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

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

Shared Services & Operations Business Unit

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

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

'I've just proposed a new project. It's great to know there's a listening ear at KBC.'

Kristof Huysecom
Head of Accounts Receivable & Remarketing
Belgium

Market share in 2012[1]

- **Investment funds: 35%** in Belgium, **30%** in the Czech Republic, **8%** in Slovakia and **20%** in Hungary
- **Documentary credit: 35%** in Belgium, **31%** in the Czech Republic, **20%** in Slovakia and **16%** in Hungary
- **Lease: 14%[2]** and **21%[3]** in Belgium, **13%** in the Czech Republic, **18%** in Slovakia and **4%** in Hungary
- **Consumer finance: 6%** in Belgium, **9%** in the Czech Republic, **4%** in Slovakia and **2%** in Hungary

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

A new management and business unit structure was introduced at the start of 2013.
For more details, see the end of this section.

Activity in 2012

The Shared Services & Operations Business Unit provides a quality service at a competitive price to its internal clients (e.g., the group's distribution channels) and external clients.

For that reason, we constantly take initiatives to increase efficiency and quality of service, and to reduce costs. It was with that in mind that we launched our 'Lean' project. Embedding 'Lean' principles in our corporate culture has promoted a focus on continuous improvement. By devolving responsibility to every employee for identifying and tackling waste, we can create maximum value for our clients. All the relevant divisions were operating according to Lean principles by year-end 2012.

As part of the new structure introduced at the start of 2013, we have reallocated this business unit's activities to the other business units and divisions (see below and elsewhere in this report).

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

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

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

Danny De Raymaeker, Shared Services & Operations Business Unit CEO (until the end of 2012)
'We once again picked up a variety of awards in 2012. Global Finance magazine, for instance, again chose KBC Bank as its 'Best Trade Finance Provider' in Belgium, and likewise ČSOB in the Czech Republic. And both banks again picked up the title of 'Best bank' in their respective countries. KBC Asset Management also featured regularly among fund awards in Belgium and elsewhere. For example, it took Morningstar's 'Best Large Fixed-Interest Fund House' award in early 2012.'

Andrea Halcinova, General Manager, KBC Asset Management, Slovakia

Research & development

We constantly develop new products and services to align our offering as closely as possible with market demand. We have a specific process within the group, for instance, to support research and development of new products by enhancing the efficiency with which approval is granted for new product and service launches. It also entails a thorough analysis of all relevant risks and the proposal of actions to avoid or manage those risks.

In addition, we regularly review all our products, so that existing ones can be adapted to evolving customer needs and changing market conditions. We further optimised this process in the past year in line with 'Lean' concepts, and we rolled out a documentation application to enhance support of process monitoring and to facilitate look-ups.

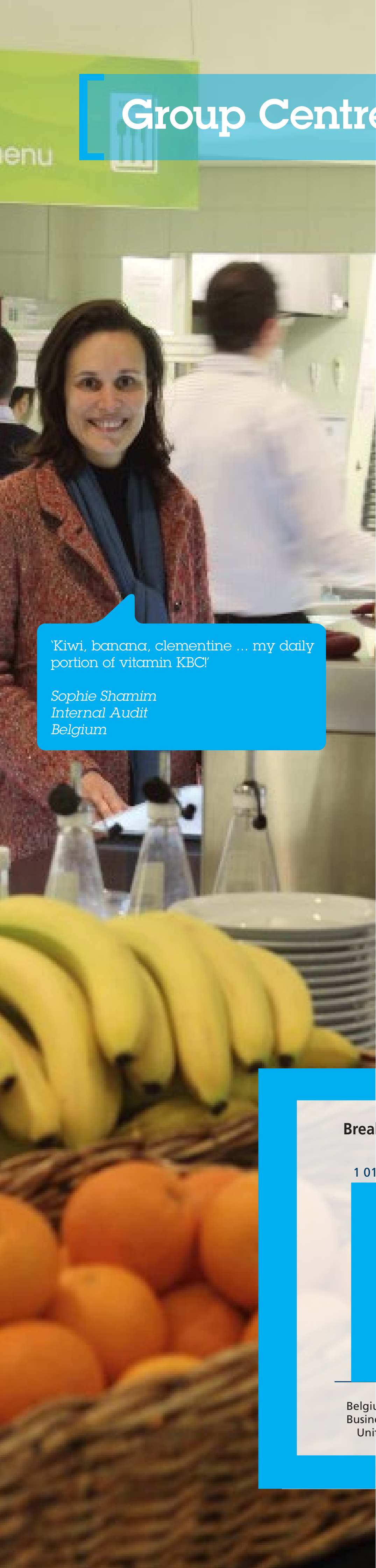
Besides the projects and products mentioned in this section, we have provided several examples of new product developments in 2012 elsewhere in this annual report. New products and services are often developed in tandem with new software. Details of software developed in-house can be found in Note 34 of the 'Consolidated financial statements' section.

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

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

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

Group Centre



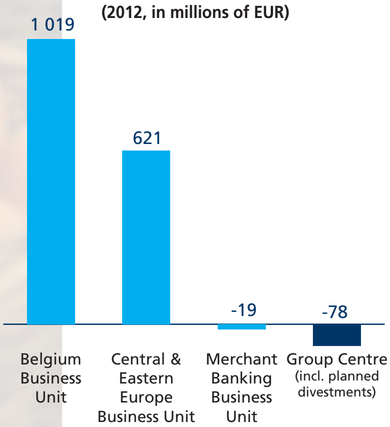
'Kiwi, banana, clementine ... my daily portion of vitamin KBC!'

Sophie Shamim
Internal Audit
Belgium

The Group Centre includes the results of the holding company KBC Group NV, KBC Global Services, a small portion of the results not attributable to the other business units, and elimination of intersegment transactions. It also contains the results of companies scheduled for divestment, the most important of which are Centea, Fidea, Absolut Bank, KBC Banka, Nova Ljubljanska banka group, Kredyt Bank, WARTA, KBC Financial Products, KBC Peel Hunt, Antwerp Diamond Bank, KBC Bank Deutschland and the KBL EPB group. Most of these companies have now been sold.

The Group Centre contributed -1 165 million euros to the results in 2012. The underlying figure was -78 million euros, or -5% of the results for the group as a whole in 2012.

Breakdown of underlying net result by business unit
(2012, in millions of EUR)



Principal divestments agreed or completed:

- Centea
- Fidea
- Kredyt Bank
- WARTA
- KBC Financial Products (various activities)
- KBC Peel Hunt
- Secura
- KBL EPB
- Absolut Bank
- minority stake in Nova Ljubljanska banka

A new management and business unit structure was introduced at the start of 2013.

Contribution to group results

Group Centre[1] (in millions of EUR)	IFRS 2011	IFRS 2012	Underlying 2011	Underlying 2012
Net interest income	691	383	897	384
Earned premiums, insurance (before reinsurance)	1 239	434	1 241	434
Technical charges, insurance (before reinsurance)	-969	-311	-984	-311
Ceded reinsurance result	1	11	0	11
Dividend income	13	1	13	1
Net result from financial instruments at fair value through profit or loss	206	-541	-15	68
Net realised result from available-for-sale assets	8	28	26	28
Net fee and commission income	-57	53	304	50
Other net income	92	530	26	20
Total income	**1 224**	**588**	**1 510**	**685**
Operating expenses	-786	-621	-1 135	-556
Impairment	-328	-1 479	-210	-200
on loans and receivables	-71	-178	-73	-177
on available-for-sale assets	-54	-51	-90	0
on goodwill	-24	-398	0	0
other	-180	-853	-47	-22
Share in results of associated companies	-59	1	-58	-33
Result before tax	**51**	**-1 510**	**106**	**-103**
Income tax expense	-104	334	-10	41
Net post-tax result from discontinued operations	-419	27	0	0
Result after tax	**-471**	**-1 150**	**97**	**-62**
attributable to minority interests	18	16	18	16
attributable to equity holders of the parent	**-489**	**-1 165**	**79**	**-78**
Banking	139	-1 460	96	-68
Insurance	-127	341	38	29
Holding-company activities	-501	-46	-55	-39
Risk-weighted assets (period-end) (Basel II)	29 149	15 091	29 149	15 091
Allocated capital (period-end)	2 491	1 214	2 491	1 214

Reconciliation of IFRS and underlying figures[2] (in millions of EUR)	2011	2012
Result after tax, attributable to equity holders of the parent (underlying)	79	-78
Changes in fair value of ALM hedging instruments	-7	-1
Gains/losses relating to CDOs (including fee for CDO guarantee agreement[3])	-333	160
Impairment on goodwill	-19	0
Result from legacy structured derivatives business (KBC Financial Products)	50	-6
Changes in fair value of own debt instruments	359	-531
Results on divestments	-618	-710
Result after tax, attributable to equity holders of the parent (IFRS)	-489	-1 165

Breakdown of underlying result after tax, attributable to equity holders of the parent (in millions of EUR), Group Centre	2011	2012
Result of group companies scheduled for divestment under the strategic plan	148	-27
Formerly recognised under Belgium Business Unit[4]	39	–
Formerly recognised under Central & Eastern Europe Business Unit[5]	111	121
Formerly recognised under Merchant Banking Business Unit[6]	18	-47
Formerly recognised under European Private Banking Business Unit[7]	54	–
Other (including funding costs of goodwill relating to the companies scheduled for divestment)	-74	-102
Other results[8]	-69	-51
Total	79	-78

1 The results of companies scheduled for divestment have been reallocated to the Group Centre. For information on how the underlying figures are calculated, see the reconciliation table.
2 A more detailed explanation can be found under 'Notes on segment reporting' in the 'Consolidated financial statements' section.
3 For more information, see Note 5 of the 'Consolidated financial statements'.
4 In 2011, Centea (6 months) and Fidea (12 months); in 2012, none.
5 Mainly Absolut Bank, KBC Banka, the NLB group (for 9 months in 2012) and Kredyt Bank and WARTA (for 6 months in 2012).
6 Primarily Antwerp Diamond Bank, KBC Bank Deutschland and KBC Finance Ireland.
7 In 2011, KBL EPB; in 2012, none.
8 Includes the results of the holding company, KBC Group NV, the results of KBC Global Services, and several results that cannot be allocated to other business units.

In 2012, the Group Centre generated a net result of -1 165 million euros, compared with -489 million euros a year earlier. Excluding exceptional items, the underlying net result totalled -78 million euros (79 million euros in 2011).

The impact of the exceptional items is set out in the table. These items primarily concern CDO-related value adjustments and costs, the effect of divestments (both completed divestments and the recognition of impairment on remaining significant divestment files; for additional information, see the 'Consolidated results in 2012' section), and the influence of the valuation of own credit risk.

After excluding these exceptional items, the bulk of the Group Centre's remaining underlying net result was attributable to companies scheduled for divestment under the strategic plan. Together, they accounted for an underlying result of -27 million euros in 2012, down sharply on the 148 million euros recorded in 2011. This chiefly reflects the deconsolidation of Centea, Fidea, WARTA, and KBL EPB following the completed sale of these companies. 2012 also saw an increase in loan loss provisions (including at KBC Finance Ireland), lower net interest income (including at Kredyt Bank) and a slightly higher trading result.

Divestments

The principal divestments since 2010 – based on the year in which the agreement was concluded, not the year the deal was closed – are as follows:
- 2010: KBC Peel Hunt, various specialised merchant banking activities at KBC Financial Products, Secura, KBC Asset Management's UK and Irish activities, KBC Securities Baltic Investment Company and KBC Business Capital.
- 2011: Centea, KBC Concord Asset Management, KBC Securities' Serbian and Romanian operations, Fidea and KBL EPB.
- 2012: KBC Goldstate, WARTA, Żagiel, Kredyt Bank (via merger with Bank Zachodni WBK), KBC Autolease Polska, KBC Lease Deutschland, the participating interests held by KBC Private Equity, Absolut Bank (deal not yet completed), minority stake in Nova Ljubljanska banka.

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

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

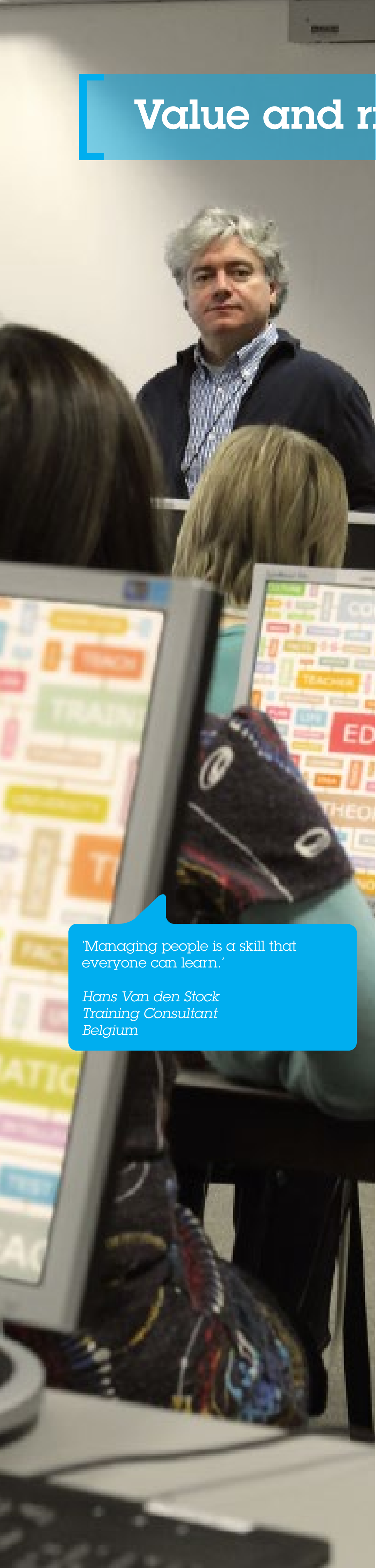
Luc Popelier, Group CFO
'We can state at the beginning of 2013 that most of our divestment programme, which began at the end of 2009, is now complete. We kept our word and rigorously executed that programme in difficult market conditions. Regretfully, we had to bid farewell in that process to a number of group companies, some of which had been embedded in our group for many years. It has now come to the stage to start looking forward. Our focus and area of operation have been clearly marked out, our objectives set and our structure optimised.'

Notes on recent divestments

File	Agreement date	Closing date*	Description (situation and calculation of impact when deal announced)
KBL EPB (private banking, Luxembourg)	October 2011	July 2012	Agreement with Precision Capital for the sale of KBL EPB for roughly 1 billion euros. The deal freed up around 0.7 billion euros of capital.
Fidea (insurance, Belgium)	October 2011	March 2012	Agreement with J.C. Flowers & Co. for the sale of Fidea for approximately 0.2 billion euros. The deal freed up around 0.1 billion euros of capital, primarily through a reduction of 1.8 billion euros in risk-weighted assets.
WARTA (insurance, Poland)	January 2012	June 2012	Agreement with Talanx International AG for the sale of WARTA for 0.8 billion euros. The deal freed up around 0.7 billion euros of capital.
Kredyt Bank (banking, Poland)	February 2012	See Note 48 in the 'Consolidated financial statements' section	Agreement with Banco Santander SA on merging the Polish subsidiaries, Bank Zachodni WBK SA and Kredyt Bank SA. The deal freed up about 0.5 billion euros of capital on the date of the merger, based on the market valuation at the beginning of December 2012. The Polish financial regulator approved the merger in early December 2012. For more details, see Note 48 in the 'Consolidated financial statements' section.
Absolut Bank (banking, Russia)	December 2012	Not yet closed	Agreement to sell Absolut Bank to the group of Russian companies that manage the assets of the BLAGOSOSTOYANIE pension fund. This deal (for a total consideration of 0.3 billion euros) plus repayment of all KBC funding that is currently placed with Absolut Bank – will free up around 0.3 billion euros of capital, primarily by reducing risk-weighted assets by 2 billion euros. When finalised, the deal is expected to have an impact of some -0.1 billion euros on net profit. It has yet to be approved by the regulator.
Nova Ljubljanska banka (NLB) (banking, Slovenia)	December 2012	March 2013	Agreement with Republic of Slovenia on the sale of 22% interest in NLB for around 2.8 million euros. This deal had a negative impact of 0.1 billion euros on 2012 earnings, while its effect on capital is negligible.
Smaller files	–	–	Agreement signed with Value Partners Ltd. in March 2012 concerning the sale of the 49% stake in KBC Goldstate in China. Agreement signed with Business Lease Group in May 2012 regarding the sale of KBC Autolease Polska. Sale of Żagiel to Banco Santander finalised in July 2012. Management buy-out of KBC Lease Deutschland completed in September 2012. Agreement signed with private equity fund KeBeK I in December 2012 for the sale of most of KBC Private Equity's remaining portfolio.

* Situation when annual report went to press.

Value and risk management



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

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

'Managing people is a skill that everyone can learn.'

Hans Van den Stock
Training Consultant
Belgium

John Hollows, Group Chief Risk Officer
'Risk starts with the business. Indeed, we create value for clients by taking risks on them (for instance, when we lend them money), or on behalf of clients (when we offer them insurance products, for example). Therefore, we need to deeply understand financial and other risks. Only then can we truly be confident to deliver good solutions to suitable clients.'

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

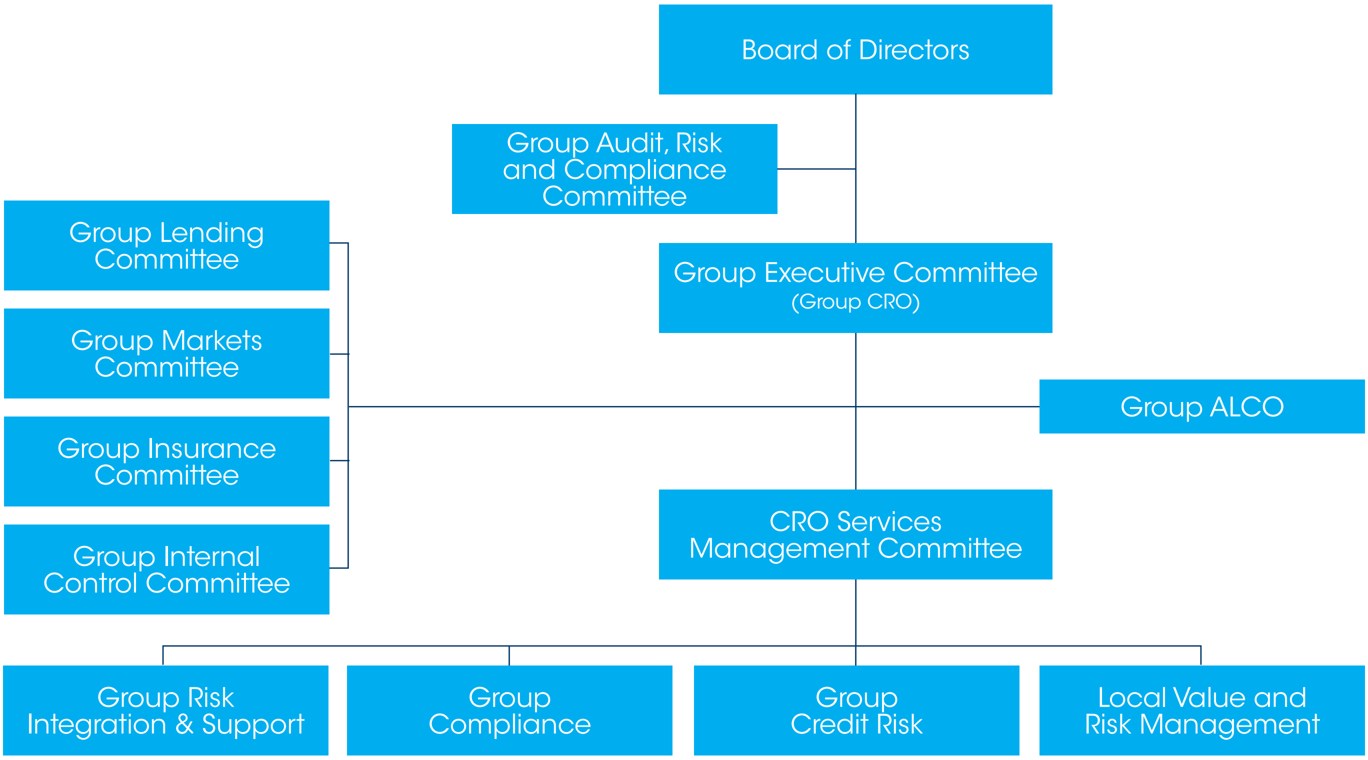
Remark:
Please note that, unless otherwise stated, KBL EPB, Fidea and WARTA in 2011, and Absolut Bank, KBC Banka, Antwerp Diamond Bank, KBC Bank Deutschland (and the minority shareholding in Nova Ljubljanska banka) in 2012, which have all been recognised as 'disposal groups' under IFRS 5, have been excluded from the various tables in order to maintain consistency with their treatment in the balance sheet. We have provided summary information for these entities separately in the footnotes under these tables.

Risk governance

In financial year 2012, our risk governance model was characterised primarily by:
- the Board of Directors (assisted by the Audit, Risk and Compliance Committee (ARC Committee)) which sets the risk appetite each year, monitors risks and proposes action, where necessary. More information on the Board of Directors and the ARC Committee can be found in the section entitled 'Corporate governance statement'.
- integrated architecture centred around the Executive Committee that links risk appetite, strategy and performance goal setting via capital allocation to limits and targets. Along with a consequential monitoring process, this creates the parameters for the business to take risks within the overall strategic choices and risk appetite of the group.
- the Group Risk and Capital Oversight Committee (GRCOC), the activity-based Asset/Liability Management Committee (ALCO), the Group Risk Management Committee and activity-based risk subcommittees that leverage the time of the Executive Committee.
- a single, independent, group-wide risk function that comprises the Group Chief Risk Officer (CRO), local CROs, and group and local risk functions.
- risk-aware business people, who act as the first line of defence for conducting sound risk management in the group. The Risk and Compliance functions act as the second line of defence, while Internal Audit is the third line.

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

Risk governance model as of 1 January 2013



This new model will be characterised primarily by:

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

Relevant risk management bodies and control functions:

- The Group Executive Committee:
  - makes proposals to the Board of Directors about risk and capital strategy, risk appetite, and the general concept of the KBC Risk Management Framework;
  - decides on the non-strategy-related building blocks of the KBC Risk Management Framework and monitors its implementation throughout the group;
  - allocates capital to activities in order to maximise the risk-adjusted return;
  - acts as the leading risk committee, covering material issues that are channelled via the specific risk committees or the Group Asset/Liability Management Committee (Group ALCO);
  - monitors the group's major risk exposure to ensure conformity with the risk appetite.
- The Group ALCO:
  - is a business committee that assists the Group Executive Committee in the domain of (integrated) balance sheet management at group level. It handles matters related to ALM and liquidity risk.

- Risk committees:
  - The CRO Services Management Committee supports the Group Executive Committee in assessing the adequacy of, and compliance with, the KBC Risk Management Framework and defines and implements the vision, mission and strategy for the CRO Services of the KBC group.
  - The Group Lending Committee (GLC) supports the Group Executive Committee in setting, monitoring and following up limits for lending activities (funding, liquidity and ALM issues related to lending activities remain the responsibility of the Group Executive Committee/ Group ALCO).
  - The Group Markets Committee (GMC) supports the Group Executive Committee in in setting, monitoring and following up limits for markets activities (trading activity, where there is not only market risk, but also operational and counterparty credit risks).
  - The Group Insurance Committee (GIC) supports the Group Executive Committee in setting, monitoring and following up limits for insurance activities at group level.
  - The Group Internal Control Committee (GICC) supports the Group Executive Committee in monitoring and strengthening the quality and effectiveness of KBC's internal control system.
- Local Chief Risk Officers (LCROs) are situated throughout the group according to a logical segmentation based on entity and/or business unit. Close collaboration with the business is assured since they take part in the local decision-making process. Independence of the LCROs is achieved through a direct reporting line to the Group CRO.
- Group Risk Integration & Support and Group Credit Risk (known collectively as 'the Group risk function') have a number of responsibilities, including monitoring risks at an overarching group-wide level, developing risk and capital models (while business models are developed by business), performing independent validations of all risk and capital models, developing risk frameworks and advising/reporting on issues handled by the Group Executive Committee and the risk committees.

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

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

Credit risk

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

Managing credit risk

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

Credit risk management at transactional level

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

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

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

Svetlana Maerkova, Head of Cards, Analysis and Risk,Bulgaria

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

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

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

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

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

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

Credit risk management at portfolio level

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

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

Overview of credit risk exposure in the banking activities

Credit risk arises in both the banking and insurance activities of the group. In separate sections below, we take a closer look at the credit risk related to the insurance activities, KBC's investments in structured credit products, government bonds, and KBC's Irish and Hungarian portfolios.

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

The loan and investment portfolio as defined in this section differs significantly from 'Loans and advances to customers' in Note 18 of the 'Consolidated financial statements' section. That particular heading, for instance, does not include loans and advances to banks, guarantee credit and credit derivatives, the undrawn portion of credit lines or corporate and bank bonds, but does include repurchase transactions with non-banks.

Loan and investment portfolio, banking	31-12-2011[5]	31-12-2011 *pro forma*[5]	31-12-2012[5]
Total loan portfolio (in billions of EUR)			
Amount granted	186.1	169.2	166.6
Amount outstanding	155.9	142.2	140.7
Loan portfolio breakdown by business unit (as a % of the portfolio of credit granted)			
Belgium	34%	37%	39%
CEE	19%	21%	22%
Merchant Banking	37%	40%	37%
Group Centre (including planned divestments)	10%	1%	1%
Total	100%	100%	100%
Loan portfolio breakdown by counterparty sector (as a % of the portfolio of credit granted)[1]			
Private individuals	36%	36%	37%
Financial and insurance services	6%	7%	6%
Governments	4%	4%	3%
Corporates	54%	53%	53%
Non-financial services	10%	11%	11%
Retail and wholesale trade	8%	7%	8%
Real estate	7%	7%	7%
Construction	5%	5%	5%
Other[2]	23%	23%	22%
Total	100%	100%	100%
Loan portfolio breakdown by region (as a % of the portfolio of credit granted)[1]			
Western Europe	68%	72%	72%
Central and Eastern Europe	25%	21%	22%
North America	4%	4%	3%
Other	3%	3%	3%
Total	100%	100%	100%
Loan portfolio breakdown by risk class (part of the portfolio, as a % of the portfolio of credit granted)[1,3]			
PD 1 (lowest risk, default probability ranging from 0.00% up to, but not including, 0.10%)	27%	29%	27%
PD 2 (0.10% – 0.20%)	12%	12%	12%
PD 3 (0.20% – 0.40%)	17%	18%	15%
PD 4 (0.40% – 0.80%)	15%	15%	18%
PD 5 (0.80% – 1.60%)	11%	11%	12%
PD 6 (1.60% – 3.20%)	7%	6%	7%
PD 7 (3.20% – 6.40%)	5%	4%	4%
PD 8 (6.40% – 12.80%)	2%	2%	2%
PD 9 (highest risk, ≥ 12.80%)	3%	3%	4%
Total	100%	100%	100%
Impaired loans[4] (PD 10 + 11 + 12; in millions of EUR or %)			
Impaired loans	11 234	9 992	10 757
Specific impairment	4 870	4 152	4 614
Portfolio-based impairment (i.e. based on PD 1 to 9)	371	317	244
Credit cost ratio			
Belgium Business Unit	0.10%	0.10%	0.11%
CEE Business Unit	1.59%	1.59%	0.40%
Czech Republic	0.37%	0.37%	0.31%
Slovakia	0.25%	0.25%	0.25%
Hungary	4.38%	4.38%	0.78%
Bulgaria	14.73%	14.73%	0.94%
Merchant Banking Business Unit	1.36%	1.36%	1.42%
Group Centre (including planned divestments)	0.36%	0.36%[6]	1.44%[6]
Total	0.83%	0.83%[6]	0.71%[6]

Loan and investment portfolio, banking (continued)	31-12-2011[5]	31-12-2011 *pro forma*[5]	31-12-2012[5]
Non-performing loans (PD 11 + 12; in millions of EUR or %)			
Amount outstanding	7 580	6 754	7 397
Specific impairment for non-performing loans	3 875	3 263	3 626
Non-performing ratio			
Belgium Business Unit	1.5%	1.5%	1.6%
CEE Business Unit	5.6%	5.6%	5.2%
Merchant Banking Business Unit	7.8%	7.8%	9.8%
Group Centre	5.5%	2.2%	6.1%
Total	4.9%	4.8%	5.3%
Cover ratio			
[Specific impairment for non-performing loans]/[outstanding non-performing loans]			
Total	51%	48%	49%
Total excluding mortgage loans	62%	60%	63%
[Specific & portfolio-based impairment for performing and non-performing loans]/[outstanding non-performing loans]			
Total	69%	66%	66%
Total excluding mortgage loans	89%	88%	91%

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

1 Audited figures.

2 Individual sector shares not exceeding 3%.

3 Internal rating scale.

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

5 Excluding entities classified as 'disposal groups' under IFRS 5. In 2011, these entities (see 'Remark' at the start of this section) accounted for 3.1 billion euros' worth of credit granted, 2.9 billion euros of which was outstanding. In 2012, the relevant entities (see 'Remark' at the start of this section) accounted for 8.7 billion euros' worth of credit granted, 6.4 billion euros of which was outstanding. The data in the '31-12-2011 *pro forma*' column excludes the entities classified as 'disposal groups' under IFRS 5 at year-end 2012 and Kredyt Bank (deconsolidated at the end of 2012) to enable a comparison to be made between 2012 and 2011 using the same scope.

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

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

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

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

2 Unaudited.

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

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

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

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

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

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

1 Excluding entities classified as 'disposal groups' under IFRS 5. In 2011, these entities (see 'Remark' at the start of this section) were exposed to an issuer risk of 0.8 billion euros, a counterparty risk of 1.6 billion euros and a government bond risk of 1.9 billion euros. In 2012, the relevant entities (see 'Remark' at the start of this section) were exposed to a negligible issuer risk, a counterparty risk of 0.1 billion euros and a government bond risk of 0.5 billion euros.

2 Excluding a nominative list of central governments, and all exposure to EU institutions and multilateral development banks.

3 After deduction of collateral received and netting benefits.

Overview of credit risk exposure in the insurance activities

For the insurance activities, credit exposure exists primarily in the investment portfolio (towards issuers of debt instruments) and towards reinsurance companies. We have guidelines in place for the purpose of controlling credit risk within the investment portfolio with regard to, for instance, portfolio composition and ratings.

Investment portfolio of KBC group insurance entities (in millions of EUR, market value)[1]	**31-12-2011[2]**	**31-12-2012[2]**
Per balance sheet item		
Securities	18 447	19 634
Bonds and other fixed-income securities	17 490	18 983
Held to maturity	3 518	5 788
Available for sale	13 912	13 190
At fair value through profit or loss and held for trading	49	0
As loans and receivables	9	5
Shares and other variable-yield securities	948	633
Available for sale	946	630
At fair value through profit or loss and held for trading	2	3
Other	8	18
Property and equipment and investment property	381	408
Investment contracts, unit-linked[3]	7 652	11 847
Other	346	89
Total	26 824	31 978
Details for bonds and other fixed-income securities		
By rating[4,5]		
Investment grade	98%	95%
Non-investment grade	1%	1%
Unrated	1%	4%
By sector[4]		
Governments	66%	63%
Financial[6]	23%	26%
Other	11%	11%
By currency[4]		
Euro	94%	94%
Other European currencies	5%	6%
US dollar	0%	0%
By remaining term to maturity[4]		
Not more than 1 year	8%	13%
Between 1 and 3 years	22%	19%
Between 3 and 5 years	14%	15%
Between 5 and 10 years	34%	33%
More than 10 years	21%	20%

1 The total carrying value amounted to 26 613 million euros at year-end 2011 and to 31 277 million euros at year-end 2012.
2 Excluding entities classified as 'disposal groups' under IFRS 5. In 2011, these entities (see 'Remark' at the start of this section) had an investment portfolio of 6.5 billion euros. In 2012, the relevant entities (see 'Remark' at the start of this section) had an investment portfolio of 0.2 billion euros.
3 Representing the assets side of unit-linked (class 23) products and completely balanced on the liabilities side. No credit risk involved for KBC Insurance.
4 Excluding investments for unit-linked life insurance. In certain cases, based on extrapolations and estimates.
5 External rating scale.
6 Including covered bonds and non-bank financial companies.

We are 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 us. We measure this particular type of credit risk 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. We determine the exposure at default 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[1]: Exposure at Default (EAD) and Expected Loss (EL)[2] (in millions of EUR)	EAD 2011	EL 2011	EAD 2012	EL 2012
AAA up to and including A-	309	0.06	179	0.03
BBB+ up to and including BB-	150	0.17	111	0.10
Below BB-	0	0	0	0
Unrated	5	0.10	10	0.22
Total	**463**	**0.33**	**299**	**0.35**

1 Based on internal ratings when available. Otherwise external ratings.
2 EAD figures are audited, whereas EL figures are unaudited.

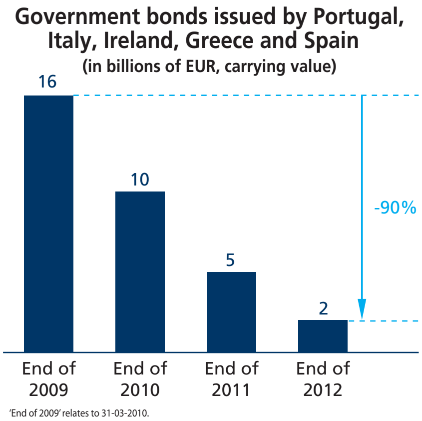
Overview of exposure to sovereign bonds (banking and insurance portfolios combined)

We hold a significant portfolio of government bonds, primarily as a result of our considerable excess liquidity position and for the reinvestment of insurance reserves into fixed instruments. A breakdown per country is provided in the table below.

Overview of exposure to sovereign bonds at year-end 2012, carrying value[1] (in millions of EUR) Total (by portfolio)								Total (by remaining term to maturity)		
	Available for sale	Held to maturity	Designated at fair value through profit or loss	Loans and receivables	Held for trading	Total	*For comparison purposes: total at year-end 2011*	Maturing in 2013	Maturing in 2014	Maturing in 2015 and later
Southern Europe and Ireland										
Greece	0	0	0	0	0	0	*197*	0	0	0
Portugal	38	56	0	0	0	94	*133*	0	0	94
Spain	229	0	0	0	1	230	*1 939*	12	0	218
Italy	732	152	0	0	27	911	*2 076*	62	13	837
Ireland	137	314	0	0	0	452	*413*	0	0	452
KBC core countries										
Belgium	11 607	14 674	602	0	1 043	27 925	*22 889*	3 871	3 002	21 053
Czech Rep.	2 551	5 735	68	0	1 149	9 503	*8 596*	987	748	7 769
Hungary	295	1 830	63	190	225	2 603	*2 243*	835	252	1 516
Slovakia	483	1 034	20	0	214	1 751	*1 317*	83	175	1 493
Bulgaria	161	0	0	0	0	161	*100*	15	8	138
Other countries										
France	1 253	1 836	0	0	3	3 091	*3 428*	115	322	2 655
Poland	172	75	0	0	3	250	*2 847*	31	20	199
Germany	344	510	16	0	336	1 206	*2 107*	136	125	946
Austria	111	442	0	0	0	553	*818*	51	39	464
Netherlands	311	208	0	0	12	530	*724*	22	55	453
Finland	162	132	0	0	1	296	*319*	22	26	248
Rest[2]	1 751	464	42	0	377	2 634	*3 340*	1 283	374	978
Total	**20 336**	**27 463**	**811**	**190**	**3 390**	**52 191**	***53 487***	**7 522**	**5 158**	**39 510**

1 Including entities classified as 'disposal groups' under IFRS 5 (accounted for an aggregate 4 billion euros at year-end 2011 and 0.5 billion euros at year-end 2012). Excluding exposure to supranational entities of selected countries.
2 Sum of countries whose individual exposure is less than 0.5 billion euros at year-end 2012 and also including 0.9 billion euros in deposits at the National Bank of Hungary.

For full-year 2011, we recorded impairment of 401 million euros on Greek government bonds. During the first quarter of 2012, we took part in the Greek debt exchange operation. The new Greek government bonds received in exchange for the old ones (31.5% of the nominal value of the 'old' Greek bonds) were valued at about 20% of the old nominal value at the end of March 2012. This led to a realised loss of roughly 42 million euros on the available-for-sale and held-to-maturity categories (above the impairment recognised in 2011). During the last quarter of 2012, these new bonds (classified in level 1 of the fair value hierarchy, whereas the 'old' bonds had been classified in level 2) were sold, leading to a net realised gain of approximately 10 million euros.



The carrying value of the exposure to Belgium increased by 5 billion euros compared to 2011, due mainly to purchases made in the first three quarters of 2012 (partially offsetting the sale of several GIIPS sovereign bonds). In nominal amounts, the increase was less explicit (though still considerable at +3.1 billion euros), as a number of held-to-maturity bonds were purchased above par and the marked-to-market value of available-for-sale bonds rose.

For full-year 2012, we realised a loss of -115 million euros on the sale of available-for-sale GIIPS sovereign bonds and a loss of -8 million euros on the sale of held-to-maturity GIIPS sovereign bonds.

At 31 December 2012, the carrying value of the total available-for-sale government bond portfolio incorporated a positive revaluation of 1 569 million euros, before tax. This included -11 million euros for Italy, -3 million euros for Portugal, -27 million euros for Spain, +3 million euros for Ireland, -14 million euros for Hungary, and +893 million euros for Belgium.

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

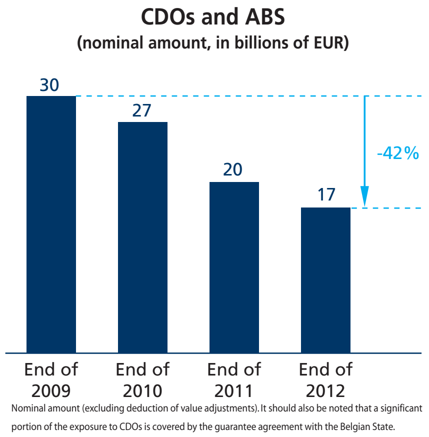
In the past, we acted as an *originator* of structured credit transactions and also *invested* in such structured credit products ourselves.

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

The figures exclude the expired, unwound and terminated CDOs.

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

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



In 2012, there was a total notional reduction of 3.3 billion euros in our CDO and ABS exposure. This was due mainly to:
- the collapse of two CDOs, which reduced the outstanding notional amount by 1.7 billion euros;
- a 0.4-billion-euro reduction in other ABS exposure due to the sale of KBL EPB being completed in the third quarter of 2012;
- a 1.2-billion-euro decrease due to the sale and amortisation of ABS assets held by the KBC group.

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

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

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

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

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

Market risk in non-trading activities

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

'Structural exposure' encompasses all exposure inherent in our commercial activity or in our long-term positions (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

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

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

KBC 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]	31-12-2011	31-12-2012
Interest rate risk[2]	0.67	0.08
Equity risk[3]	0.19	0.88
Real estate risk	0.06	0.14
Other risks[4]	0.05	-0.04
Total diversified VaR (group)	0.96	1.06

1 Excluding a number of small group companies. Cyclical prepayment options embedded in mortgage loans and spread risk have not been captured. Excluding entities classified as 'disposal groups' under IFRS 5. In 2011, the impact of these entities (see 'Remark' at the start of this section) on the group's ALM VaR was 89 million euros. In 2012, the impact of the relevant entities (see 'Remark' at the start of this section) on the group's ALM VaR was 85 million euros.

2 The substantial decrease in the VaR on interest rate risk was due to an adjustment in liabilities modelling of savings and current accounts.

3 The equity investment in Bank Zachodni (acquired as part of the divestment deal involving Kredyt Bank) has been included in the equity VaR figure, therefore causing it to increase.

4 Foreign exchange risk and inflation risk.

Interest rate risk

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

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

Impact of a parallel 100-basis-point increase in the yield curve for the KBC group[1]	Impact on net profit (IFRS)		Impact on value[2]	
(in millions of EUR)	2011	2012	2011	2012
Insurance	-8	10	55	82
Banking	-27	-44	-315	-396
Total	-35	-34	-260	-224

1 Excluding entities classified as 'disposal groups' under IFRS 5 (see 'Remark' at the start of this section). In 2011, a 100-basis-point increase in the yield curve would have had an impact of -0.6 million euros on net profit and an impact of -25 million euros on the market value of these entities. In 2012, the corresponding figures would have been 0.7 million euros and -51 million euros, respectively.
2 Full market value, regardless of accounting classification or impairment rules. For 2012, KBC Pension Fund has been included in the 'Total' but not in the 'Insurance' and 'Banking' figures.

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

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

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

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

* Excluding entities classified as 'disposal groups' under IFRS 5 (see 'Remark' at the start of this section). Including these entities would lead to an overall BPV for the banking activities of -42 million euros at year-end 2011 and -44 million euros at year-end 2012.

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

The following table shows the interest sensitivity gap of the ALM banking book. In order to determine the sensitivity gap, we break down the carrying value of assets (positive amount) and liabilities (negative amount) according to either the contractual repricing date or the maturity date, whichever is earlier, in order to obtain the length of time for which interest rates are fixed. 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* (in millions of EUR)	≤ 1 month	1–3 months	3–12 months	1–5 years	5–10 years	> 10 years	Non-interest-bearing	Total
31-12-2011	-8 138	3 220	2 563	7 107	2 822	2 900	-10 474	0
31-12-2012	3 731	3 904	-1 251	-7 095	4 450	2 039	-5 778	0
* Excluding a number of small group companies. Entities classified as 'disposal groups' under IFRS 5 have also been excluded (figures for these entities are given below).								
31-12-2011	-114	43	125	580	129	15	-777	0
31-12-2012	633	-74	-220	128	258	258	-981	0

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

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.

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

In the table below, we have summarised the exposure to interest rate risk in our 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* (in millions of EUR)	**0–5 years**	**5–10 years**	**10–15 years**	**15–20 years**	**> 20 years**	**Total**
31-12-2011						
Fixed-income assets backing liabilities, guaranteed component	12 408	6 197	1 842	1 333	753	22 534
Liabilities, guaranteed component	10 020	4 330	1 751	1 341	1 945	19 387
Difference in expected cashflows	2 388	1 867	91	-7	-1 192	3 147
Mean duration of assets						5.44 years
Mean duration of liabilities						6.03 years
31-12-2012						
Fixed-income assets backing liabilities, guaranteed component	10 747	5 236	1 745	1 240	810	19 778
Liabilities, guaranteed component	10 131	3 409	1 742	1 209	1 584	18 075
Difference in expected cashflows	616	1 828	3	31	-774	1 703
Mean duration of assets						5.29 years
Mean duration of liabilities						6.11 years

* Excluding a number of small group companies and entities classified as 'disposal groups' under IFRS 5. In 2011, the entities classified as 'disposal groups' (see 'Remark' at the start of this section) accounted for 3.6 billion euros in fixed-income assets backing 3.6 billion euros' worth of guaranteed liabilities. In 2012, entities classified as 'disposal groups' under IFRS 5 (see 'Remark' at the start of this section) did not have any insurance liabilities.

As mentioned above, the main interest rate risk for the insurer is a downside one. We adopt a liability driven ALM approach focused on mitigating the interest rate risk in accordance with KBC's risk appetite. For the remaining interest rate risk, we adhere to a policy that takes into account the possible negative consequences of a sustained decline in interest rates, and have built up adequate supplementary reserves.

Breakdown of the reserves for non-unit-linked life insurance by guaranteed interest rate, insurance activities[1]	**31-12-2011**	**31-12-2012**
5.00% and higher[2]	3%	3%
More than 4.25% up to and including 4.99%	6%	6%
More than 3.50% up to and including 4.25%	11%	10%
More than 3.00% up to and including 3.50%	33%	30%
More than 2.50% up to and including 3.00%	24%	24%
2.50% and lower	22%	27%
0.00%	2%	2%
Total	100%	100%

1 Excluding a number of small group companies and entities classified as 'disposal groups' under IFRS 5. In 2011, the entities classified as 'disposal groups' (see 'Remark' at the start of this section) accounted for 15.2% of total nominal exposure (with 19% of their exposure in the 'More than 2.50% up to and including 3.00%' category). In 2012, entities classified as 'disposal groups' under IFRS 5 (see 'Remark' at the start of this section) did not have any nominal exposure.
2 Contracts in Central and Eastern Europe.

Equity risk

The main exposure to equity is within our insurance business, where the ALM strategies are based on a risk-return evaluation, account taken of the market risk attached to open equity positions. Please note that a large part of the equity portfolio is held for the 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 and KBC Asset Management.
We have provided more information on total non-trading equity exposures at KBC in the tables below.

Equity portfolio of the KBC group[1] (breakdown by sector, in %)	Banking activities[2] 31-12-2011	31-12-2012	Insurance activities 31-12-2011	31-12-2012	Group 31-12-2011	31-12-2012
Financial	32%	23%	19%	26%	21%	29%
Consumer non-cyclical	9%	11%	14%	12%	11%	10%
Communication	2%	0%	3%	1%	3%	1%
Energy	0%	3%	10%	7%	8%	6%
Industrial	28%	21%	18%	9%	18%	11%
Utilities	3%	2%	3%	3%	4%	4%
Consumer cyclical	3%	4%	8%	4%	7%	4%
Basic materials	13%	3%	8%	11%	8%	9%
Other and not specified	10%	33%	15%	27%	21%	26%
Total	100%	100%	100%	100%	100%	100%
In billions of EUR	0.2	0.2	0.9	0.5	1.6	1.4
of which unlisted	0.1	0.1	0.0	0.1	0.2	0.2

1 Excluding a number of small group companies and entities classified as 'disposal groups' under IFRS 5. In 2011, the entities classified as 'disposal groups' (see 'Remark' at the start of this section) had an equity portfolio of 0.39 billion euros, 28% of which was invested in unlisted equities. In 2012, the entities with this classification (see 'Remark' at the start of this section) did not have an equity portfolio. The equity portfolio of KBC Pension Fund (0.7 billion euros) has only been included in the 'Group' columns and not in the 'Banking activities' or 'Insurance activities' columns.

2 The merger of Kredyt Bank and Bank Zachodni has not been captured in the table; it resulted in an equity position in the new entity (estimated market value of 0.9 billion euros at year-end 2012).

Impact of a 12.5% drop in equity prices[1] (in millions of EUR)	Impact on net profit (IFRS) 2011	2012	Impact on value 2011	2012
Insurance activities	-36	-4	-57	-54
Banking activities	-28	-12	-26	-22
Total[2]	-67	-18	-145	-159

1 Excluding entities classified as 'disposal groups' under IFRS 5 (see 'Remark' at the start of this section). A 12.5% drop in equity prices at year-end 2011 would have an impact of -6 million euros on the net profit of these entities and -37 million euros on economic value. At year-end 2012, the entities classified as 'disposal groups' under IFRS 5 (see 'Remark' at the start of this section) did not have any equity exposure.

2 KBC Pension Fund has only been included in this figure and not in the figures for 'Banking activities' or 'Insurance activities'.

Non-trading equity exposure[1] (in millions of EUR)	31-12-2011 Net realised gains (in income statement)	Net unrealised gains on year-end exposure (in equity)	31-12-2012 Net realised gains (in income statement)	Net unrealised gains on year-end exposure (in equity)
Total[2]	106	202	156	215
Banking entities	31	29	11	47
Insurance entities	74	171	143	160

1 Excluding a number of small group companies and entities classified as 'disposal groups' under IFRS 5. In 2011, the net unrealised gains for the entities classified as 'disposal groups' (see 'Remark' at the start of this section) came to 71 million euros (recognised in equity) and the losses on year-end exposure to 4 million euros (recognised in the income statement). In 2012, the entities with this classification (see 'Remark' at the start of this section) did not have any equity exposure.

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. Realised and unrealised gains on the KredietCorp position amounted to 1.9 million euros and 5.1 million euros, respectively.

Real estate risk

The groups' real estate businesses hold a limited real estate investment portfolio with a view to realising capital gains over the long term. 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] (in millions of EUR)	Impact on value 2011	2012
Bank portfolios	-68	-66
Insurance portfolios	-43	-37
Total[2]	-124	-120

1 Excluding a number of small group companies. Entities classified as 'disposal groups' under IFRS 5 have also been excluded (see 'Remark' at the start of this section). Whereas these entities would have had an additional impact of -8 million euros in 2011, they had no impact at all in 2012.

2 KBC Pension Fund has only been included in this figure and not in the figures for 'Bank portfolios' or 'Insurance portfolios'.

Foreign exchange risk

We pursue a prudent policy as regards our structural currency exposure, essentially seeking to avoid currency risk. Foreign exchange exposures in the ALM books of banking entities with a trading book are transferred to the trading book where they are managed within the allocated trading limits. The foreign exchange exposure of banking entities without a trading book, 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 will be unable to meet its payment obligations as they come due, without incurring unacceptable losses.

The liquidity risk management framework within the KBC group covers banking entities only. Banking activities usually involve assets that have a longer tenor than corresponding liabilities, which creates liquidity risk. Insurance entities typically have more stable liabilities. An insurance entity's liquidity is managed by matching cashflows and ensuring that sufficient investments are made in liquid assets, thereby guaranteeing that unexpectedly high lapses can be covered by selling or 'repoing' liquid assets.

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

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

Managing liquidity risk

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

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

- *Contingency liquidity risk*. This risk is assessed on the basis of liquidity stress tests, which measure how the liquidity buffer of the group's bank entities changes under extreme stressed scenarios. This buffer is based on assumptions regarding liquidity outflows (retail customer behaviour, professional client behaviour, drawing of committed credit lines, etc.) and liquidity inflows resulting from actions to increase liquidity ('repoing' the bond portfolio, reducing unsecured interbank lending, etc.). The liquidity buffer has to be sufficient to cover liquidity needs (net cash and collateral outflows) over (i) a period that is required to restore market confidence in the group following a KBC-specific event, (ii) a period that is required for markets to stabilise after a general market event and (iii) a combined scenario, which takes a KBC-specific event and a general market event into account. The overall aim of the liquidity framework is to remain sufficiently liquid in stress situations, without resorting to liquidity-enhancing actions which would entail significant costs or which would interfere with the core banking business of the group.
- *Structural liquidity risk*. We manage our funding structure so as to maintain substantial diversification, to minimise funding concentrations in time buckets, and to limit the level of reliance on short-term wholesale funding. We manage the structural funding position as part of the integrated strategic planning process, where funding – in addition to capital, profits and risks – is one of the key elements. At present, our strategic aim for the next few years is to build up a sufficient buffer in terms of the Basel III LCR and NSFR requirements via a funding management framework, which sets clear funding targets for the subsidiaries (own funding, reliance on intra-group funding) and provides further incentives via a system of intra-group pricing to the extent subsidiaries run a funding mismatch.

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

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

Structural liquidity risk data

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

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

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

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

During 2012, KBC Bank used its EMTN programme to raise 3.95 billion euros in long-term funding, 2.75 billion euros of which through wholesale benchmark issues. We also recorded continuous solid growth in customer deposits at different entities, especially in Ireland, where concerted efforts to build a retail deposit base have helped increase KBC Bank Ireland's funding independence.

In November 2012, we announced our Belgian residential mortgage covered bonds programme. This 10-billion-euro programme was set up following the entry into force of the Act of 3 August 2012 that established a legal framework for Belgian covered bonds. This new bond programme gives KBC access to the covered bond market, allowing it to diversify its funding structure and reduce the cost of long-term funding. We plan to issue 2 to 3 billion euros' worth of these bonds annually in the coming years. At the start of December 2012, we launched a first covered bond issue in the amount of 1.25 billion euros, which was extremely well received by the market. A second issue for 0.750 billion euros followed in January 2013.

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

Market risk in trading activities

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

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

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

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

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

Managing market risk

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

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

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

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

Risk analysis and quantification

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

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

1 KBC Bank: excluding 'specific interest rate risk' (measured using other techniques); swap basis risk has been included for the dealing rooms in Brussels and at certain branches since the end of October 2011 (significant upward effect on HVaR), and extended to the remaining subsidiaries since March 2012 (minor effect). KBC Financial Products: excluding Avebury and the fund derivatives business line.
2 KBL EPB included until the second quarter of 2012.
3 Change in scope as of 1 March 2012 when European equity derivatives moved from KBC Financial Products to KBC Bank.
4 Large decrease in the use of average HVaR at KBC Financial Products, due to simplification of the credit event settlement process.

As can be seen in the table above, the relative importance of HVaR for KBC Bank and KBC Financial Products changed during 2012, with KBC Bank's figures becoming far more significant. A breakdown of the risk factors (averaged) in KBC Bank's HVaR model from 1 March 2012 (when the scope changed) to 31 December 2012 is shown in the table below. Please note that the equity risk stems from the European equity business (the other equity positions are held at KBC Securities).

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

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

We have provided an overview of the derivative products under Note 29 in the 'Consolidated financial statements' section.

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

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

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

The resulting capital requirements for trading risk at year-end 2011 and year-end 2012 are shown in the table below. The trading regulatory capital requirements of local KBC entities not receiving approval from their respective regulator to use an internal model for capital calculations, as well as the business lines not included in the HVaR calculations, are measured according to the Standardised approach. This approach sets out general and specific risk weightings per type of market risk (interest risk, equity risk, foreign exchange risk and commodity risk).

Trading regulatory capital requirements, by risk type (in millions of EUR)

		Interest rate risk	Equity risk	FX risk	Commodity risk	Incremental Risk Charge	Comprehensive Risk Measure	Resecuritisation	Total
31-12-2011									
Market risks assessed by internal model	HVaR	109	4	18	–	5	101	–	445
	SVaR	159	6	43					
Market risks assessed by the Standardised approach		76	18	18	1	–	–	216	329
Total		**344**	**28**	**78**	**1**	**5**	**101**	**216**	**773**
31-12-2012									
Market risks assessed by internal model	HVaR	88	3	10	–	1	34	–	274
	SVaR	114	4	20					
Market risks assessed by the Standardised approach		60	12	11	2	–	–	340	425
Total		**263**	**18**	**42**	**2**	**1**	**34**	**340**	**698**

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 underwriting, pricing, claims reserving, reinsurance and claims handling policies of line management and through independent insurance risk management.

Managing technical insurance risk

The Group risk function develops and rolls out a group-wide framework for managing insurance risks. It is responsible for providing support for local implementation and for the functional direction of the insurance risk management process of the insurance subsidiaries.

The insurance risk management framework is designed primarily around the following building blocks:

- Adequate identification and analysis of material insurance risks by, *inter alia*, analysing new emerging risks, concentration or accumulation risks, and developing early warning signals.
- Appropriate risk measurements and use of these measurements to develop applications aimed at guiding the company towards creating maximum shareholder value. Examples include best estimate valuations of insurance liabilities, *ex post* economic profitability analyses, natural catastrophe and other life, non-life and health exposure modelling, stress testing and required economic capital calculations.
- Determination of insurance risk limits and conducting compliance checks, as well as providing advice on reinsurance programmes.

Risk modelling

We develop models 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. We use these models 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

In 2012, we participated in the IMF Stress Test for insurance companies (a core element of the IMF Financial Sector Assessment Programme 2012). The purpose of this test was to assess the resilience of available capital to stress scenarios. Besides the regulatory required stress tests, we perform internal stress tests.

For the non-life business, 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). In 2012, we also performed an internal stress test regarding man-made catastrophes.

For the life insurance business, a sensitivity analysis is typically performed within the framework of the annual calculation of the market consistent embedded value.

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. We divide these reinsurance programmes into three main groups, i.e. property insurance, liability insurance and personal insurance, and we re-evaluate and renegotiate them every year.

Most of our 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.

Adequacy of technical provisions

As part of its mission to independently monitor insurance risks, the Group risk function regularly carries out in-depth studies. These confirm that there is a high degree of probability that the non-life technical provisions at subsidiary level are adequate. Adequacy is checked per business line at subsidiary level and the overall adequacy is assessed at subsidiary level for all business lines combined.

In addition, various group companies conduct Liability Adequacy Tests (LAT) that meet local and IFRS requirements for the life technical provisions. We make calculations 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 build in extra market-value margins to deal with the factor of uncertainty in a number of parameters. Since no deficiencies were recorded by year-end 2012, there was no need for a deficiency reserve to be set aside within the KBC group.

The table shows claims settlement figures in the non-life business over the past few years and includes KBC Insurance NV, Fidea (up to and including financial year 2010), ČSOB Pojišt'ovna (Czech Republic), ČSOB Poist'ovňa (Slovak Republic, from financial year 2008), DZI Insurance (from financial year 2008), K&H Insurance, Secura (up to and including financial year 2009), KBC Group Re (from financial year 2005) and WARTA (from financial year 2004 up to and including financial year 2010). All provisions for claims to be paid at the close of 2012 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. We restated the amounts to reflect exchange rates at year-end 2012.

Loss triangles, KBC Insurance (in millions of EUR)	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	Year of occurrence 2011[4]	Year of occurrence 2012
Estimate at the end of the year of occurrence	778	1 079	1 119	1 200	1 270	1 391	1 470	1 464	814	859
1 year later	798	983	1 026	1 090	1 171	1 335	1 176	1 058	722	–
2 years later	766	939	992	1 056	1 129	1 171	1 013	1 009	–	–
3 years later	747	926	983	1 042	997	1 075	992	–	–	–
4 years later	731	916	963	908	919	1 066	–	–	–	–
5 years later	702	912	876	852	915	–	–	–	–	–
6 years later	694	853	838	837	–	–	–	–	–	–
7 years later	655	808	834	–	–	–	–	–	–	–
8 years later	626	806	–	–	–	–	–	–	–	–
9 years later	623	–	–	–	–	–	–	–	–	–
Current estimate	623	806	834	837	915	1 066	992	1 009	722	859
Cumulative payments	-575	-748	-748	-766	-813	-932	-843	-852	-469	-342
Current provisions	48	58	85	71	101	134	149	158	253	517

1 From financial year 2004, WARTA's figures have been included. If this company had not been taken into account, the following amount would have been arrived at for financial year 2004 (amount and year of occurrence): 696 for 2003.

2 From financial year 2005, KBC Group Re'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): 765 for 2003; and 955 for 2004.

3 From financial year 2008, 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): 692 for 2003; 905 for 2004; 953 for 2005; 1 031 for 2006; and 1 124 for 2007.

4 For financial year 2011, the figures for WARTA and Fidea have been excluded.

Specific information on the insurance activities of the group can be found in Notes 9, 10, 11 and 35 in the 'Consolidated financial statements' section. We have provided a breakdown by business unit of earned premiums and technical charges 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.

We have provided information on legal disputes in Note 36 of the 'Consolidated financial statements' section.

Managing operational risk

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

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

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

The building blocks for managing operational risks

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

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

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

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

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

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

Operational risk and regulatory capital requirements

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

Other non-financial risks

Reputation risk

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

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

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

Business Risk

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

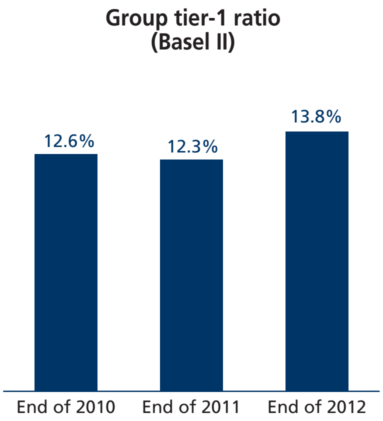
Risk factors that are taken into consideration include macroeconomic conditions, changes to the law or regulations, competitor actions, changes in distribution channels or distribution models, changed customer needs, human resources issues and ICT resources. Business risk is assessed on the basis of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

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

Capital adequacy

Capital adequacy (or solvency) risk is the risk that the capital base of the 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. Capital adequacy is approached from both a regulatory and an internal (economic) perspective.

Managing solvency



We report our 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, we use the so-called ‘building block’ method. This entails comparing group regulatory capital (i.e. parent shareholders’ equity adjusted for a number of items (see next table)), with the sum of the separate minimum regulatory solvency requirements for KBC Bank 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%.
Regulatory minimum solvency targets were amply exceeded in 2012, not only at year-end, but also throughout the entire year.

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

In 2008 and 2009, a number of capital-strengthening 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 CDO risks (see the ‘Additional information’ section for more details). Please note that the Belgian regulator has confirmed that the non-voting core-capital securities will be fully grandfathered as common equity under the current CRD IV proposal.

Solvency at group level

Solvency at group level (consolidated; under Basel II) (in millions of EUR)	31-12-2011	31-12-2012
Total regulatory capital, after profit appropriation	**19 687**	**16 113**
Tier-1 capital[1]	**15 523**	**14 062**
Parent shareholders' equity	9 756	12 099
Non-voting core-capital securities	6 500	3 500
Intangible fixed assets (-)	-446	-356
Goodwill on consolidation (-)	-1 804	-987
Innovative hybrid tier-1 instruments	420	419
Non-innovative hybrid tier-1 instruments	1 690	1 692
Direct and indirect funding of investments in own shares	–	-250
Minority interests	145	-5
Equity guarantee (Belgian State)	564	276
Revaluation reserve, available-for-sale assets (-)	117	-1 263
Hedging reserve, cashflow hedges (-)	594	834
Valuation differences in financial liabilities at fair value – own credit risk (-)	-550	-22
Minority interests in available-for-sale reserve and hedging reserve, cashflow hedges (-)	-3	0
Equalisation reserves (-)	-139	-111
Dividend payout (-)[2]	-598	-960
IRB provision shortfall (50%) (-)[3]	0	0
Limitation of deferred tax assets	-384	-227
Items to be deducted (-)[4]	-338	-577
Tier-2 and tier-3 capital	**4 164**	**2 051**
Perpetuals (including hybrid tier-1 instruments not used in tier-1 capital)	30	0
Revaluation reserve, available-for-sale shares (at 90%)	246	185
Minority interests in revaluation reserve, available-for-sale shares (at 90%)	0	0
IRB provision shortfall (50%) (-)[3]	0	0
IRB provision excess (+)[3]	403	130
Subordinated liabilities	3 778	2 268
Tier-3 capital	45	44
Items to be deducted (-)[4]	-338	-577
Total weighted risks	**126 333**	**102 148**
Banking	110 355	89 532
Insurance[5]	15 791	12 386
Holding-company activities	286	304
Elimination of intercompany transactions between banking and holding-company activities	-100	-74
Solvency ratios		
Tier-1 ratio	12.3%	13.8%
Core tier-1 ratio	10.6%	11.7%
CAD ratio	15.6%	15.8%

1 Audited figures (except for 'IRB provision shortfall/excess').
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 (at year-end 2012, mainly the minority shareholding in Bank Zachodni in Poland)
5 Weighted risks for insurance are calculated by multiplying capital under Solvency I by a factor of 12.5 (8% rule similar to the relationship between RWA and capital for banking).

During 2012:

- We reimbursed 3.5 billion euros (and paid a 15% penalty) to the Belgian State. As a result, the remaining core-capital securities totalled 3.5 billion euros at the end of 2012. More information in this regard is available under 'Capital transactions and guarantee agreements with the government in 2008 and 2009' in the 'Additional information' section.
- We issued 1.25 billion euros' worth of new shares by means of a capital increase in December 2012 and announced a contingent capital note issue of approximately 0.75 billion euros, which was carried out in January 2013.
- We divested a number of entities, including KBL EPB, WARTA and Kredyt Bank, which had a positive impact on the solvency ratios.

Solvency, KBC Bank and KBC Insurance separately

In the following table, we have shown the tier-1 and CAD ratios calculated under Basel II for KBC Bank, as well as the solvency ratio of KBC Insurance. More detailed 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)	31-12-2011	31-12-2012
KBC Bank (consolidated, Basel II)		
Total regulatory capital, after profit appropriation	16 364	14 390
of which tier-1 capital*	12 346	12 235
Total weighted risks	106 256	88 927
Tier-1 ratio	11.6%	13.8%
of which core tier-1 ratio	9.6%	11.4%
CAD ratio	15.4%	16.2%
KBC Insurance (consolidated, Solvency I)		
Available capital*	2 533	3 190
Required solvency margin	1 263	991
Solvency ratio (%)	201%	322%
Solvency surplus	1 270	2 199

* Audited figures.

EBA capital exercise in October 2012

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

Basel 2.5, Basel III and Solvency II

Agreed in July 2009, Basel 2.5 enhanced the measurement of risks related to securitisation and trading book exposures, and introduced higher capital requirements for this type of exposure. Basel 2.5 came into force at year-end 2011.
The Basel III agreement and corresponding draft European CRD IV Directive and Regulation will introduce new, more stringent capital requirements for financial institutions. According to these proposals, the legal minimum tier-1 ratio, which stood at 4% under Basel II, will be increased to 4.5% in 2013, and gradually increase to 6% in 2015 (with a common equity ratio of 4.5%). On top of this, a so-called 'conservation buffer' (0% in 2013, gradually rising to 2.5% in 2019), a 'countercyclical buffer' (of between 0% and 2.5%, to be determined by the national regulatory authority) and an extra charge for global systemic banks will be applied. Certain elements used in the calculation of regulatory capital will be gradually phased out or changed. Under the current CRD IV draft, the capital injections received from the government will be classified as common equity tier-1 capital and will be grandfathered until 2018. Basel III was meant to come into force on 1 January 2013, but a postponement of 12 months now seems the most realistic scenario.

Solvency II is the new regulatory solvency regime for all EU insurance and reinsurance companies. Whereas the current insurance solvency requirements (Solvency I) are volume-based, Solvency II pursues a risk-based approach. It aims to implement solvency requirements that better reflect the risks that companies face and deliver a supervisory system that is consistent across all EU Member States. The official entry into force of Solvency II – previously scheduled for January 2013 – is now January 2014. However, because of delays in the development and adoption of the new regulatory framework, it is not inconceivable that this date could be further postponed until 2015 or even 2016.

Based on the most recent draft version of the Solvency II regulations, the Solvency II ratio of the KBC Insurance Group in 2012 amply exceeds the minimum requirements. In 2011, KBC invested in a Solvency II solution. In the course of 2013, it will be able to follow up its key metrics on a regular basis, with a central Solvency II solution performing the calculations for all insurance entities.

Economic capital

We use an economic capital model to measure the overall risk KBC is exposed to through its various activities, taking the different risk factors into consideration. We report the estimates generated by this model on a quarterly basis to the the Group Executive Committee, the ARC Committee and the Board of Directors.

We define economic capital as the amount of capital required to absorb very severe losses, expressed in terms of the potential reduction in the economic value of the group (i.e. the difference between the current economic value and the worst-case economic value over a one-year time horizon and at a certain confidence level), in line with the risk appetite set by the Board of Directors. We calculate economic capital per risk category using a common denominator (the same time horizon of one year and the same confidence interval) and then aggregate them.

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 risk-adjusted performance measurement and internal valuation models, such as the Market Consistent Embedded Value model.

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. Differences also 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*	2011	2012
Credit risk	68%	67%
Non-trading market risk	12%	10%
Trading market risk	2%	4%
Business risk	8%	9%
Operational risk	6%	6%
Technical insurance risk	3%	3%
Funding cost and bid/offer spread risk	1%	1%
Total	**100%**	**100%**

* All percentages relate to figures at the end of September. Excluding entities classified as 'disposal groups' under IFRS 5 (see 'Remark' at the start of this section) and whose contribution to KBC's economic capital was around 5% in 2011 and 6% in 2012.

Risk-Adjusted Performance Measurement

In 2011, KBC developed a Risk-Adjusted Performance Measurement (RAPM) policy, whereby risk-adjusted performance metrics were used for allocating capital and setting variable remuneration. The capital allocation track of this policy is fully embedded in the strategic planning process. Based on *inter alia* the relative risk-adjusted profitability of different activities, it can be decided whether more or less capital should be allocated to the respective entities. The new remuneration policy, which includes risk-adjusted features based on RAPM metrics, was implemented for the first time in 2012.

RAPM introduces two risk-adjusted measures, namely Risk Adjusted Profit, which is an absolute measure of profitability and is expressed in euros, and Risk Adjusted Return on Capital, a relative measure of profitability and expressed as a percentage.
Risk adjustment relates to both the generated income and the capital base. As regards generated income, instead of using the actual accounting losses incurred in the reporting period, risk-adjusted measures calculate profitability using expected losses, i.e. losses that would be expected given the risk profile of the portfolio. Using expected losses and hence a longer term view of the profitability of the portfolio not only guarantees that management is aware of risks when times are good, but also avoids disproportionate decisions and actions being taken during adverse economic periods.

The basic idea behind the risk adjustment of the capital base is that neither economic capital nor regulatory capital is fully appropriate in itself to determine how capital should be allocated. Regulatory capital has limited coverage in terms of risk types and only partly reflects the specific characteristics of KBC. Although economic capital (ECap) covers a broader scope of risk and reflects KBC's own estimates of the risk profile, it is less granular at present. Given these constraints, it was decided to allocate capital to businesses based on RWA multiples that reflect ECap insights, with the capital requirements of a business being derived from its use of ECap. If a business uses a high proportion of ECap, it will also be allocated a high proportion of regulatory capital and *vice versa*.

Corporate governance statement

KBC Group NV has adopted the 2009 version of the Belgian *Corporate Governance Code* (the 'Code') as its benchmark. This Code, which can be downloaded at www.corporategovernancecommittee.be, seeks to ensure transparency in corporate governance by requiring certain information to be disclosed in the *Corporate Governance Charter* (the 'Charter') and in the *Corporate Governance Statement* (the 'Statement') of the annual report.

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 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.

Unless otherwise indicated, the period dealt with runs from 1 January 2012 to 31 December 2012.

The Statement also contains certain other information required by law.

The following terms have been abbreviated as follows in this section of the annual report:

Board of Directors of KBC Group NV	Board
Executive Committee of KBC Group NV	EC
Audit, Risk and Compliance Committee of KBC Group NV	ARC Committee

Composition of the Board and its committees

The table on the next page shows the members of the Board and its committees on 31 December 2012. A list of the external offices held by all members of the Board is provided at www.kbc.com, as is a brief CV for each director. The number of meetings attended is shown in the columns relating to the committees.

Composition of the Board on 31 December 2012

Name	Primary responsibility	Period served on the Board in 2012	Expiry date of current term of office	Board meetings attended	Non-executive directors	Core shareholders' representatives	Independent directors	Government-appointed directors	Members of the EC	ARC Committee	Nomination Committee	Remuneration Committee
Number of meetings in 2012				13						6	6	11
Thomas Leysen	Chairman of the Board	Full year	2015	13	■						6[1]	
Philippe Vlerick	Deputy Chairman of the Board and CEO, Vlerick Group	Full year	2013	13	■	■					6	
Johan Thijs	President of the EC and Executive Director	8 months	2016	8					■[1]		3	
Alain Bostoen	Managing Director, Christeyns NV	Full year	2014	12	■	■						
Jo Cornu	Director of various companies	Full year	2016	13	■		■				5	11[1]
Marc De Ceuster[2]	Professor, Accounting and Finance Department, Universiteit Antwerpen	Full year	2014	13	■			■		6		
Tom Dechaene[3]	Director of various companies	Full year	2016	12	■			■		6	0	
Franky Depickere	Managing Director, Cera Beheersmaatschappij NV and Almancora Beheersmaatschappij NV, Chairman of the Day-to-Day Management Committee, Cera CVBA	Full year	2015	13	■	■				6[1]	5	11
Luc Discry	Managing Director, Cera Beheersmaatschappij NV and Almancora Beheersmaatschappij NV, member of the Day-to-Day Management Committee, Cera CVBA	Full year	2015	13	■	■						
Frank Donck	Managing Director, 3D NV	Full year	2015	10	■	■				2[4]		
Dirk Heremans	Professor Emeritus at the Faculty of Business and Economics, Katholieke Universiteit Leuven (KUL)	Full year	2013	12	■		■			6	3	11
John Hollows	Executive Director	Full year	2015	13					■			
Lode Morlion	Mayor of Lo-Reninge and Chairman of the Board of Directors of Cera Beheersmaatschappij NV	Full year	2016	13	■	■						
Vladimira Papirnik	Partner, Squire Sanders (US) LLP	8 months	2016	8	■		■			3[5]		
Luc Popelier	Executive Director	Full year	2015	13					■			
Theodoros Roussis	CEO, Ravago Plastics NV	Full year	2016	10	■	■				3[6]		
Alain Tytgadt	Managing Director, Metalunion CVBA	Full year	2013	13	■	■						
Ghislaine Van Kerckhove	Lawyer and Deputy Chairperson of the Board of Directors of Cera Beheersmaatschappij NV	Full year	2016	11	■	■						
Piet Vanthemsche	Chairman of the Boerenbond and MRBB CVBA	Full year	2014	11	■	■					6	
Marc Wittemans	Managing Director, MRBB CVBA	Full year	2014	13	■	■				6		

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

1 Chairman of this committee.

2 Observer on the Remuneration Committee since 20 December 2012, succeeding Eric Stroobants, who – as a member of this committee until that date – had attended ten meetings. Philippe Naert was also a member of the Remuneration Committee, sitting on it until 3 May 2012 and attending four meetings.

3 Appointed to the Nomination Committee on 20 December 2012 as successor to Jean-Pierre Hansen, who had attended three meetings.

4 Appointed as member on 21 June 2012 as successor to Theodoros Roussis.

5 Joined the ARC Committee on 3 May 2012 as successor to Philippe Naert, who had attended three meetings.

6 Member until 21 June 2012 and succeeded by Franck Donck.

Changes in the composition of the Board and its committees in 2012

- Jan Vanhevel, Executive Director and President of the EC, expressed his intention to retire with effect from the General Meeting of May 2012 and relinquished his seat on the Board. On the advice of the Nomination Committee, Johan Thijs – member of the EC and CEO of the Belgium Business Unit – was appointed to succeed Jan Vanhevel as director. As a member of the EC, he additionally acquired the capacity of executive director. He also became a member of the Nomination Committee.
- On the advice of the Nomination Committee, Tom Dechaene was duly appointed as director for a period of four years.
- On the advice of the Nomination Committee, Lode Morlion, Theodoros Roussis and Ghislaine Van Kerckhove were re-appointed as directors for a further period of four years.
- On the advice of the Nomination Committee, Jo Cornu – 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 – was re-appointed as an independent director according to these criteria for a further period of four years.
- In the exclusive interests of the KBC group, Paul Borghgraef, Philippe Naert, Hendrik Soete and Charles Van Wymeersch stepped down voluntarily as directors a year before their then current terms of office came to an end.
- On 3 May 2012 and following the advice of the Nomination Committee, the General Meeting appointed Vladimira Papirnik as an 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, for a period of four years. She also succeeded Philippe Naert as a member of the Audit Committee.
- On 19 March 2012 and following the advice of the Nomination Committee, the Board appointed Dirk Heremans (independent director) to the Nomination Committee.
- On 21 June 2012 and following the advice of the Nomination Committee, the Board appointed Franck Donck to the ARC Committee to replace Theodoros Roussis.
- Eric Stroobants and Jean-Pierre Hansen stepped down as directors following the repayment in full of the financial support received from the Belgian Federal Government.
- On 20 December 2012 and following the advice of the Nomination Committee, the Board appointed Tom Dechaene to the Nomination Committee. On the same date, following the advice of the Nomination Committee and after consultation with the Flemish Regional Government, the Board appointed Marc De Ceuster to the Remuneration Committee as an observer.

Changes in the composition of the Board proposed to the General Meeting of 2 May 2013

- The Board will propose that Philippe Vlerick and Alain Tytgadt be re-appointed for a further period of four years.
- The Board will propose that Dirk Heremans – currently an 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 – be re-appointed in the same capacity for the period of one year. He will hold this office until a new independent director is appointed. The Board is making this proposal despite the fact that Mr Heremans has reached the age limit for sitting on the Board. The Board wishes to thank Mr Heremans for his willingness to accept this appointment and ensure that it continues to have three independent directors in its ranks.

Agenda for the General Meeting of 2 May 2013

The agendas for the General Meeting and Extraordinary General Meeting are available at www.kbc.com.

Composition of the EC

The table provides an overview of the composition of the EC in 2012 and in the new group structure introduced on 1 January 2013 (more information in this regard can be found in the 'Strategy, company profile and structure' section). More information – including CVs – is also provided at www.kbc.com.

Johan Thijs

1965

Belgian

Master's Degree in Science (Applied Mathematics) and Actuarial Sciences (KU Leuven)

Joined company in 1988*

Position until end of 2012: Group CEO (Chief Executive Officer)

Position in the new structure: Group CEO (Chief Executive Officer)

Danny De Raymaeker

1959

Belgian

Degree in Commercial and Business-Economic Engineering (KU Leuven); Master's Degree in Internal Auditing (Universiteit Antwerpen)

Joined company in 1984*

Position until end of 2012: COO (Chief Operating Officer)

Position in the new structure: CEO of the International Markets Business Unit

Daniel Falque

1963

Belgian

Master's Degree in International Relations (Université catholique de Louvain)

Joined company in 2009*

Position until end of 2012: CEO of the Belgium Business Unit

Position in the new structure: CEO of the Belgium Business Unit

Luc Gijsens

1953

Belgian

Master's Degree in Law (KU Leuven)

Joined company in 1977*

Position until end of 2012: CEO of the Merchant Banking Business Unit

Position in the new structure: CEO of the International Product Factories Business Unit

John Hollows

1956

British

Master's Degree in Law and Economics (Cambridge University)

Joined company in 1996*

Position until end of 2012: CRO (Chief Risk Officer)

Position in the new structure: CRO (Chief Risk Officer)

Luc Popelier

1964

Belgian

Master's Degree in Applied Economics, (UFSIA Antwerp).

Joined company in 1988*

Position until end of 2012: CFO (Chief Financial Officer)

Position in the new structure: CFO (Chief Financial Officer)

Marko Voljč

1949

Slovene

Master's Degree in Economics (Universities of Ljubljana and Belgrade)

Joined company in 2004*

Position until end of 2012: CEO of the Central & Eastern Europe Business Unit

Position in the new structure: CCO (Chief Change Officer)

Pavel Kavánek

1948

Czech

Master's Degree in Economics (Universities of Prague and Georgetown)

Joined company in 1972*

Not a member of the Group Executive Committee in 2012

Position in the new structure: CEO of the Czech Republic Business Unit

* 'Joined company in ...' refers to KBC Group NV, group companies or pre-merger entities (Kredietbank, Cera, ABB, etc.).

Changes in the composition of the EC in 2012

- Johan Thijs succeeded Jan Vanhevel as President of the EC and CEO of the KBC group.
- Daniel Falque succeeded Johan Thijs as CEO of the Belgium Business Unit and was appointed to the EC. A brief CV for Mr Falque appeared in the 2011 annual report.
- A new group management structure was introduced at the start of 2013 (see the 'Strategy, company profile and structure' section), which also led to a change in the composition of the Group EC and the positions within it. The previous positions held (up to year-end 2012) and new positions (from 2013 on) are provided in the previous table. The new composition of the EC has been extended to include Pavel Kavánek (see CV below).

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

Report on the activities of the Board and its committees

Report on the activities of the Board and its committees in 2012	
Composition, meetings, attendance figures	See the table at the start of this section.
Board	Besides carrying out the activities required under the Companies Code, reviewing the quarterly results and the activities of the ARC Committee, Nomination Committee and Remuneration Committee, and handling and taking decisions on the dossiers submitted by these committees, the Board also dealt with the following matters: • strategic planning and approving the new KBC group strategy (PEARL); • the monthly evaluation of the status regarding implementation of the restructuring plan agreed with the European Commission; • the decision to increase capital by 1.25 billion euros; • the decision to issue 750 million euros' worth of contingent capital notes in the first quarter of 2013; • the sale of treasury shares; • appointments to and resignations from the Board; • succession of the Group CEO; • the composition of and appointments to the EC; • the repayment of 3 billion euros to the Belgian Federal Government in 2012 and 1.1 billion euros to the Flemish Regional Government in the first half of 2013; • the *Integrated Group Risk Report* (monthly); • the report on effective management with regard to the assessment of internal control systems; • the annual evaluation of how the Board functions; • the annual evaluation of interaction with the EC; • the *Risk Appetite Statement*; • the *Group Value and Risk Management Annual Report;* • approving the *Risk Governance Charter*; • approving the *Corporate Governance Charter*; • the *Business Continuity Management Annual Report*; • the Recovery Plan; • the *Compliance Annual Report*; • the impact of the joint capital decision; • liquidity and funding. The EC also reported monthly on the trend in the results and the general course of business at the group's various business units. It also paid regular attention to the strategy and specific challenges for the different areas of activity.

Report on the activities of the Board and its committees in 2012	
ARC Committee	The ARC Committee met in the presence of the President of the EC, the Group CRO, the Group CFO, the internal auditor and the compliance officer. The statutory auditors also attended the meetings. 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 developments regarding the ALM, liquidity, market, credit, operational and insurance risks of the KBC group, and the group's capital requirements. 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 2012 audit plan, and approved the 2013 audit plan. Furthermore, it was regularly informed of the progress made with regard to the implementation of audit recommendations. On 8 February 2012, the ARC Committee reviewed the consolidated and non-consolidated financial statements for the year ended 31 December 2011, and approved the press release. The auditor explained the key audit findings. On 9 May, 6 August and 7 November 2012, the auditors 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. The main special reports dealt with were: • the statement of effective management with regard to the assessment of internal control systems (in application of circular NBB_2011_9); • the *Value and Risk Management Annual Report*; • the *Anti-Money Laundering Annual Report*; • the *Risk Governance Charter;* • Solvency II; • liquidity management at KBC.
Nomination Committee	Please note that the Nomination Committee of KBC Group NV acts in the same capacity for KBC Insurance and KBC Bank. The main matters dealt with were: • corporate governance at KBC Group NV, KBC Bank and KBC Insurance: composition of the boards of directors and their committees; • appointments and re-appointments to the Board and various committees; • succession of the Group CEO; • succession of the CEO of the Belgium Business Unit; • the impact of the new strategy on KBC's organisation and the composition of the ECs of KBC Group NV, KBC Bank and KBC Insurance; • the appointment of independent directors at KBC Group NV, KBC Bank and KBC Insurance.

Report on the activities of the Board and its committees in 2012	
Remuneration Committee	The Remuneration Committee usually met in the presence of the Chairman of the Board and the President of the EC. The head of Group HR also regularly attended the meetings. Please note that the Remuneration Committee of KBC Group NV acts in the same capacity for KBC Insurance and KBC Bank. The main matters dealt with were: • the staff retention and incentivisation plans for a number of companies earmarked for divestment; • the application of the risk alignment framework to the results for 2011; • the adjustment of the remuneration structure for senior management in Belgium; • the remuneration structure for members of the EC; • the annual remuneration report; • the remuneration package for the new CEO and new member of the EC; • the annual remuneration review; • the adjustment of the remuneration structure for non-executive directors, the remuneration policy, the definition – in particular – of 'key identified staff' and the application of the malus arrangement; • the criteria for evaluating the EC in 2012.
More information	For a general description of how the Board and its committees function, see sections 5 and 6 of the *Corporate Governance Charter* of KBC Group NV (at www.kbc.com).

ARC Committee: application of Article 96 §1 9° of the Companies Code

On 31 December 2012, the ARC Committee of KBC Group NV had two independent directors 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.

- 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 (UCLA). 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 the Minister of Finance, as well as an expert for the European Commission. Mr Heremans 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.
- Vladimira Papirnik, who holds a Juris Doctor Degree (Northwestern University (US), 1982) and combined Bachelor's and Master's Degrees in German and German Literature (Northwestern University (US), 1978). She started her career at the Hopkins & Sutter law firm in Chicago, practising as a finance lawyer (1982–1989) before going on to become a partner in the firm (1989–1995). She then joined the global law firm of Squire Sanders as a partner and, after moving to the Czech Republic in 1995, became managing partner of the Prague office (1996–2011). Since 2011, she has been working for Squire Sanders in both Prague and Chicago, focusing her international business practice on banking, project finance and corporate law (mergers and acquisitions, corporate governance). Ms Papirnik served on the Board of Directors of the American Chamber of Commerce in the Czech Republic and was a member of its Executive Committee (1999–2008). She was a member of the Board of Trustees of the International School of Prague and head of its corporate governance committee for four years. She was also a member of the Board of Trustees of the CMC School of Business for three years. In May 2012, Ms Papirnik succeeded Philippe Naert, who – as already mentioned in this section – had stepped down as director.

On the basis of the preceding information, it can be concluded that these directors – as members of the ARC Committee – 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 worked out an arrangement regarding 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. It has been incorporated into the *Corporate Governance Charter* of KBC Group NV (see www.kbc.com). This arrangement did not have to be used in 2012.

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 KBC Group NV drew up a Dealing Code. Among other things, this code 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 Financial Services and Markets Authority (FSMA). 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 and an updated version was approved by the Board on 8 August 2011.

Principal features of the evaluation process for the Board, its committees and its individual members

With a view to constantly improving its own effectiveness, the Board – led by its Chairman – evaluates a number of elements each year, including composition of the Board, the selection, appointment and training of its members, practical operations (relating to the agenda, meetings, chairmanship, secretariat), reporting to the Board, the type of culture within the Board, the performance of its duties, remuneration, the working relationship with the EC, the shareholders and other stakeholders, 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, directors who are nominated for re-appointment are subject to an individual evaluation that focuses on their efforts and effectiveness within the Board and – where appropriate – their performance as chairman or member of a committee of the Board. This evaluation is performed by the Chairman. The Board evaluates the Chairman who must not be present when the evaluation is being performed.

Once a year, non-executive directors assess how they interact with the executive management. To that end, they meet at least once a year without the executive directors.

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

When their terms of office as a director are being renewed, the chairmen and members of the committees are subject to an individual evaluation.

On the initiative of the President of the EC, the full EC discusses its objectives and assesses its performance once a year. Each year, the President of the EC evaluates each member of the EC individually. The individual evaluation of the President is performed by the Chairman of the Board.

Remuneration report for the 2012 financial year

Procedures for developing the remuneration policy and for determining the remuneration granted to individual directors and members of the EC

General

The remuneration policy for the Board and EC is based on prevailing legislation, the *Corporate Governance Code* and market data. It is monitored and regularly checked by the 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 the committee's activities and advises it of any changes to the remuneration policy and its practical implementation. The Board may also act on its own initiative, or on a proposal from the EC, 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

On the basis of advice obtained from the Remuneration Committee, the Board decides on the remuneration package for its members. If required, it may also submit proposals in this regard to the General Meeting for decision. At the start of 2012, the Board followed the Remuneration Committee's advice and decided to replace the previous system (a fixed component appropriated from profit and limited attendance fees) by one comprising a fixed emolument and larger attendance fees. The General Meeting of May 2012 approved the new attendance fees.

EC
On the basis of advice obtained from the Remuneration Committee and taking account of the established remuneration policy, the Board determines the remuneration to be granted to members of the EC, 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 and the EC 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 EC 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:
- Their remuneration consists solely of an annual fixed component (non-performance-related and non-results-based) plus the fee received for each meeting attended. Attendance fees constitute the main element of this remuneration package. If meetings coincide with Board meetings of KBC Bank and/or KBC Insurance, the attendance fee will be paid just once to directors sitting on more than one of these Boards. Given his duties, the Deputy Chairman receives a higher fixed component.
- In light of the considerable time he devotes to the ongoing supervision of KBC group affairs, the Chairman of the Board receives a different remuneration package that comprises solely a fixed component, which is set separately by the Remuneration Committee and approved by the Board.
- The directors sitting on the ARC Committee receive additional remuneration (attendance fees) for the work they perform in that regard. The rule likewise applies that, if meetings coincide with ARC Committee meetings of KBC Bank and/or KBC Insurance, the attendance fee will be paid just once to directors sitting on different ARC Committees. The Chairman of the ARC Committee receives an additional fixed emolument. Directors sitting on either the Nomination Committee or the Remuneration Committee do not receive additional remuneration for the work they perform 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 EC:
- The Board determines their remuneration on the basis of advice obtained from the Remuneration Committee and the President of the EC (whose remuneration is set on the basis of the advice of the Remuneration Committee).
- In accordance with the KBC group's remuneration policy, individual remuneration paid to EC members comprises:
  - a fixed monthly emolument;
  - a variable annual emolument (the amount of which depends on the consolidated result of KBC Group NV);
  - an annual, performance-related variable emolument (assessed on the basis of pre-agreed criteria);
  - any emolument for offices performed on behalf of KBC Group NV (exceptional).
- Moreover, a quantitative risk-adjustment mechanism (called a 'risk gateway') is used to set the results-based variable remuneration. The mechanism comprises a number of capital and liquidity parameters that have to be met before any such remuneration may be awarded. The actual parameters are set each year by the Board. If one or more of these parameters are not met, not only will results-based variable remuneration not be awarded, but payment of deferred amounts relating to previous years will also be suspended.
- Performance-related variable remuneration is set by the Board on the advice of the Remuneration Committee, based on an evaluation of several pre-agreed criteria. For 2012, these were:
  - implementing the restructuring plan agreed with the European Commission;
  - drawing up a modified strategy for 2012–2016;
  - implementing the financial plans;
  - strengthening the risk control environment (reducing number of audit recommendations);
  - implementing the funding plan for 2012;
  - setting risk limits and providing the National Bank of Belgium with the requisite information;
  - maintaining or increasing staff, customer and shareholder satisfaction.

  The Remuneration Committee evaluates the extent to which these criteria have been met and, on the basis of its findings and within the limits of the contractually agreed system, makes a proposal regarding the size of the performance-related variable remuneration and duly advises the Board, which takes the final decision.

- The total amount of remuneration calculated in this way for the President of the EC may not exceed the remuneration awarded to other members of the EC by more than 25%.
- Members also benefit 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 EC were awarded remuneration with fixed and variable components for financial year 2012. In accordance with the remuneration policy in force, the variable component does not usually exceed the fixed component, and a nominal ceiling of 750 000 euros is in place. Performance-related variable remuneration is set at between 0% and 30% of the fixed component. The final percentage is set by the Board on the advice of the Remuneration Committee, based on an assessment of achievements during the previous financial year, with the main emphasis being placed on implementation of the restructuring plan agreed with the European Commission. For 2012, total variable remuneration for members of the EC came to approximately 38% of the fixed component (22.5% performance-related and the rest results-based).

Characteristics of performance-related bonuses in the form of shares, options, or any other rights to acquire shares
The total amount of annual variable remuneration (i.e. both the results-based and performance-related components) for members of the EC is paid over four years, with 50% being paid in the first year and the rest spread equally over the next three years.

Furthermore, 50% of the total variable remuneration is awarded in the form of equity-related instruments called phantom stocks, whose value is linked to the price of the KBC Group NV share. These stocks must be retained for one year after being allocated. Like the cash component of variable remuneration, they are also allocated over a four-year period. The average price of the KBC share during the first three months of the year is used to calculate the number of phantom stocks to which each member of the EC is entitled. These stocks are then converted into cash a year later on the basis of the average price of the KBC share during the first three months of that year. Specifically in 2013, members of the EC will receive 25% of their total annual variable remuneration for 2012 in the form of phantom stocks, allocated on the basis of the average price of the KBC share during the first three months of 2013. These stocks will be converted into cash in April 2014 using the average price of the KBC share for the first three months of 2014. They are subject to the allocation and acquisition conditions described under 'Clawback provisions' below.

Information regarding the remuneration policy for the next two financial years
It is not the intention to make any changes to the remuneration awarded to non-executive directors. At his request, the remuneration awarded to the Chairman of the Board was reduced from 550 000 euros to 500 000 euros per year, with effect from 2013.

As for members of senior management, the remuneration policy was approved by the Board on the advice of the Remuneration Committee and is described in the *Remuneration Policy*. 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 variable remuneration awarded to top management, also known as key identified staff (KIS), may not be paid straightaway and its payment is to be spread over a period of three years;
- half of the total amount of variable remuneration for KIS be awarded in the form of equity-related instruments;
- 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.

Besides the risk gateway, a 'Risk-Adjusted Performance Measurement Framework' policy has also been introduced to set results-based variable remuneration for performances as from financial year 2012. The basic idea behind this policy used for capital allocation is that neither economic capital nor regulatory capital is suitable as a single driver for capital allocation. Regulatory capital is limited in terms of risk types and only partially reflects the specific characteristics of KBC. Although economic capital comprises more types of risk and reflects KBC's estimation of its own risk profile, it is not available at the same detailed level at the moment. Given these limitations, the decision was taken to allocate capital on the basis of a risk-weighted asset (RWA) coefficient that reflects the aspects of economic capital. This policy introduces the concept of risk-adjusted profit (RAP) as the (absolute) measure of company profitability, but with an inherent adjustment for capital and risk-related factors. For certain categories of key identified staff for whom the competent control function has assessed that the RAP is an inadequate risk-adjustment mechanism, this framework will be supplemented by additional performance indicators that are better designed to measure risk.

Given the uncertainties about awarding a variable emolument to members of the EC, it was decided not to adjust their remuneration system in 2012. This means that RAP has not been used as the basic mechanism for them yet. The aim is to re-examine the remuneration system for members of the EC during 2013. For instance, the fixed component will be checked on the basis of an objective market comparison and ways will be looked at to encourage the creation of long-term value in the remuneration system.

Clawback provisions

As already explained above, payment of the total annual variable remuneration is not only spread over time, half of it is also awarded in the form of phantom stocks that are to be retained for a period of one year. The variable remuneration component, including the deferred part, is only acquired when this can be reconciled with the financial situation of the entire institution and justified by the performances of the KBC group and the EC.

Action can be taken regarding payment of deferred amounts that have still to be acquired (malus arrangement), when:

- there is evidence of misconduct or serious error on the part of the employee (for example, a violation of the code of conduct or other internal rules, particularly in relation to risks);
- there is a significant deterioration in the financial performance of the KBC group, due to decisions taken in the year in which the variable remuneration was awarded;
- it is ascertained that there are major shortcomings in risk management at the KBC group;
- there are significant changes in the economic or regulatory capital base of the institution.

In this regard, the Board takes a decision on the advice of the Remuneration Committee.

Variable remuneration already acquired will exceptionally be clawed back when there is:

- evidence of fraud;
- (use of) misleading information.

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

In accordance with the new remuneration system which entered into force on 1 January 2012, non-executive directors received a fixed emolument and attendance fees in proportion to the number of meetings they attended of the Board of KBC Group NV and, where relevant, of the other companies of the KBC group in Belgium or abroad. As mentioned above, the Chairman of the Board received solely a special fixed emolument and the Chairman of the ARC Committee an additional fixed emolument. The Deputy Chairman of the Board also received an additional fixed emolument.

Remuneration per individual director (on a consolidated basis, in EUR)	**Remuneration (for FY 2012)**	**Remuneration for ARC Committee members (for FY 2012)**	**Attendance fees (for FY 2012)**
Thomas Leysen	550 000	0	0
Alain Bostoen	40 000	0	45 000
Jozef Cornu	20 000	0	50 000
Marc De Ceuster	20 000	30 000	50 000
Tom Dechaene	20 000	30 000	45 000
Franky Depickere	65 000	130 000	67 500
Luc Discry	40 000	0	55 000
Frank Donck	40 000	10 000	45 000
Dirk Heremans	20 000	30 000	50 000
Lode Morlion	40 000	0	50 000
Vladimira Papirnik	13 333	15 000	25 000
Theodoros Roussis	40 000	15 000	40 000
Alain Tytgadt	40 000	0	50 000
Ghislaine Van Kerckhove	40 000	0	45 000
Piet Vanthemsche	40 000	0	50 000
Philippe Vlerick	70 000	0	50 000
Marc Wittemans	40 000	30 000	60 000

Information regarding the amount of remuneration received by members of the EC of KBC Group NV who are also members of the Board

The members of the EC 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 KBC Group NV and/or person(s) involved

For members of the EC, 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. Based on the advice of the Remuneration Committee, the Board decided that the members of the EC should be awarded performance-related variable remuneration for 2012 that equalled 22.5% of the fixed remuneration component.

Remuneration paid to the President and the other members of the EC of KBC Group NV

The EC 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 company law and the Code, the individual remuneration paid to the President of the EC is shown in the next table.

The aggregate remuneration paid by KBC Group NV and its direct and indirect subsidiaries to members of the EC of KBC Group NV other than the President of the Committee for the 2012 financial year is also shown in the next table. A number of changes were made to the composition of the EC during the course of 2012, 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 Johan Thijs for twelve months, eight of which as CEO;
- the remuneration received by Jan Vanhevel for four months;
- the remuneration received by Daniel Falque for eight months;
- the remuneration received by other members for twelve months.

Remuneration paid to the EC of KBC Group NV during 2012 (in EUR)	**Jan Vanhevel (President until 3 May 2012)**	**Johan Thijs (ordinary member of the EC until 3 May 2012; President from 3 May 2012)**	**Other members of the Executive Committee (combined)**
Employment status	Self-employed	Self-employed	Self-employed
Basic remuneration (fixed)	250 247	700 693	3 122 156
Results-based remuneration for financial year 2012[1] (variable)	10 197	30 590	131 539
Performance-related remuneration for financial year 2012[1] (variable)	14 076	42 229	180 683
Results-based remuneration for previous financial years[2] (variable)	0	18 603	107 484
Performance-related remuneration for previous financial years[2] (variable)	0	5 600	31 467
Total	274 520	797 715	3 573 329
Pension[3]			
Supplementary defined-benefit pension plan (service cost)	0	100 404	695 068
Supplementary defined-contribution pension plan (contribution transferred to pension fund) for 2012	0	15 295	45 885
Other benefits[4]	5 414	16 160	262 439

1 Half of the variable remuneration component is awarded in the form of phantom stocks, and variable remuneration is paid over four years (50% in the first year and the rest spread equally over the next three years). Consequently, the amount stated here is solely the portion of total variable remuneration payable in cash in 2013 (25% of the total amount awarded).

2 Given that no variable remuneration at all was awarded for 2011, these items relate solely to a deferred portion of the variable component for 2010 (16.66% of the cash component of the total remuneration package). As reported in the 2011 annual report, Jan Vanhevel decided to further postpone payment of the variable remuneration due to him for financial year 2010.

3 The pension scheme for members of the EC comprises a small defined-contribution pension plan and the main defined-benefit pension plan. The defined-contribution plan applies to all members of the EC as from the year following the year in which the member in question has sat on the EC for three years. It is funded by KBC via an annual contribution (to the KBC pension fund), the size of which is expressed as a percentage of KBC's consolidated net profit. This percentage depends on the trend in earnings per share. The defined-benefit plan applies to members of the EC as soon as they take a seat on the committee. Entitlement to a full supplementary retirement pension is acquired after 25 years' service in the KBC group, at least six of which as a member of the EC. Each supplementary pension (unless built up through personal contributions) – the right to which has been acquired elsewhere in the group in whatever capacity (self-employed or employee) – is taken into account when calculating this retirement pension, i.e. no accumulation is possible).

4 Each member of the EC receives a representation allowance of 400 euros per month. As this is a flat-rate reimbursement of expenses, the amount has not been included in the table. Each member of the EC also has a company car, the personal use of which is charged on the basis of a fixed 7 500 kilometres per year. Other benefits which members of the EC receive are hospitalisation insurance, assistance insurance and accident insurance. Furthermore, the two non-Belgian expatriate members of the EC receive a housing allowance and sickness insurance.

Long-term cash bonus paid

The remuneration package awarded to members of the EC does not include a long-term cash bonus.

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

As described above, half of the total annual variable remuneration is awarded in the form of phantom stocks that are to be retained for a period of one year. The following amounts were awarded in the form of phantom stocks for 2012 (the number of phantom stocks is calculated on the basis of the average price of the KBC share during the first three months of the year of vesting).

Amounts awarded in the form of phantom stocks	Total	Vesting in 2013	Vesting in 2014	Vesting in 2015	Vesting in 2016
Jan Vanhevel	48 546	24 273	8 253	8 253	7 767
Johan Thijs	145 640	72 820	24 758	24 758	23 302
Danny De Raymaeker	116 511	58 256	19 807	19 807	18 641
Luc Popelier	116 511	58 256	19 807	19 807	18 641
John Hollows	116 511	58 256	19 807	19 807	18 641
Marko Voljč	116 511	58 256	19 807	19 807	18 641
Luc Gijsens	99 725	49 863	16 953	16 953	15 956
Daniel Falque	47 272	23 636	8 036	8 036	7 564

No other shares, stock options or rights to acquire shares were allocated.

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

The first phantom stocks awarded (in 2011, for financial year 2010) were converted into cash at 15.87 euros per share in April 2012. The following amounts were paid (in euros):

Jan Vanhevel	66 241
Johan Thijs	40 166
Danny De Raymaeker	52 989
Luc Popelier	40 166
John Hollows	40 166
Marko Voljč	26 661

Provisions concerning individual severance payments for executive directors and members of the EC of KBC Group NV

Under the conditions stipulated by the Belgian Federal and Flemish Regional governments following the transactions to strengthen core capital in 2008 and 2009, severance payments (to be made when departure is at the initiative of the company) for executive directors and members of the EC 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 general information, while Part 2 deals specifically with 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

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

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

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

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

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

2 Corporate culture and integrity policy

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

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

The most important guidelines relating to the integrity policy are:

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

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

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

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

3.1 The business side assumes responsibility for managing its own risks

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Non-compliance with the Code

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 (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 should be gender diversity (see 'Gender diversity' below).

Provision 5.2./1 of Appendix C to the Code stipulates that the Board 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 should set up a nomination committee composed of a majority of independent non-executive directors.

At year-end 2012, the ARC Committee was composed of seven non-executive directors, two of whom were independent, two were appointed by the Flemish Regional Government and three who represented the core shareholders. Independent directors are, therefore, in the minority on this committee. On 31 December 2012, the Nomination Committee was composed of eight executive directors, one of whom was the Chairman of the Board, two independent directors, one appointed by the government, one executive director and three representatives of the core shareholders. Independent directors are, therefore, in the minority on this committee. The government-appointed directors help ensure that KBC's activities are viewed from an independent perspective.

When selecting the members of the ARC Committee and Nomination Committee – as is also the case with the Board – the group takes account of the specific shareholder structure 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. Moreover, by having their representatives on these Board committees, the core shareholders are able to monitor operational reporting (ARC Committee) and recruitment and nomination matters (Nomination Committee) in full knowledge of the facts. This enhances equilibrium, quality and efficiency within the Board's decision-making process.

Gender diversity

Since 2011, a provision has been included in company law stipulating that, over time, at least one-third of a board's members must be of a different gender than the other members. Provision 2.1. of the Code stipulates that one of the factors for deciding the composition of a board should be gender diversity.

At year-end 2012, two women and eighteen men sat on the Board. The Board is endeavouring to achieve a greater representation of women among its ranks. At present, preparations are being made to gradually increase the number of female directors to the required quota by no later than 2017.

Conflicts of interest that fall within the scope of Article 523, 524 or 524*ter* of the Belgian Companies Code

There were no conflicts of interest during the 2012 financial year that required the application of Article 523, 524 or 524*ter* of the Belgian Companies Code.

Statutory 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. It will be proposed to the General Meeting in 2013 that this mandate be renewed for a further period of three years.
Details of the statutory auditor's remuneration are provided in Note 43 of the 'Consolidated financial statements' section (consolidated figures for the entire group) and in Note 6 of the 'Company annual accounts' section (for KBC Group NV alone).

Shareholder structure on 31 December 2012 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

Article 10bis of the Articles of Association of KBC Group NV stipulates the threshold at which individuals must disclose their shareholdings. KBC publishes these notifications on www.kbc.com. The table provides an overview of the shareholder structure at year-end 2012, based on all the notifications received by 31 December 2012. The 'Company annual accounts' section also contains an overview of notifications received in 2011 and 2012.

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 31-12-2012 (based on the most recent notifications received pursuant to the Act of 2 May 2007)	Address	Number of KBC shares (as a % of the sum of the outstanding number of shares at the time of disclosure)	Notification relating to
KBC Ancora Comm.VA*	Philipssite 5, box 10, 3001 Leuven, Belgium	82 216 380 (19.72%)	13 December 2012
Cera CVBA*	Philipssite 5, box 10, 3001 Leuven, Belgium	29 227 166 (7.01%)	13 December 2012
MRBB CVBA*	Diestsevest 40, 3000 Leuven, Belgium	42 562 675 (11.99%)	1 September 2008
Other core shareholders*	C/o Ph. Vlerick, Ronsevaalstraat 2, 8510 Bellegem, Belgium	39 867 989 (11.23%)	1 September 2008
KBC group companies	Havenlaan 2, 1080 Brussels, Belgium	300 (0.00%)	16 October 2012
BlackRock Inc.	12 Throgmorton Avenue, London EC2N 2DL, United Kingdom	11 026 587 (3.08%)	6 December 2012

* According to the notification of 1 September 2008, the following quantities of these shares 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.

Notifications of shareholdings are provided under the (aforementioned) Act of 2 May 2007, under the law on public takeover bids (see below in this section), or on a voluntary basis. A summary containing the most recent disclosures is provided in the 'Information for shareholders and bondholders' section.

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 2012

The share capital was fully paid up and was represented by 416 967 355 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. The shares subscribed to by employees under the capital increase decided upon by the Board on 7 November 2012 are blocked until 12 December 2014.

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 2012, these rights were suspended for 302 shares (i.e. 0.00% 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 shares suspended on that date: see above) on 1 September 2008 (355 122 707 shares in total). If a comparison were made with the total number of shares carrying voting rights on 31 December 2012, that would be 26.15% (including shares currently suspended). 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 securities to the Flemish Region in mid-July 2009 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 NBB) 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.

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

Appointment and replacement of members of the Board:

Following the advice of the NBB, proposals to appoint nominated directors or to re-appoint directors are submitted by the Board to the General Meeting for approval. Each proposal is accompanied by a documented recommendation from the Board, based on the advice of the Nomination Committee. Without prejudice to the applicable legal provisions, nominations are communicated as a separate agenda item for the General Meeting at least thirty days before it is held. When nominating an independent director, the Board will state whether the individual meets the independence criteria of the Companies Code. The General Meeting appoints directors by a simple majority of votes cast. From among its non-executive members, the Board elects a chairman and one or more deputy chairmen, if necessary. Outgoing directors are always eligible for re-appointment. If, during the course of a financial year, a directorship falls vacant as a result of decease, resignation, dismissal or for any other reason, the remaining directors may provisionally arrange for a replacement and appoint a new director. In that case, the next General Meeting will proceed to a definitive appointment. A director appointed to replace a director whose term of office had not yet come to an end will complete this term of office, unless the General Meeting decides on a different term when making the definitive appointment.

Amendment of the Articles of Association:

Unless stipulated otherwise, the General Meeting is entitled to amend the Articles of Association. Accordingly, the General Meeting may only validly deliberate and take decisions about such amendments if they have been expressly proposed in the convening notice and if those attending the meeting represent at least half the share capital. If the latter condition is not satisfied, a new convening notice is required and the new meeting can validly deliberate and take decisions, regardless of the share of capital represented by the shareholders attending the meeting. An amendment is only adopted if it receives three-quarters of the votes cast (Article 558 of the Companies Code).
If an amendment to the Articles of Association pertains to the object of the company, the Board must justify the proposed amendment in a detailed report that is referred to in the agenda. A statement of assets and liabilities drawn up no longer than three months previously must be included in this report and be reported on separately by the statutory auditors. Copies of the reports in question can be obtained in accordance with Article 535 of the Companies Code. If these reports do not appear, decisions taken at the General Meeting will be null and void. The General Meeting may only deliberate and take decisions validly on changes in the object of the company if those present not only represent half of the share capital (…). If this condition is not satisfied, a second convening notice is required. To ensure that the second meeting can deliberate and take decisions validly, it is sufficient that some of the capital is represented. An amendment will then only be adopted if it receives at least four-fifths of the votes cast. (…) (excerpt from Article 559 of the Companies Code).

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

The General Meeting authorised the Board 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 preferential subscription 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 FSMA that it has been apprised of a public takeover bid for the company's shares. This special authorisation is valid until 28 April 2014. On 31 December 2012, the authorised capital came to 693 933 425.16 euros. Consequently, when account is taken of the accounting par value of the share on 31 December 2012, a maximum of 199 406 156 new shares can still be issued, i.e. 47.82% of the number of shares in circulation at that time.

On 7 November 2012, the Board decided to use its authorisation to increase capital by issuing shares without preferential subscription rights to employees at a price of 18.71 euros per share and with a limit of 40 shares per employee. On 19 December 2012, the issued share capital was increased by 528 083.04 euros (represented by 151 748 new shares).

On 9 December 2012, the Board decided to use its authorisation to increase capital by issuing shares without preferential subscription rights via an accelerated book-build at a price of 21.25 euros per share. On 13 December 2012, the issued share capital was increased by 204 746 823.12 euros (represented by 58 835 294 new shares).

The authorisation granted by the General Meeting to the boards 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 KBC Group NV and its direct subsidiaries have been authorised until 29 May 2015 to acquire or dispose of KBC Group NV shares, whenever their acquisition or disposal is necessary to prevent KBC Group NV from suffering imminent serious disadvantage.

Lastly, the aforementioned boards of directors received authorisation 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 10%. On 31 December 2012, KBC Group NV and its direct subsidiaries did not hold any KBC Group NV shares.

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, or if employees are made redundant, without valid reason 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 2012. 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	SAK Berkenstede	268 970[3]	0.08%	–
MRBB	46 289 864[3]	12.93%	HBB vzw	Robor NV	238 988[3]	0.07%	Individual(s)
Cera CVBA	26 127 166[3]	7.30%	–	Efiga Invest sprl	233 806[3]	0.07%	Moulins de Klein-bettingen SA
SAK AGEV	11 486 037[3]	3.21%	–	La Pérégrina	220 588[4]	0.06%	ING Trust
Plastiche NV	4 780 915[3]	1.34%	Individual(s)	Promark International NV	189 008[3]	0.05%	Individual(s)
3D NV	2 323 085[3]	0.65%	SAK Iberanfra	Hermes Invest NV	180 225[3]	0.05%	–
Setas SA	1 626 401[3]	0.45%	SAK Setas	SAK Hermes Controle en Beheersmij	148 527[3]	0.04%	–
SAK Pula	1 434 250[3]	0.40%	–	Lineago Trust	148 400[3]	0.04%	–
Vrij en Vrank CVBA	1 335 258[3]	0.37%	SAK Prof. Vlerick	Tradisud NV	146 500[4]	0.04%	–
De Berk BVBA	1 138 208[3]	0.32%	Individual(s)	SAK Iberanfra	120 107[3]	0.03%	–
De Lelie GCV	1 000 000[3]	0.28%	–	Sinfonia Investments NV	115 839[3]	0.03%	SAK Hermes Controle en Beheers-maatschappij
Rainyve SA	941 958[3]	0.26%	–	I.B.P. Ravago Pensioen-fonds	115 833[3]	0.03%	–
Stichting Amici Almae Matris	912 731[3]	0.26%	–	Inkao-Invest bvba	113 679[3]	0.03%	Robor NV
Van Holsbeeck nv	910 322[3]	0.25%	Individual(s)	Edilu NV	70 000[4]	0.02%	–
Basil Finance SA	860 000[3]	0.24%	–	Ansico NV	54 901[3]	0.02%	–
Ceco c.v.a.	568 849[3]	0.16%	Individual(s)	Wilig NV	42 472[4]	0.01%	–
Nascar Finance SA	560 000[3]	0.16%	–	Mercurius Invest NV	40 230[3]	0.01%	–
Partapar SA	559 818[3]	0.16%	Individual(s)	Bevek Vlam 21	39 006[4]	0.01%	ABN Amro
Cordalia SA	425 250[3]	0.12%	Individual(s)	Filax Stichting	38 529[3]	0.01%	Individual(s)
Mapicius SA	425 250[3]	0.12%	Individual(s)	Agrobos NV	37 016[3]	0.01%	–
Cecan Invest NV	397 563[3]	0.11%	SAK Prof. Vlerick	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)
Algimo NV	352 022[3]	0.10%	Individual(s)	Kristo Van Holsbeeck bvba	7 700[3]	0.00%	Individual(s)
Sereno SA	333 408[3]	0.09%	Individual(s)	Ibervest NV	1 166[3]	0.00%	–
Colver NV	322 099[4]	0.09%	–	Lutherick NV	685[3]	0.00%	–
Rodep Comm.VA	304 000[3]	0.08%	Individual(s)				

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%	46 200[3]	0.01%	15 000[3]	0.00%	3 375[4]	0.00%
274 839[3]	0.08%	45 441[3]	0.01%	15 000[3]	0.00%	3 375[4]	0.00%
235 000[3]	0.07%	43 200[3]	0.01%	14 522[3]	0.00%	3 375[4]	0.00%
141 466[3]	0.04%	39 264[4]	0.01%	13 905[4]	0.00%	3 375[4]	0.00%
107 500[3]	0.03%	37 370[4]	0.01%	13 905[4]	0.00%	3 240[4]	0.00%
96 903[3]	0.03%	33 069[4]	0.01%	12 645[4]	0.00%	2 800[3]	0.00%
96 903[3]	0.03%	32 994[3]	0.01%	12 590[4]	0.00%	2 295[4]	0.00%
96 903[3]	0.03%	32 994[3]	0.01%	12 539[4]	0.00%	2 194[4]	0.00%
84 078[3]	0.02%	32 978[3]	0.01%	12 318[4]	0.00%	2 194[4]	0.00%
75 000[3]	0.02%	32 978[3]	0.01%	12 125[4]	0.00%	2 194[4]	0.00%
69 500[3]	0.02%	32 285[4]	0.01%	11 042[4]	0.00%	2 194[4]	0.00%
67 500[3]	0.02%	25 500[4]	0.01%	11 039[4]	0.00%	2 025[3]	0.00%
67 500[3]	0.02%	22 706[4]	0.01%	10 992[4]	0.00%	1 350[4]	0.00%
64 550[3]	0.02%	22 611[4]	0.01%	9 761[4]	0.00%	1 269[4]	0.00%
63 599[4]	0.02%	22 343[4]	0.01%	8 850[4]	0.00%	1 000[3]	0.00%
57 841[3]	0.02%	22 343[4]	0.01%	8 556[4]	0.00%	877[4]	0.00%
56 950[3]	0.02%	22 342[4]	0.01%	8 316[4]	0.00%	774[4]	0.00%
55 406[4]	0.02%	21 897[3]	0.01%	7 884[3]	0.00%	513[4]	0.00%
54 986[4]	0.02%	20 007[4]	0.01%	7 000[3]	0.00%	500[3]	0.00%
52 499[3]	0.01%	19 546[4]	0.01%	6 784[4]	0.00%	324[4]	0.00%
52 000[3]	0.01%	16 733[4]	0.00%	6 540[4]	0.00%	243[4]	0.00%
49 600[3]	0.01%	16 000[3]	0.00%	4 549[4]	0.00%	228[4]	0.00%
48 800[3]	0.01%	15 132[3]	0.00%	3 759[4]	0.00%	27[3]	0.00%
48 141[3]	0.01%	15 132[3]	0.00%	3 431[3]	0.00%	24[3]	0.00%
46 441[3]	0.01%	15 000[3]	0.00%	3 375[4]	0.00%		

1 No such disclosures were received.
2 Total outstanding number of shares on 30 June and 1 September 2012: 357 980 313.
3 Situation as at 30 June 2012.
4 Situation as at 1 September 2012.
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.

Notifications of shareholdings are provided under the Act of 2 May 2007, under the (aforementioned) law on public takeover bids, or on a voluntary basis. A summary containing the most recent disclosures is provided in the 'Information for shareholders and bondholders' section.

2 Consolidated financial statements

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Free Translation from the Dutch version

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 2012

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

Unqualified opinion on the consolidated financial statements

We have audited the consolidated financial statements of KBC Group nv and its subsidiaries (collectively referred to as 'the Group') for the year ended 31 December 2012, prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium.
These consolidated financial statements comprise the consolidated balance sheet as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated cashflow statement and the consolidated statement of changes in equity for the year then ended, as well as the summary of significant accounting policies and other explanatory notes. The consolidated balance sheet shows total assets of € 256.886 million and the consolidated statement of income shows a profit for the year, share of the Group, of € 612 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 International Standards on Auditing (ISA). Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

In accordance with these standards, we have performed procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we have considered internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but

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

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

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2012 give a true and fair view of the Group's financial position as at 31 December 2012 and of the results of its operations and its cashflows in accordance with IFRS as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium.

Additional comments

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

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

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

Brussels, 18 March 2013

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

Pierre Vanderbeek
Partner

Peter Telders
Partner

13PVD0008B

Consolidated income statement

(in millions of EUR)	Note	2011	2012
Net interest income	3	5 479	4 669
Interest income	3	11 883	10 134
Interest expense	3	-6 404	-5 465
Earned premiums, insurance (before reinsurance)	9	4 119	2 975
Non-life	11	1 861	1 500
Life	10	2 258	1 475
Technical charges, insurance (before reinsurance)	9	-3 541	-2 593
Non-life	9	-996	-878
Life	9	-2 545	-1 714
Ceded reinsurance result	9	-44	-13
Dividend income	4	85	45
Net result from financial instruments at fair value through profit or loss	5	-178	420
Net realised result from available-for-sale assets	6	169	181
Net fee and commission income	7	1 164	1 315
Fee and commission income	7	2 043	2 005
Fee and commission expense	7	-878	-690
Other net income	8	56	734
TOTAL INCOME		**7 310**	**7 733**
Operating expenses	12	-4 344	-4 248
Staff expenses	12	-2 569	-2 543
General administrative expenses	12	-1 449	-1 396
Depreciation and amortisation of fixed assets	12	-326	-310
Impairment	14	-2 123	-2 511
on loans and receivables	14	-1 333	-1 072
on available-for-sale assets	14	-417	-95
on goodwill	14	-120	-421
other	14	-253	-923
Share in results of associated companies	15	-58	2
RESULT BEFORE TAX		**786**	**976**
Income tax expense	16	-320	-362
Net post-tax result from discontinued operations	46	-419	27
RESULT AFTER TAX		**47**	**641**
attributable to minority interests		34	29
of which relating to discontinued operations		*0*	*0*
attributable to equity holders of the parent		**13**	**612**
of which relating to discontinued operations		*-419*	*27*
Earnings per share (in EUR)			
Basic	17	-1.93	-1.09
Diluted	17	-1.93	-1.09

- Towards the end of 2009, the group unveiled a strategic plan that included a list of companies and activities to be divested. The European Commission approved this plan at the end of November 2009. The group made a number of adjustments to it in mid-2011. More information on the divestment plan is provided in the 'Strategy, company profile and structure' section (which has not been audited by the statutory auditor).
- The group has classified KBL EPB as a discontinued operation since 2010. As a consequence of this classification and in accordance with IFRS 5, the results of KBL EPB were no longer recorded under various headings in the income statement, but were grouped together instead under 'Net post-tax result from discontinued operations' (until the sale was completed – see below).
- It will be proposed that a gross dividend of 1.00 euro per share entitled to dividend be paid for the 2012 financial year, subject to the approval of the General Meeting. The total dividend to be paid will accordingly amount to 417 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. For financial year 2012, KBC will duly pay a coupon of 543 million euros to the relevant governments in 2013. Its accounting treatment under IFRS is comparable with that for ordinary dividends (deducted from equity in the year payment is made). It should be noted that this coupon is included in the calculation of earnings per share (see Note 17).
- We have dealt with the main items in the income statement under 'Consolidated results in 2012' in the 'Report of the Board of Directors' section and in the sections devoted to the individual business units. The statutory auditor has not audited these sections.

Consolidated statement of comprehensive income

(in millions of EUR)	2011	2012
RESULT AFTER TAX	**47**	**641**
attributable to minority interests	34	29
attributable to equity holders of the parent	13	612
OTHER COMPREHENSIVE INCOME		
Net change in revaluation reserve for shares	-162	-25
Fair value adjustments before tax	-171	33
Deferred tax on fair value changes	12	7
Transfer from reserve to net result	-3	-64
Impairment	40	22
Net gains/losses on disposal	-43	-87
Deferred taxes on income	0	1
Net change in revaluation reserve for bonds	-32	1 465
Fair value adjustments before tax	-251	1 785
Deferred tax on fair value changes	48	-527
Transfer from reserve to net result	171	207
Impairment	158	32
Net gains/losses on disposal	-22	157
Amortisation and impairment of revaluation reserve for available-for-sale financial assets following reclassification to ‘loans and receivables’	81	180
Deferred taxes on income	-46	-162
Net change in revaluation reserve for other assets	-1	0
Fair value adjustments before tax	0	0
Deferred tax on fair value changes	0	0
Transfer from reserve to net result	-1	0
Impairment	0	0
Net gains/losses on disposal	-1	0
Deferred taxes on income	0	0
Net change in hedging reserve (cashflow hedges)	-150	-235
Fair value adjustments before tax	-336	-398
Deferred tax on fair value changes	127	156
Transfer from reserve to net result	58	7
Gross amount	89	9
Deferred taxes on income	-32	-2
Net change in translation differences	-154	59
Gross amount	-40	22
Deferred taxes on income	-114	37
Other movements	1	-2
TOTAL COMPREHENSIVE INCOME	**-451**	**1 903**
attributable to minority interests	21	30
attributable to equity holders of the parent	-471	1 874

Consolidated balance sheet

ASSETS (in millions of EUR)	Note	31-12-2011	31-12-2012
Cash and cash balances with central banks		6 218	4 426
Financial assets	18–29	249 439	236 898
Held for trading	18–29	26 936	21 159
Designated at fair value through profit or loss	18–29	13 940	16 295
Available for sale	18–29	39 491	30 622
Loans and receivables	18–29	153 894	139 225
Held to maturity	18–29	14 396	28 510
Hedging derivatives	18–29	782	1 088
Reinsurers’ share in technical provisions, insurance	35	150	137
Fair value adjustments of the hedged items in portfolio hedge of interest rate risk	–	197	204
Tax assets	31	2 646	2 188
Current tax assets	31	201	174
Deferred tax assets	31	2 445	2 014
Non-current assets held for sale and disposal groups	46	19 123	7 138
Investments in associated companies	32	431	8
Investment property	33	758	638
Property and equipment	33	2 651	2 581
Goodwill and other intangible assets	34	1 898	1 328
Other assets	30	1 871	1 341
TOTAL ASSETS		**285 382**	**256 886**
LIABILITIES AND EQUITY (in millions of EUR)	**Note**	**31-12-2011**	**31-12-2012**
Financial liabilities	18–29	225 804	213 265
Held for trading	18–29	27 355	19 459
Designated at fair value through profit or loss	18–29	28 678	20 563
Measured at amortised cost	18–29	167 842	170 813
Hedging derivatives	18–29	1 929	2 430
Technical provisions (before reinsurance)	35	19 914	19 205
Fair value adjustments of the hedged items in portfolio hedge of interest rate risk	–	4	69
Tax liabilities	31	545	647
Current tax liabilities	31	255	192
Deferred tax liabilities	31	290	455
Liabilities associated with disposal groups	46	18 132	3 739
Provisions for risks and charges	36	889	526
Other liabilities	37	3 322	3 474
TOTAL LIABILITIES		**268 611**	**240 925**
Total equity	**39**	**16 772**	**15 961**
Parent shareholders’ equity	39	9 756	12 099
Non-voting core-capital securities	39	6 500	3 500
Minority interests	–	516	362
TOTAL LIABILITIES AND EQUITY		**285 382**	**256 886**

- In accordance with IFRS 5, we have no longer recorded the assets and liabilities of most of the remaining divestments under various headings in the balance sheet, but have grouped them together instead under ‘Non-current assets held for sale and disposal groups’ and ‘Liabilities associated with disposal groups’. The entities concerned were KBL EPB, Fidea and WARTA at the end of 2011 and Absolut Bank, KBC Banka, KBC Bank Deutschland, Antwerp Diamond Bank and Nova Ljubljanska banka at the end of 2012. For additional information, see Note 46.
- For more information on the partial redemption of non-voting core-capital securities, see ‘Consolidated statement of changes in equity’.
- For information on the capital increase carried out at the end of December 2012, see Note 39.

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 shareholders' equity	Non-voting core-capital securities	Minority interests	Total equity
2011											
Balance at the beginning of the period	1 245	4 340	-1 529	66	-443	7 749	-281	11 147	7 000	527	18 674
Net result for the period	0	0	0	0	0	13	0	13	0	34	47
Other comprehensive income	0	0	0	-194	-151	1	-141	-484	0	-13	-498
Subtotal	0	0	0	-194	-151	14	-141	-471	0	21	-451
Dividends	0	0	0	0	0	-851	0	-851	0	0	-851
Capital increase	0	0	0	0	0	0	0	1	0	0	1
Redemption of non-voting core-capital securities	0	0	0	0	0	-75	0	-75	-500	0	-575
Purchases of treasury shares	0	0	0	0	0	0	0	0	0	0	0
Sales of treasury shares	0	0	0	0	0	0	0	0	0	0	0
Results on (derivatives on) treasury shares	0	0	0	0	0	0	0	0	0	0	0
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	-32	-32
Change in scope	0	0	0	11	0	0	0	11	0	0	11
Total change	0	0	0	-183	-151	-917	-141	-1 391	-500	-11	-1 902
Balance at the end of the period	1 245	4 341	-1 529	-117	-594	6 831	-422	9 756	6 500	516	16 772
of which revaluation reserve for shares	–	–	–	274	–	–	–	–	–	–	–
of which revaluation reserve for bonds	–	–	–	-391	–	–	–	–	–	–	–
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	–	7	7	–	0	7
2012											
Balance at the beginning of the period	1 245	4 341	-1 529	-117	-594	6 831	-422	9 756	6 500	516	16 772
Net result for the period	0	0	0	0	0	612	0	612	0	29	641
Other comprehensive income	0	0	0	1 440	-235	-2	59	1 262	0	0	1 262
Subtotal	0	0	0	1 440	-235	610	59	1 874	0	30	1 903
Dividends	0	0	0	0	0	-599	0	-599	0	0	-599
Capital increase	205	1 048	0	0	0	-14	0	1 239	0	0	1 239
Redemption of non-voting core-capital securities	0	0	0	0	0	-450	0	-450	-3 000	0	-3 450
Purchases of treasury shares	0	0	0	0	0	0	0	0	0	0	0
Sales of treasury shares	0	0	1 527	0	0	-1 179	0	349	0	0	349
Results on (derivatives on) treasury shares	0	0	0	0	0	0	0	0	0	0	0
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	-36	-36
Change in scope	0	0	0	-60	-6	0	3	-63	0	-147	-210
Total change	205	1 048	1 527	1 380	-241	-1 639	62	2 343	-3 000	-154	-811
Balance at the end of the period	1 450	5 388	-1	1 263	-834	5 192	-360	12 099	3 500	362	15 961
of which revaluation reserve for shares	–	–	–	206	–	–	–	–	–	–	–
of which revaluation reserve for bonds	–	–	–	1 057	–	–	–	–	–	–	–
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	–	–	–	6	1	–	-142	-135	–	0	-135

- For information on the capital increase in December 2012 and the number of shares, see Note 39. The cost of this capital increase (22 million euros gross and a tax saving of 8 million euros) was deducted from parent shareholders' equity and recognised under 'Reserves'.
- For information on the shareholder structure, see Note 3 in the 'Company annual accounts' section and the 'Corporate governance statement' in the 'Report of the Board of Directors' section.
- KBC Group NV redeemed 0.5 billion euros' worth of non-voting core-capital securities from the Belgian Federal Government (and paid a 15% penalty) on 2 January 2012. This was recognised in the balance sheet at year-end 2011. KBC Group NV repaid 3 billion euros and paid a 15% penalty to the Belgian Federal Government on 17 December 2012. This was recognised in the balance sheet at year-end 2012. For information on the capital-strengthening transactions concluded with the Belgian Federal Government and the Flemish Region, see the 'Additional information' section.
- In 2012, KBC sold all the (18.2 million) treasury shares held by KBC Bank NV and KBC Group NV, which increased its capital base by 349 million euros.
- Besides the gross dividend of 4 million euros for financial year 2011 (0.01 euros per share entitled to dividend), the 'Dividends' heading in 2012 includes a coupon of 595 million euros paid on the above core-capital securities sold to the Belgian Federal and Flemish Regional governments.

Consolidated cashflow statement

(in millions of EUR)	2011	2012
Operating activities		
Result before tax	786	976
Adjustments for:		
Result before tax from discontinued operations	19	15
Depreciation, impairment and amortisation of property and equipment, intangible fixed assets, investment property and securities	1 274	1 774
Profit/Loss on the disposal of investments	-130	-579
Change in impairment on loans and advances	1 335	1 072
Change in technical provisions (before reinsurance)	1 038	121
Change in the reinsurers' share in the technical provisions	-4	21
Change in other provisions	352	-350
Other unrealised gains or losses	30	-59
Income from associated companies	57	-2
Cashflows from operating profit before tax and before changes in operating assets and liabilities	4 756	2 988
Changes in operating assets (excluding cash and cash equivalents)	21 133	8 391
Financial assets held for trading	7 255	4 823
Financial assets at fair value through profit or loss	10 659	-1 845
Available-for-sale assets	12 345	8 701
Loans and receivables	-4 964	2 959
Hedging derivatives	-734	-722
Operating assets associated with disposal groups, and other assets	-3 427	-5 527
Changes in operating liabilities (excluding cash and cash equivalents)	-26 858	-4 758
Deposits measured at amortised cost	-14 922	5 687
Debts represented by securities measured at amortised cost	-10 548	1 477
Financial liabilities held for trading	3 352	-7 528
Financial liabilities at fair value through profit or loss	-5 937	-8 034
Hedging derivatives	806	498
Operating liabilities associated with disposal groups, and other liabilities	390	3 142
Income taxes paid	-328	-337
Net cash from or used in operating activities	-1 296	6 284
Investing activities		
Purchase of held-to-maturity securities	-2 913	-16 417
Proceeds from the repayment of held-to-maturity securities at maturity	1 521	2 304
Acquisition of a subsidiary or a business unit, net of cash acquired (including increases in percentage interest held)	0	0
Proceeds from the disposal of a subsidiary or business unit, net of cash disposed of (including decreases in percentage interest held)	498	-941
Purchase of shares in associated companies	0	0
Proceeds from the disposal of shares in associated companies	0	0
Dividends received from associated companies	1	0
Purchase of investment property	-31	-55
Proceeds from the sale of investment property	26	8
Purchase of intangible fixed assets (excluding goodwill)	-145	-136
Proceeds from the sale of intangible fixed assets (excluding goodwill)	10	60
Purchase of property and equipment	-634	-632
Proceeds from the sale of property and equipment	244	363
Net cash from or used in investing activities	-1 423	-15 444
Financing activities		
Purchase or sale of treasury shares	0	349
Issue or repayment of promissory notes and other debt securities	-964	136
Proceeds from or repayment of subordinated liabilities	-1 460	-1 662
Principal payments under finance lease obligations	0	0
Proceeds from the issuance of share capital	0	1 239
Redemption of non-voting core-capital securities	-575	-3 450
Proceeds from the issuance of preference shares	0	0
Dividends paid	-851	-599
Net cash from or used in financing activities	-3 850	-3 988
Change in cash and cash equivalents		
Net increase or decrease in cash and cash equivalents	-6 568	-13 149
Cash and cash equivalents at the beginning of the period	20 557	13 997
Effects of exchange rate changes on opening cash and cash equivalents	9	133
Cash and cash equivalents at the end of the period	13 997	982

Consolidated cashflow statement (continuation)

(in millions of EUR)	2011	2012
Additional information		
Interest paid	-6 533	-5 465
Interest received	12 163	10 134
Dividends received (including equity method)	90	45
Components of cash and cash equivalents		
Cash and cash balances with central banks	6 217	4 426
Loans and advances to banks repayable on demand and term loans to banks at not more than three months	11 721	8 994
Deposits from banks repayable on demand	-8 472	-12 658
Cash and cash equivalents belonging to disposal groups	4 532	220
Total	13 997	982
of which not available	0	0

- KBC uses the indirect method to report on cashflows from operating activities.
- As stated in Note 46, KBC classified a number of group companies earmarked for divestment as 'disposal groups' at the end of 2012. The group had concluded sale agreements for two of them (Absolut Bank and Nova Ljubljanska banka) by 31 December 2012 (sales not yet completed by then). When completed, the main impact these sales will have on cashflows relating to investing activities is as follows: receipt of the sales price: roughly 0.3 billion euros for Absolut Bank and 2.8 million euros for Nova Ljubljanska banka. Reduction in cash and cash equivalents belonging to disposal groups: 0.4 billion euros for Absolut Bank (amounts at 31 December 2012). As far as Kredyt Bank is concerned (see Note 8), the planned sale in 2013 of the stake in the merged entity will have a positive impact of approximately 0.8 billion euros on net cash from or used in operating activities.
- More information on the main acquisitions and divestments of consolidated subsidiaries and activities already completed is provided below. All material acquisitions and divestments of group companies or activities were paid for in cash, except for Kredyt Bank (merger with Bank Zachodni WBK – see Note 8).
- More information on the main divestments can be found under 'Group Centre' in the 'Report of the Board of Directors' section (not audited by the statutory auditor).

Main acquisitions, divestments or changes in the ownership percentage of consolidated subsidiaries or operations	2011	2012	2012	2012	2012
(in millions of EUR)	**Centea**	**WARTA**	**Fidea**	**KBL EPB**	**Kredyt Bank**
Purchase or sale	Sale	Sale	Sale	Sale	Sale (merger)
Percentage of shares bought or sold in the relevant year	100%	100%	100%	100%	80%
Total share percentage at the end of the relevant year	0%	0%	0%	0%	0%
For business unit/segment	Group Centre	Group Centre	Group Centre	Group Centre	Group Centre
Deal date (month and year)	July 2011	June 2012	March 2012	July 2012	December 2012
Results of the relevant company/business recognised in the group result up to and including:	30-06-2011	30-06-2012	31-12-2011	30-6-2012	31-12-2012
Purchase price or sale price	527	842	182	1 002	840
Cashflow for acquiring or selling companies less cash and cash equivalents acquired or sold	498	737	150	-1 903	916
Assets and liabilities bought or sold					
Cash and cash balances with central banks	23	0	0	479	188
Financial assets	9 856	1 511	3 097	11 822	10 248
Held for trading	0	3	0	558	173
Designated at fair value through profit or loss	1 233	266	48	1 887	16
Available for sale	1 200	761	2 635	3 583	1 836
Loans and receivables	7 424	364	51	5 740	7 438
Held to maturity	0	117	363	52	769
Hedging derivatives	0	0	0	2	16
of which cash and cash equivalents	*30*	*105*	*32*	*3 730*	*275*
Financial liabilities	8 637	145	45	11 283	8 064
Held for trading	0	3	0	307	241
Designated at fair value through profit or loss	0	0	45	1 871	0
Measured at amortised cost	8 637	141	0	9 057	7 823
Hedging derivatives	0	0	0	48	0
of which cash and cash equivalents	*0*	*0*	*0*	*824*	*351*
Technical provisions (before reinsurance)	0	1 213	3 011	400	0

Notes on the accounting policies

Note 1 a: Statement of compliance

The consolidated financial statements, including all the notes, were authorised for issue on 18 March 2013 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 2012 and have been applied by KBC in this report. The amendments in question do not have any material impact.

- Amendment to IFRS 7 (Financial Instruments: Disclosures – Transfers of Financial Assets). More detailed disclosures are required for transferred financial assets that are derecognised in their entirety, but where the entity has a continuing involvement in them (for instance, collateral provided for such assets) or for assets that have not been derecognised in their entirety. This information has been included in Note 18.

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

- In November 2009, the IASB issued IFRS 9 (Financial Instruments) on the classification and measurement of financial instruments, as a replacement for the relevant requirements of the present IAS 39 (Financial Instruments: Recognition and Measurement). The mandatory effective date of this new standard has recently been postponed until 1 January 2015. However, the European Union has still to endorse the standard for use in its territory. An impact study is an inherent part of the IFRS 9 programme currently underway at KBC.

- Amendment to IAS 12 (Income tax – Deferred Tax: Recovery of Underlying Assets). No impact due to the fact that KBC measures investment property at cost.

- IFRS 10, 11 and 12 are the new consolidation standards that will become effective in the European Union on or after 1 January 2014. IFRS 10 includes a new definition of control, which could lead to changes in the scope of consolidation. Under IFRS 11 (Joint Arrangements), it is specified that *joint ventures* must be accounted for using the equity method and no longer by proportionate consolidation. IFRS 12 combines all the disclosure requirements for subsidiaries, joint arrangements, associates and *structured entities* (the new name for Special Purpose Entities). It is expected that this will not lead to any material change in KBC's scope of consolidation.

- IFRS 13 (Fair Value Measurement) provides guidance on how the fair value of an asset or liability should be measured when required by another IFRS standard. The standard will become effective on 1 January 2013. KBC expects that there will only be a minor change in the way that fair values are determined. The main consequence for KBC will be the requirement of expanded disclosures.

- Amendment to IAS 19 (Employee Benefits), which will become effective on or after 1 January 2013. The main change concerns the elimination of the corridor, which – under the current standard – permits actuarial gains and losses to be spread over several years. From that point on, such gains and losses will have to be recognised in other comprehensive income (with no recycling in profit or loss). The required disclosures will also be changed and expanded. On 1 January 2013, the one-off negative impact on IFRS equity amounted to 81 million euros (net of deferred taxes).

- Amendment to IFRS 7 and IAS 32 (Offsetting Financial Assets and Financial Liabilities), which will become effective on or after 1 January 2013 and 1 January 2014, respectively. The main consequence for KBC will be the requirement of expanded disclosures.

- Amendment to IAS 1 (Presentation of Financial Statements), which will become effective on or after 1 January 2013. The main change concerns the grouping of items presented in other comprehensive income. Items that might be reclassified (or recycled) to profit or loss at a future point in time will be presented separately from items that will never be reclassified.

Note 1 b: Summary of significant accounting policies

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

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

b Effects of changes in foreign exchange rates

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

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

c Financial assets and liabilities (IAS 39)

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

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

The IAS 39 classifications are as follows:

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

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

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

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

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

- *Financial liabilities designated at fair value through profit or loss (FIFV).* These are measured in the same way as held-for-trading liabilities. This fair value option may be used under the same conditions as FIFV assets. 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, i.e. accrued interest is presented under the same heading as the financial instruments for which the interest has accrued.

KBC applies the following general rules:

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

Impairment losses are recognised for loans and advances for which there is evidence – either on an individual or portfolio basis – of impairment at balance sheet date. Whether or not evidence exists is determined on the basis of the probability of default (PD). The characteristics of the loan, such as the type of loan, the borrower's line of business, the geographical location of the borrower and other characteristics key to a borrower's risk profile, are used to determine the PD. Loans with the same PD therefore have a similar credit risk profile.

- Loans and advances with a PD of 12 (individual problem loans with the highest probability of default) are individually tested for impairment (and written down on an individual basis if necessary). The impairment amount is calculated as the difference between the loans' carrying amount and their present value.
- Loans and advances with a PD of 10 or 11 are also considered to be individual problem loans. Material loans are tested individually. The impairment amount is calculated as the difference between the loans' carrying amount and their present value. Non-material loans are tested on a statistical basis. The impairment amount calculated according to the statistical method is based on IRB Advanced models (PD x LGD x EAD).
- Loans and advances with a PD lower than 10 are considered normal loans. Incurred-but-not-reported (IBNR) losses are recognised for loans with a PD of 1 through 9. IBNR losses are based on IRB Advanced models (PD x LGD x EAD), with all parameters being adjusted to reflect the point-in-time nature of these losses. The main adjustment relates to the PD, i.e. the time horizon of the PD is shortened on the basis of the emergence period. This is the period between the time an event occurs that will lead to an impairment and the time KBC identifies this event, and is dependent on the review frequency, the location and degree of involvement with the counterparties.

• When impairment is identified, the carrying amount of the loan is reduced via an impairment account and the loss recognised in the income statement. If, in a subsequent period, the estimated impairment amount increases or decreases due to an event that occurs after the impairment loss was recognised, the previously recognised impairment will be increased or reduced accordingly through adjustment of the impairment account. Loans and the related amounts included in the impairment accounts are written off when there is no realistic prospect of recovery in future or if the loan is forgiven. A renegotiated loan will continue to be tested for impairment, calculated on the basis of the original effective interest rate applying to the loan.
For off-balance-sheet commitments (commitment credit) classified as uncertain or irrecoverable and doubtful, provisions are recognised if the general IAS 37 criteria are satisfied and the *more-likely-than-not* criterion met. These provisions are recognised at their present value.
Interest on loans written down as a result of impairment is recognised using the contractual rate of interest used to measure the impairment loss.

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

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

Held-for-trading securities are initially measured at fair value (excluding transaction costs) and subsequently at fair value, with all fair value changes being recognised in profit or loss for the financial year.
Securities classified initially as 'Financial assets at fair value through profit or loss' that are not held for trading are measured in the same way as held-for-trading assets.

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

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

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

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

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

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

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

d Goodwill and other intangible assets

Goodwill is defined as any excess of the cost of the acquisition over the acquirer's interest in the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. It is recognised as an intangible asset and is carried at cost less impairment losses. Goodwill is not amortised, but is tested for impairment at least once a year or if there is either internal or external evidence for doing so. An impairment loss is recognised if the carrying amount of the cash-generating unit to which the goodwill belongs exceeds its recoverable amount. Impairment losses on goodwill cannot be reversed. For each new business combination, KBC has to choose whether to measure minority interests at fair value or as their proportionate share of the acquiree's net identifiable assets. This choice determines the amount of goodwill recognised.

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

e Property and equipment (including investment property)

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

f Technical provisions

Provision 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.
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 policies, 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 shares are likewise reported in equity, save in the event of net cash settlement.
- Written stock options on KBC 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 31-12-2012		Exchange rate average in 2012	
	1 EUR = ... currency	Change from 31-12-2011 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)	1 EUR = ... currency	Change relative to average in 2011 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)
CZK	25.15	3%	25.17	-2%
GBP	0.816	2%	0.813	7%
HUF	292.3	8%	289.1	-3%
PLN	4.074	9%	4.184	-2%
USD	1.319	-2%	1.292	8%

* Rounded figures.

m Changes made to accounting policies in 2012

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

Notes on segment reporting

Note 2 a: Segment reporting based on the management structure

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

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

Segment reporting is based on this format, but:

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

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

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

It should be noted that:

- In principle, we assign a group company in its entirety to one specific segment (see Note 44). Major exceptions are only made for those charges that cannot clearly be allocated to a specific segment (such charges are recognised under Group Centre) and KBC Bank (which is assigned to various segments and to Group Centre using allocation rules).
- We allocate the funding cost of goodwill related to participating interests held by KBC Bank and KBC Insurance to the segment to which the relevant participating interest belongs. Any funding cost in respect of leveraging at KBC Group NV level is recognised under Group Centre and not allocated any further.
- Transactions among the different segments are reported at arm's length.
- When segment information is recorded, we do not divide 'Net interest income' 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.
- We do not provide any information on income from sales to external customers per group of products or services, since the information is prepared at consolidated level chiefly for each business unit, and not per customer group or product group.

Situation from 2013 on

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

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

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

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

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

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

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

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

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

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

- Exceptional items that do not regularly occur during the normal course of business are eliminated in the underlying results. This includes losses and gains relating to investments in CDOs and the results for divestments (realised gains or losses and impairment). In view of their exceptional nature and materiality, it is important to separate out these items in order to gain a full understanding of the results trend.
- The fair value changes (due to mark-to-market accounting) of a large proportion of ALM hedging instruments (that are treated as trading instruments) appear under 'Net result from financial instruments at fair value', whereas most of the related assets are not recognised at fair value. The volatility stemming from the fair value changes of these ALM hedging derivatives is excluded from the underlying results.
- In the IFRS figures, income from professional market activities is divided up among different components. While trading profit is recognised under 'Net result from financial instruments at fair value', the funding costs and the fees and commission paid to realise this trading profit are recognised under 'Net interest income' and 'Net fee and commission income', respectively. Moreover, a portion of the other income items also relates to market activities. In the underlying figures, we have moved all market-activity-related components to 'Net result from financial instruments at fair value'.
- The IFRS figures take into account the effect of changes in own credit risk when measuring the fair value of financial liabilities designated at fair value through profit or loss. The resultant valuation adjustments have an impact on the net result. Since this is a non-operating item, we have excluded its impact from the underlying figures.
- In the IFRS figures, discontinued operations (KBL EPB) are recognised in accordance with IFRS 5 until the moment of sale. This means that we have moved all the results relating to such operations from their various headings and grouped them together under 'Net post-tax result from discontinued operations'. In the underlying figures, discontinued operations are treated in the same way as other companies earmarked for divestment. This means that they continue to be included under all the different headings, after having been adjusted to take account of the aforementioned items. As from 2012, we have eliminated KBL EPB entirely from the underlying results.

We have commented on the results for each business unit in the 'Report of the Board of Directors' section, which also contains a table for each business unit providing a reconciliation of the IFRS-based results and the underlying results. The statutory auditor has not audited these sections. A reconciliation of the figures at group level is given in the table below.

Reconciliation of IFRS results and underlying results

Reconciliation of IFRS results and underlying results (in millions of EUR)	**Footnote**	**Main heading(s) concerned in the income statement**	**2011**	**2012**
Result after tax, attributable to equity holders of the parent *(underlying)*			1 098	1 542
Changes in fair value of ALM hedging instruments	1	Net result from financial instruments at fair value, Income tax expense	-273	-46
Gains/losses relating to CDOs (including the fee for the CDO guarantee agreement)	2	Net result from financial instruments at fair value, Income tax expense	-468	431
Impairment on goodwill (excluding impairment relating to divestments)	3	Impairment on goodwill and on other	-115	-24
Result from legacy structured derivatives business (KBC Financial Products)		Net result from financial instruments at fair value, Income tax expense	50	-6
Changes in fair value of own debt instruments (due to own credit risk)	4	Net result from financial instruments at fair value, Income tax expense	359	-531
Results on divestments (including impairment relating to divestments)	5	Other net income, Net post-tax result from discontinued operations, Impairment	-640	-754
Result after tax, attributable to equity holders of the parent (IFRS)			13	612

1 See explanation in the second bullet point under 'Underlying results by segment (situation up to and including 2012)'.
2 Relates primarily to changes in the fair value of CDO exposures (see Notes 5 and 26), changes in provisions for and payment of CDO-related claims, and the fee related to the CDO guarantee agreement concluded with the Belgian State in 2009 (see 'Additional information').
3 In 2011, Bulgaria among other countries.
4 The positive figure in 2011 relates to heightened risk aversion to European banks (hence including KBC), which caused the market value of own debt instruments designated at fair value through profit or loss, to decline. KBC's credit spread improved in 2012, which resulted in a negative figure for that year.
5 The figure for 2011 includes -0.4 billion euros for KBL EPB and -0.2 billion euros – on balance – relating to other divestments. The figure for 2012 includes primarily the positive impact of the sale of WARTA (Poland) and the merger of Kredyt Bank (Poland) – an aggregate 0.5 billion euros – and the impairment charges taken on Absolut Bank (Russia), Antwerp Diamond Bank (Belgium), KBC Bank Deutschland (Germany), KBC Banka (Serbia) and Nova Ljubljanska banka (Slovenia) – an aggregate -1.2 billion euros.

Underlying results by segment (business unit)

(in millions of EUR)	Belgium Business Unit	Central & Eastern Europe Business Unit	Merchant Banking Business Unit	Group Centre (excl. intersegment eliminations)	Intersegment eliminations	KBC group
UNDERLYING INCOME STATEMENT, 2011						
Net interest income	2 320	1 524	663	897	0	5 404
Earned premiums, insurance (before reinsurance)	2 135	745	0	1 301	-60	4 122
Technical charges, insurance (before reinsurance)	-2 025	-548	0	-1 028	44	-3 556
Ceded reinsurance result	-24	-21	0	-11	12	-44
Dividend income	52	2	7	13	0	74
Net result from financial instruments at fair value through profit or loss	45	74	405	-15	0	509
Net realised result from available-for-sale assets	98	32	35	26	0	191
Net fee and commission income	700	329	202	304	0	1 535
Other net income	-39	38	-76	33	-8	-52
TOTAL INCOME	**3 260**	**2 175**	**1 236**	**1 521**	**-11**	**8 182**
Operating expenses[a]	-1 790	-1 192	-569	-1 146	11	-4 686
Impairment	-312	-619	-768	-210	0	-1 909
on loans and receivables	-59	-477	-725	-73	0	-1 335
on available-for-sale assets	-230	-127	-6	-90	0	-453
on goodwill	0	0	0	0	0	0
other	-22	-14	-37	-47	0	-121
Share in results of associated companies	0	1	0	-58	0	-57
RESULT BEFORE TAX	**1 159**	**365**	**-101**	**106**	**0**	**1 530**
Income tax expense	-355	-38	6	-10	0	-397
Net post-tax result from discontinued operations	0	0	0	0	0	0
RESULT AFTER TAX	**804**	**327**	**-95**	**97**	**0**	**1 133**
attributable to minority interests	2	0	15	18	0	35
attributable to equity holders of the parent	**802**	**327**	**-110**	**79**	**0**	**1 098**
a Of which non-cash expenses	-54	-86	-25	-200	0	-365
Depreciation and amortisation of fixed assets	-54	-79	-18	-198	0	-348
Other	0	-7	-8	-2	0	-18
Acquisitions of non-current assets*	64	205	343	200	0	812
UNDERLYING INCOME STATEMENT, 2012						
Net interest income	2 219	1 389	542	384	0	4 534
Earned premiums, insurance (before reinsurance)	1 763	778	0	460	-27	2 975
Technical charges, insurance (before reinsurance)	-1 694	-588	0	-318	7	-2 593
Ceded reinsurance result	-11	-13	0	1	10	-13
Dividend income	33	1	6	1	0	41
Net result from financial instruments at fair value through profit or loss	55	214	579	68	0	917
Net realised result from available-for-sale assets	101	7	13	28	0	150
Net fee and commission income	782	298	199	50	0	1 328
Other net income	83	42	65	19	1	209
TOTAL INCOME	**3 330**	**2 129**	**1 405**	**694**	**-8**	**7 549**
Operating expenses[a]	-1 768	-1 278	-581	-565	8	-4 184
Impairment	-102	-142	-751	-200	0	-1 195
on loans and receivables	-67	-123	-704	-177	0	-1 072
on available-for-sale assets	-35	-1	-1	0	0	-37
on goodwill	0	0	0	0	0	0
other	0	-18	-46	-22	0	-86
Share in results of associated companies	0	2	0	-33	0	-31
RESULT BEFORE TAX	**1 460**	**710**	**72**	**-103**	**0**	**2 139**
Income tax expense	-440	-89	-79	41	0	-567
Net post-tax result from discontinued operations	0	0	0	0	0	0
RESULT AFTER TAX	**1 020**	**621**	**-7**	**-62**	**0**	**1 572**
attributable to minority interests	1	0	13	16	0	30
attributable to equity holders of the parent	**1 019**	**621**	**-19**	**-78**	**0**	**1 542**
a Of which non-cash expenses	-52	-87	-21	-152	0	-311
Depreciation and amortisation of fixed assets	-50	-78	-15	-163	0	-306
Other	-1	-8	-6	11	0	-5
Acquisitions of non-current assets*	153	158	355	158	0	823

* 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	Central & Eastern Europe Business Unit	Merchant Banking Business Unit	Group Centre	KBC group
BALANCE SHEET, 31-12-2011					
Total loans to customers	55 254	25 648	43 832	13 550	138 284
of which mortgage loans	29 417	10 533	12 288	5 194	57 431
of which reverse repos	0	16	1 413	0	1 429
Deposits from customers	71 156	38 216	46 168	9 687	165 226
of which repos	0	3 209	12 633	0	15 841
BALANCE SHEET, 31-12-2012					
Total loans to customers	58 080	27 365	41 522	1 525	128 492
of which mortgage loans	30 847	11 394	11 594	27	53 862
of which reverse repos	53	54	1 874	0	1 981
Deposits from customers	74 770	40 532	43 527	804	159 632
of which repos	0	3 741	2 437	0	6 178

Note 2 b: Segment reporting based on geographic area

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

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

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

(in millions of EUR)	Belgium	Central and Eastern Europe	Rest of the world	KBC group
2011				
Total income from external customers (underlying)	3 576	3 091	1 515	8 182
Total assets (period-end)	181 036	60 898	43 448	285 382
Total liabilities (period-end)	171 262	55 189	42 159	268 611
Acquisitions of non-current assets* (period-end)	525	251	35	812
2012				
Total income from external customers (underlying)	4 279	2 442	827	7 549
Total assets (period-end)	177 578	55 396	23 912	256 886
Total liabilities (period-end)	169 543	49 895	21 486	240 925
Acquisitions of non-current assets* (period-end)	611	159	53	823

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

Notes to the income statement

Note 3: Net interest income

(in millions of EUR)	2011	2012
Total	**5 479**	**4 669**
Interest income	**11 883**	**10 134**
Available-for-sale assets	1 791	1 203
Loans and receivables	6 600	6 047
Held-to-maturity investments	633	941
Other liabilities not at fair value	34	28
Subtotal, interest income from financial assets not measured at fair value through profit or loss	*9 059*	*8 218*
of which impaired financial assets	*84*	*95*
Financial assets held for trading	1 779	1 185
Hedging derivatives	528	569
Other financial assets at fair value through profit or loss	517	162
Interest expense	**-6 404**	**-5 465**
Financial liabilities measured at amortised cost	-3 235	-3 058
Other liabilities not at fair value	-12	-10
Investment contracts at amortised cost	0	0
Subtotal, interest expense for financial liabilities not measured at fair value through profit or loss	*-3 247*	*-3 068*
Financial liabilities held for trading	-2 026	-1 419
Hedging derivatives	-788	-799
Other financial liabilities at fair value through profit or loss	-344	-179

Note 4: Dividend income

(in millions of EUR)	2011	2012
Total	**85**	**45**
Shares held for trading	13	2
Shares initially recognised at fair value through profit or loss	2	1
Available-for-sale shares	70	41

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

(in millions of EUR)	2011	2012
Total	**-178**	**420**
Trading instruments (including interest and fair value changes in trading derivatives)	-478	496
Other financial instruments initially recognised at fair value through profit or loss	15	386
of which gains/losses on own credit risk	*484*	*-709*
Foreign exchange trading	365	-445
Fair value adjustments in hedge accounting	-80	-18
Micro hedge	3	0
Fair value hedges	0	-1
Changes in the fair value of the hedged items	-117	120
Changes in the fair value of the hedging derivatives, including discontinuation	117	-121
Cashflow hedges	3	1
Changes in the fair value of the hedging derivatives, ineffective portion	3	1
Hedges of net investments in foreign operations, ineffective portion	0	0
Portfolio hedge of interest rate risk	0	-1
Fair value hedge of interest rate risk	0	-1
Changes in the fair value of the hedged items	-25	-30
Changes in the fair value of the hedging derivatives, including discontinuation	25	29
Cashflow hedges of interest rate risk	0	0
Changes in the fair value of the hedging derivatives, ineffective portion	0	0
Discontinuation of hedge accounting in the event of cashflow hedges	-82	-16

- Changes in the value of CDOs: the 'Net result from financial instruments at fair value through profit or loss' also includes the effect of changes in the value of CDOs held in portfolio. In 2012, the market price for corporate credit improved – as reflected in credit default swap spreads – and we increased coverage of the counterparty risk for MBIA from 70% to 80%. On balance, that led to a positive adjustment of roughly 0.8 billion euros. There had been a deterioration in the market price for corporate credit in 2011 which resulted in a negative value adjustment of approximately -0.4 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. More details in this regard can be found in 'Additional information'. 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 a commitment fee of roughly 60 million euros per half year for the second tranche (the *equity guarantee*). The contract, including the fee due, is measured at fair value through profit or loss. The fair value model is described in Note 26. The increase in the cost of the equity guarantee in 2012 was attributable in part to the sharp narrowing of the subordinated credit default swap spread of KBC and to the improved fair value of the hedged super senior exposure during 2012.

Impact on the income statement of the cost associated with the CDO guarantee agreement concluded with the Belgian State (in millions of EUR, before tax)	2009	2010	2011	2012
Cash guarantee (for the third tranche)				
Recognised upfront in 2009	-1 121	–	–	–
Change in fair value	-126	-36	-25	-15
Equity guarantee (for the second tranche)	-162	-67	-53	-282
Total recognised in the income statement	-1 409	-103	-79	-297

- The impact of changes in the fair value of government bonds of selected European countries is dealt with in more detail under 'Credit risk' in the 'Value and risk management' section.
- 'Foreign exchange trading' results in the table comprise total exchange differences, excluding those recognised on financial instruments at fair value through profit or loss.
- For more information on the impact of changes in own credit risk, see Note 27.
- The interest component of ALM derivatives is recognised under 'Net interest income'. Fair value changes in ALM derivatives, excluding those for which an effective cashflow hedge relationship exists, are recognised under 'Net result from financial instruments at fair value through profit or loss'. However, it should be noted that, under fair value hedge accounting, changes in the fair value of hedged assets are also recognised under this heading, and offsetting takes place insofar as the hedge is effective.
- The effectiveness of the hedge is determined according to the following methods:
  - For fair value micro hedging, we use the *dollar offset method* on a quarterly basis, which requires changes in the fair value of the hedged item to offset changes in the fair value of the hedging instrument within a range of 80%–125%, which is currently the case.
  - For cashflow micro hedges, we compare the designated hedging instrument with a *perfect hedge* of the hedged cashflows on a prospective (by BPV measurement) and retrospective basis (by comparing the fair value of the designated hedging instrument with the *perfect hedge*). The effectiveness of both tests must fall within a range of 80%–125%, which is currently the case.
  - We use the rules set out in the European version of IAS 39 (carve-out) to assess the effectiveness of fair value hedges for a portfolio of interest rate risk. IFRS does not permit net positions to be reported as hedged items, but does allow hedging instruments to be designated as a hedge of a gross asset position (or a gross liabilities position, as the case may be). Specifically, we make sure that the volume of assets (or liabilities) in each maturity bucket is greater than the volume of hedging instruments allocated to the same bucket.
- Day 1 profit: when the transaction price in a non-active market differs from the fair value of other observable market transactions in the same instrument or the fair value based on a valuation technique whose variables include only data from observable markets, the difference between the transaction price and the fair value (day 1 profit) is taken to profit or loss. If this is not the case (i.e. the variables do not include only data from observable markets), day 1 profit is reserved and is released in profit or loss during the life and until the maturity of the financial instrument. However, the impact of this is negligible for KBC.

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

(in millions of EUR)	2011	2012
Total	**169**	**181**
Fixed-income securities	59	22
Shares	110	160

- The figure for 2012 includes the dual impact of the settlement of events concerning Greece in the first quarter and the continued reduction throughout the year in holdings of sovereign bonds issued by other GIIPS countries (an aggregate impact of -115 million euros). Information on KBC's exposure to sovereign bonds is provided in the 'Value and risk management' section.

Note 7: Net fee and commission income

(in millions of EUR)	2011	2012
Total	**1 164**	**1 315**
Fee and commission income	**2 043**	**2 005**
Securities and asset management	898	847
Margin on life insurance investment contracts without DPF (deposit accounting)	50	124
Commitment credit	302	291
Payments	577	570
Other	215	173
Fee and commission expense	**-878**	**-690**
Commission paid to intermediaries	-470	-361
Other	-408	-329

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

Note 8: Other net income

(in millions of EUR)	2011	2012
Total	**56**	**734**
of which gains or losses on		
Sale of loans and receivables	-29	-96
Sale of held-to-maturity investments	-14	-7
Repurchase of financial liabilities measured at amortised cost	-3	-1
Other, including:	102	837
Income from (mainly operational) leasing activities, KBC Lease Group	96	86
Income from consolidated private equity participations	48	15
Income from VAB Group	65	63
Gains and losses on divestments	68	562
Irregularities at KBC Lease UK	15	126
The 5-5-5 product	-334	-56

- In 2012, 'Sale of loans and receivables' included -59 million euros related to the sale of assets previously attributable to Atomium, which led to a reduction in risk-weighted assets of approximately 2 billion euros.
- In 2012, 'Sale of held-to-maturity investments' concerned primarily the impact of the transaction relating to Greek bonds.
- 'Gains and losses on divestments' in 2011 related mainly to Centea (a gain of 63 million euros) and in 2012 chiefly to WARTA (0.3 billion euros), Fidea (51 million euros), Dynaco (a KBC Private Equity participation, 21 million euros) and Kredyt Bank (136 million euros). More information on the divestment of Fidea, WARTA and Kredyt Bank can be found under 'Group Centre' in the 'Report of the Board of Directors' section (which has not been audited by the statutory auditor).
- 'Irregularities at KBC Lease UK' concerns the amounts recovered in relation to the fraud case at that company. Internal audits conducted at KBC Lease UK in 2010 revealed irregularities in a significant number of contracts that had been introduced by a particular broker. KBC recognised an amount to cover the maximum potential net cost of these irregularities. KBC Lease UK has engaged in a number of actions to recover amounts from various sources. This resulted in a total of 126 million euros being recovered in 2012 (with 10 million euros recovered from reinsurance company, KBC Group Re, and recognised under 'Technical charges, non-life').
- 'The 5-5-5-product' related to the commercial concession that KBC itself decided to make for structured 5-5-5 bonds that KBC Bank and its Belgian subsidiaries sold to clients in April and May 2008. These bonds had a life of five years, a 5% coupon and were linked to the creditworthiness of five countries (Belgium, France, Spain, Italy and Greece). All retail clients holding these bonds had been informed in March 2011 that KBC would voluntarily indemnify them should a credit event occur in one of these countries. The ISDA Determination Committee decided that a Greek sovereign CDS credit event occurred on 9 March 2012. As a result, the bonds were settled in the way described in the prospectus. Besides the settled amount, KBC also made a commercial concession to retail bond holders that was based on the amount they had initially invested less the gross coupons paid by the issuer. To cover this, KBC had set aside provisions of 334 million euros in 2011. The figure ultimately paid could only be calculated after the value had been set at the ISDA auction of 19 March 2012. That led to an additional negative impact of 56 million euros in the first quarter of 2012.

Note 9: Insurance results

(in millions of EUR)	Life	Non-life	Non-technical account	Total
2011				
Technical result	-401	499	42	140
Earned premiums, insurance (before reinsurance)	2 262	1 880	0	4 142
Technical charges, insurance (before reinsurance)	-2 548	-1 007	0	-3 555
Net fee and commission income	-112	-333	42	-403
Ceded reinsurance result	-2	-42	0	-44
Financial result	690	137	152	979
Net interest income	–	–	1 019	1 019
Dividend income	–	–	55	55
Net result from financial instruments at fair value through profit or loss	–	–	-178	-178
Net realised result from available-for-sale assets	–	–	83	83
Allocation to the technical accounts*	690	137	-827	0
Operating expenses	-150	-376	-1	-527
Internal claims settlement expenses	-10	-81	0	-92
Indirect acquisition costs	-53	-108	0	-161
Administrative expenses	-87	-187	0	-274
Investment management fees	0	0	-1	-1
Other net income	–	–	10	10
Impairment	–	–	-473	-473
Share in results of associated companies	–	–	0	0
RESULT BEFORE TAX	**139**	**260**	**-270**	**129**
Income tax expense	–	–	–	-85
Net post-tax result from discontinued operations	–	–	–	-17
RESULT AFTER TAX	**–**	**–**	**–**	**27**
attributable to minority interests	–	–	–	2
attributable to equity holders of the parent	**–**	**–**	**–**	**25**
2012				
Technical result	-319	355	77	113
Earned premiums, insurance (before reinsurance)	1 477	1 521	0	2 998
Technical charges, insurance (before reinsurance)	-1 710	-887	0	-2 597
Net fee and commission income	-85	-267	77	-274
Ceded reinsurance result	-1	-12	0	-13
Financial result	739	141	459	1 339
Net interest income	–	–	834	834
Dividend income	–	–	31	31
Net result from financial instruments at fair value through profit or loss	–	–	381	381
Net realised result from available-for-sale assets	–	–	93	93
Allocation to the technical accounts*	739	141	-880	0
Operating expenses	-137	-287	-5	-429
Internal claims settlement expenses	-8	-68	0	-76
Indirect acquisition costs	-39	-82	0	-121
Administrative expenses	-90	-137	0	-227
Investment management fees	–	–	-5	-5
Other net income	–	–	381	381
Impairment	–	–	-166	-166
Share in results of associated companies	–	–	0	0
RESULT BEFORE TAX	**282**	**210**	**747**	**1 238**
Income tax expense	–	–	–	-236
Net post-tax result from discontinued operations	–	–	–	0
RESULT AFTER TAX	**–**	**–**	**–**	**1 003**
attributable to minority interests	–	–	–	1
attributable to equity holders of the parent	**–**	**–**	**–**	**1 001**

* Also includes the allocation of impairment losses.

- The figures relating to earned premiums do not include investment contracts without DPF, which largely correspond to unit-linked contracts.
- As a bank-insurer, 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 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 information on the insurance business is provided separately in the following notes and sections:
  - 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).
  - Level of solvency at KBC Insurance (under 'Capital adequacy' in the 'Value and risk management' section).

Note 10: Earned premiums, life insurance

(in millions of EUR)	2011	2012
Total	**2 258**	**1 475**
Breakdown by IFRS category		
Insurance contracts	1 223	1 065
Investment contracts with DPF	1 035	410
Breakdown by type		
Accepted reinsurance	1	0
Primary business	2 258	1 474
Breakdown of primary business		
Individual premiums	1 938	1 204
Single premiums	1 257	625
Periodic premiums	680	579
Premiums under group contracts	320	271
Single premiums	56	44
Periodic premiums	264	227
Total sales of life insurance (including investment contracts without DPF)		
Unit-linked	2 046	3 583
Guaranteed-rate	2 099	1 220

- As required under IFRS, we use deposit accounting for investment contracts without DPF. This means that the premium income (and technical charges) from these contracts is not recognised under 'Earned premiums, insurance (before reinsurance)' (and 'Technical charges, insurance (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 2011 accounted for premium income of 2 billion euros (including VITIS Life) and in 2012 for premium income of 3.6 billion euros (excluding VITIS Life).

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 reinsurance	Total
2011					
Total	**1 880**	**-1 039**	**-637**	**-42**	**163**
Accepted reinsurance	37	6	-7	-10	26
Primary business	1 843	-1 046	-629	-32	136
Accident & health (classes 1 & 2, excl. industrial accidents)	146	-61	-51	0	33
Industrial accidents (class 1)	72	-52	-17	0	3
Motor, third-party liability (class 10)	549	-370	-172	-3	4
Motor, other classes (classes 3, 7)	328	-196	-103	0	28
Shipping, aviation, transport (classes 4, 5, 6, 7, 11, 12)	42	-32	-10	9	8
Fire and other damage to property (classes 8, 9)	505	-224	-204	-29	49
General third-party liability (class 13)	118	-65	-44	-4	5
Credit and suretyship (classes 14, 15)	5	0	-2	-1	1
Miscellaneous pecuniary losses (class 16)	16	-9	-7	-3	-3
Legal assistance (class 17)	45	-26	-13	0	7
Assistance (class 18)	19	-10	-7	0	2
2012					
Total	**-1 500**	**-862**	**-405**	**-12**	**222**
Accepted reinsurance	14	-37	-7	8	-21
Primary business	1 486	-825	-398	-20	243
Accident & health (classes 1 & 2, excl. industrial accidents)	135	-65	-32	2	39
Industrial accidents (class 1)	68	-57	-12	-2	-2
Motor, third-party liability (class 10)	435	-272	-137	0	26
Motor, other classes (classes 3, 7)	252	-156	-83	0	13
Shipping, aviation, transport (classes 4, 5, 6, 7, 11, 12)	23	-13	-8	0	2
Fire and other damage to property (classes 8, 9)	400	-165	-72	-18	144
General third-party liability (class 13)	107	-71	-34	0	2
Credit and suretyship (classes 14, 15)	1	0	0	0	0
Miscellaneous pecuniary losses (class 16)	8	0	-2	-1	5
Legal assistance (class 17)	41	-20	-11	0	10
Assistance (class 18)	15	-6	-6	0	3

- The figures include intragroup insurance contracts concluded between the insurance and banking businesses (see Note 9).

Note 12: Operating expenses

(in millions of EUR)	2011	2012
Total	**-4 344**	**-4 248**
Staff expenses	-2 569	-2 543
of which share-based payment (equity-settled)	0	0
of which share-based payment (cash-settled)	-4	-1
General administrative expenses	-1 449	-1 396
Depreciation and amortisation of fixed assets	-326	-310

- General administrative expenses include repair and maintenance expenses, advertising costs, rent, professional fees, various (non-income) taxes, utilities and other such expenses. They also include expenses related to the special tax imposed on financial institutions in Hungary (6 million euros for 2011 and 54 million euros for 2012; the amount was lower in 2011, because a portion of the losses incurred by the group as a result of the new law on foreign-currency mortgages could be set off against the bank tax due in Hungary (see below)).
- Share-based payments are included under staff expenses. The main equity-settled share-based payments are described below.
- Since 2000, KBC has launched a number of stock option plans for all or certain members of staff of the company and various subsidiaries. The stock options were granted free to the members of staff, who only had to pay the relevant tax on the benefit when the options were allocated. The stock options have a life of seven to ten years from the date of issue and can be exercised in specific years in the months of June, September or December. Not all the options need be exercised at once. When exercising options, members of staff can either deposit the resulting shares on their custody accounts or sell them immediately on NYSE Euronext Brussels.
- IFRS 2 has not been applied to equity-settled option plans that predate 7 November 2002, since they are not covered by the scope of IFRS 2. The option plans postdating 7 November 2002 are limited in size. The largest stock option plans have now expired.

We have provided an overview of the number of stock options for staff in the table.

	2011		2012	
Options	**Number of options[1]**	**Average exercise price**	**Number of options[1]**	**Average exercise price**
Outstanding at beginning of period	666 596	49.89	630 996	50.34
Granted during period	0	–	0	–
Exercised during period	0	–	0	–
Expired during period	-35 600	41.98	-446 670	41.18
Outstanding at end of period[2]	630 996	50.34	184 326	72.53
Exercisable at end of period	623 696	50.05	177 026	72.43

1 In share equivalents.
2 2011: range of exercise prices: 27.8–97.94 euros; weighted average residual term to maturity: 14 months.
2012: range of exercise prices: 34.91–97.94 euros; weighted average residual term to maturity: 33 months.

- Information on the capital increase reserved for KBC group employees can be found in the ‘Company annual accounts’ section. In 2012, this resulted in the recognition of a limited employee benefit (less than 0.5 million euros) as the issue price was lower than the market price. Information regarding the (highest, lowest, average) price of the KBC share can be found under ‘Information for shareholders and bond-holders’ in the ‘Report of the Board of Directors’ section.
- The main cash-settled share-based payment arrangements for 2011 concerned 4 million euros in costs related to a phantom stock plan (included under ‘Staff expenses’). This item came to less than 1 million euros for 2012.

Note 13: Personnel

	2011	2012
Total average number of persons employed (in full-time equivalents)	**51 127**	**48 026**
Breakdown by legal entity		
KBC Bank	37 663	35 938
KBC Insurance	7 377	5 997
KBC Group NV (holding company)	6 087	6 091
Breakdown by employee classification		
Blue-collar staff	928	752
White-collar staff	49 835	46 951
Senior management	364	323

- KBL EPB (sold in mid-2012) has been excluded from the figures for both 2012 and 2011.
- The figures in the table are annual averages, which – in terms of scope – may also differ from year-end figures provided elsewhere in this annual report (for instance, the end-of-year totals do not include companies that fell within the scope of IFRS 5 on 31 December 2012, nor do they include staff members on maternity leave or employees who have been inactive, etc.).

Note 14: Impairment (income statement)

(in millions of EUR)	2011	2012
Total	**-2 123**	**-2 511**
Impairment on loans and receivables	**-1 333**	**-1 072**
Breakdown by type		
Specific impairment, on-balance-sheet lending	-1 316	-1 113
Provisions for off-balance-sheet credit commitments	17	-39
Portfolio-based impairment	-33	81
Breakdown by business unit		
Belgium	-59	-67
Central & Eastern Europe	-477	-123
Merchant Banking	-725	-704
Group Centre	-71	-177
Impairment on available-for-sale assets	**-417**	**-95**
Breakdown by type		
Shares	-114	-45
Other	-303	-50
Impairment on goodwill	**-120**	**-421**
Impairment on other	**-253**	**-923**
Intangible fixed assets, other than goodwill	-7	0
Property and equipment (including investment property)	-30	-62
Held-to-maturity assets	-66	-2
Associated companies (goodwill)	0	-433
Other	-150	-425

- 'Impairment on loans and receivables' are accounted for primarily by loans and advances to customers. Impairment charges in the Merchant Banking Business Unit included loan loss provisioning in Ireland, due to the economic situation in that country, especially on the real estate market (0.5 billion euros in both 2011 and 2012). In the Central & Eastern Europe Business Unit, impairment charges amounted to 63 million euros in the Czech Republic (2011: 72 million euros), 11 million euros in Slovakia (2011: 10 million euros), 44 million euros in Hungary (2011: 288 million euros; the figure was adversely affected by the law on foreign-currency mortgages), 7 million euros in Bulgaria (2011: 106 million euros; the figure was negatively impacted by additional provisioning for the legacy portfolio). Impairment in the Group Centre included a net reversal of 18 million euros at Absolut Bank (2011: a net reversal of 41 million euros), and net allocations of 38 million euros at Kredyt Bank (2011: 39 million euros), 47 million euros at KBC Bank Deutschland (2011: 31 million euros), 22 million euros at Antwerp Diamond Bank (2011: 25 million euros) and 79 million euros at KBC Finance Ireland (2011: 15 million euros).
- Impairment on available-for-sale assets and on held-to-maturity assets. In 2011, these headings included mainly impairment on shares (114 million euros, owing to the changing stock market climate) and impairment on Greek sovereign bonds (401 million euros, 30 million euros of which was recorded at KBL EPB and therefore recognised under 'Net post-tax result from discontinued operations'). In 2012, they concerned primarily impairment on shares (45 million euros) and impairment relating to the minority interest held in Nova Ljubljanska banka (50 million euros on NLB subordinated bonds).
- Impairment on goodwill, on associated companies and on other in 2011 had included impairment charges of 68 million euros in relation to Bulgaria (due to the deteriorated economic situation and the lower estimated cashflows from Bulgarian activities discounted at a higher discount rate) and 138 million euros relating to the agreement to sell Fidea below its carrying value. In 2012, these headings included 1.2 billion euros in relation to companies falling within the scope of IFRS 5 (at the time the results for the second quarter were published), i.e. Absolut Bank, KBC Banka, KBC Bank Deutschland, Antwerp Diamond Bank and Nova Ljubljanska banka. The impairment reflects the difference between the carrying value before impairment and the value in use. For companies falling within the scope of IFRS 5, however, it is the estimated sales value less costs to sell. For more information on goodwill, see Note 34.
- 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)	2011	2012
Total	**-58**	**2**
of which Nova Ljubljanska banka	-59	1

- 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.
- It should be noted that KBC signed an agreement to sell its stake in Nova Ljubljanska banka in December 2012 (see Note 46; Nova Ljubljanska banka was only recognised in the income statement for the first nine months of 2012).

Note 16: Income tax expense

(in millions of EUR)	2011	2012
Total	**-320**	**-362**
Breakdown by type		
Current taxes on income	-328	-337
Deferred taxes on income	7	-25
Tax components		
Result before tax	786	976
Income tax at the Belgian statutory rate	33.99%	33.99%
Income tax calculated	-267	-332
Plus/minus tax effects attributable to		
differences in tax rates, Belgium – abroad	104	79
tax-free income	466	520
adjustments related to prior years	9	43
adjustments, opening balance of deferred taxes due to change in tax rate	-5	24
unused tax losses and unused tax credits to reduce current tax expense	11	68
unused tax losses and unused tax credits to reduce deferred tax expense	72	54
reversal of previously recognised deferred tax assets due to tax losses	-37	-1
other (mainly non-deductible expenses)	-672	-818
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*	**692**	**507**

* 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 the fourth quarter of 2012, the income tax expense was adversely affected (to the tune of 43 million euros) by an amendment to the law on notional interest deduction in Belgium.

Note 17: Earnings per share

(in millions of EUR)	2011	2012
Basic earnings per share		
Result after tax, attributable to equity holders of the parent	13	612
Coupon/penalty premium on core-capital securities sold to the Belgian Federal and Flemish Regional governments	-670	-993
Net result used to determine basic earnings per share	-657	-381
Weighted average number of shares outstanding ('000 of units)	339 774	349 456
Basic earnings per share (in EUR)	-1.93	-1.09
Diluted earnings per share		
Result after tax, attributable to equity holders of the parent	13	612
Coupon/penalty premium on core-capital securities sold to the Belgian Federal and Flemish Regional governments	-670	-993
Net result used to determine diluted earnings per share	-657	-381
Weighted average number of shares outstanding ('000 of units)	339 774	349 456
Dilutive potential shares ('000 of units)*	0	0
Weighted average number of shares for diluted earnings ('000 of units)	339 774	349 456
Diluted earnings per share (in EUR)	-1.93	-1.09

* No account taken of employee stock options (630 996 in 2011 and 184 326 in 2012) 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'.

Notes on the financial assets and liabilities on the balance sheet

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

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

The various balance sheet items of companies subject to IFRS 5 (see Note 46) have been reallocated to the relevant headings in the balance sheet (under 'Non-current assets held for sale and disposal groups' on the assets side and under 'Liabilities associated with disposal groups' on the liabilities side). However, the reference figures have not been restated, which means that comparability of the figures has been slightly affected. This relates to Absolut Bank, KBC Banka, Antwerp Diamond Bank, KBC Bank Deutschland and Nova Ljubljanska banka (NLB) in 2012 and KBL EPB, Fidea and WARTA in 2011. For comparison purposes, we have added a separate column in Note 18, containing figures for reference date 31 December 2011 that exclude the divestments concluded in 2012 and those that fall under the scope of IFRS 5 at year-end 2012.

Note 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 2012[2]
FINANCIAL ASSETS, 31-12-2011									
Loans and advances to credit institutions and investment firms[a]	4 600	305	0	14 253	–	–	–	19 158[c]	18 700
Loans and advances to customers[b]	203	1 879	0	136 201	–	–	–	138 284	126 323
Discount and acceptance credit	0	0	0	137	–	–	–	137	136
Consumer credit	0	0	0	3 910	–	–	–	3 910	3 268
Mortgage loans	0	178	0	57 253	–	–	–	57 431	52 265
Term loans	203	1 531	0	61 880	–	–	–	63 614	59 340
Finance leases	0	11	0	4 647	–	–	–	4 658	4 173
Current account advances	0	0	0	4 876	–	–	–	4 876	3 598
Other	0	159	0	3 499	–	–	–	3 659	3 543
Equity instruments	1 028	28	1 446	–	–	–	–	2 501	2 491
Investment contracts (insurance)	–	7 652	–	–	–	–	–	7 652	7 652
Debt instruments issued by	4 286	3 997	37 299	2 890	14 063	–	–	62 535	59 822
Public bodies	3 101	3 594	29 183	224	13 365	–	–	49 467	47 122
Credit institutions and investment firms	647	204	3 862	211	491	–	–	5 415	5 078
Corporates	538	199	4 255	2 455	207	–	–	7 653	7 621
Derivatives	16 750	–	–	–	–	624	–	17 375	17 096
Accrued interest income	69	79	746	549	334	158	–	1 934	1 824
Carrying value including accrued interest income	26 936	13 940	39 491	153 894	14 396	782	–	249 439	233 907
a of which reverse repos[3]								*5 982*	*5 982*
b of which reverse repos[3]								*1 429*	*1 429*
c of which loans and advances to banks repayable on demand and term loans to banks at not more than three months								*11 721*	*11 330*
FINANCIAL ASSETS, 31-12-2012									
Loans and advances to credit institutions and investment firms[a]	3 802	916	0	11 363	–	–	–	16 081[c]	
Loans and advances to customers[b]	600	2 197	0	125 695	–	–	–	128 492	
Discount and acceptance credit	0	0	0	131	–	–	–	131	
Consumer credit	0	0	0	3 364	–	–	–	3 364	
Mortgage loans	0	184	0	53 678	–	–	–	53 862	
Term loans	600	2 013	0	56 794	–	–	–	59 407	
Finance leases	0	0	0	4 110	–	–	–	4 110	
Current account advances	0	0	0	3 291	–	–	–	3 291	
Other	0	0	0	4 327	–	–	–	4 327	
Equity instruments	451	53	1 931	–	–	–	–	2 435	
Investment contracts (insurance)	–	11 847	–	–	–	–	–	11 847	
Debt instruments issued by	4 210	1 282	28 691	2 167	28 510	–	–	64 860	
Public bodies	3 390	811	19 929	190	27 346	–	–	51 666	
Credit institutions and investment firms	361	199	3 335	158	670	–	–	4 724	
Corporates	459	272	5 427	1 819	494	–	–	8 471	
Derivatives	12 095	–	–	–	–	1 088	–	13 183	
Carrying value including accrued interest income	21 159	16 295	30 622	139 225	28 510	1 088	–	236 898	
a of which reverse repos[3]								*5 160*	
b of which reverse repos[3]								*1 981*	
c of which loans and advances to banks repayable on demand and term loans to banks at not more than three months								*8 994*	

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 2012 and announced divestments that already fall under the scope of IFRS 5 in 2012 (to enable comparison with the figures for 31 December 2011).
3 A 'reverse repo' transaction is a transaction where one party (KBC) buys securities from another party and undertakes to resell these securities at a designated future date at a set price. In most cases, reverse repo transactions are governed by bilateral framework agreements (generally Global Master Repo Agreements) which include a description of the periodic exchanges of collateral. The reverse repo transactions shown in the table are related mainly to the temporary lending of bonds. In this type of lending, the risk and the income from the bonds are for the counterparty. The amount of the reverse repos is virtually identical to the amount of the underlying assets (that have been lent out).

(in millions of EUR)	Held for trading	Designated at fair value	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Measured at amortised cost	Total	Total, excluding divestments in 2012[1]
FINANCIAL LIABILITIES, 31-12-2011									
Deposits from credit institutions and investment firms[a]	843	3 831	–	–	–	–	21 259	25 934[c]	24 828
Deposits from customers and debt securities[b]	4 288	17 565	–	–	–	–	143 373	165 226	156 810
Demand deposits	0	0	–	–	–	–	37 472	37 472	32 909
Time deposits	3 774	13 277	–	–	–	–	42 010	59 061	55 520
Savings deposits	0	0	–	–	–	–	32 624	32 624	32 624
Special deposits	0	0	–	–	–	–	3 887	3 887	3 886
Other deposits	0	0	–	–	–	–	1 417	1 417	1 180
Certificates of deposit	0	20	–	–	–	–	4 597	4 617	4 617
Customer savings certificates	0	0	–	–	–	–	710	710	710
Convertible bonds	0	0	–	–	–	–	0	0	0
Non-convertible bonds	514	4 167	–	–	–	–	12 694	17 375	17 316
Convertible subordinated liabilities	0	0	–	–	–	–	0	0	0
Non-convertible subordinated liabilities	0	101	–	–	–	–	7 961	8 063	8 048
Liabilities under investment contracts	–	7 014	–	–	–	–	0	7 014	7 014
Derivatives	21 699	–	–	–	–	1 601	–	23 300	23 060
Short positions	497	–	–	–	–	–	–	497	497
In equity instruments	4	–	–	–	–	–	–	4	4
In debt instruments	493	–	–	–	–	–	–	493	493
Other	0	173	–	–	–	–	2 408	2 581	2 581
Accrued interest expense	27	94	–	–	–	328	801	1 251	1 222
Carrying value including accrued interest expense	27 355	28 678	–	–	–	1 929	167 842	225 804	216 013
a of which repos[2]								*6 574*	*6 563*
b of which repos[2]								*15 841*	*15 841*
c of which deposits from banks repayable on demand								*8 472*	*8 147*
FINANCIAL LIABILITIES, 31-12-2012									
Deposits from credit institutions and investment firms[a]	375	884	–	–	–	–	21 660	22 919[c]	
Deposits from customers and debt securities[b]	4 161	8 782	–	–	–	–	146 689	159 632	
Demand deposits	0	0	–	–	–	–	37 477	37 477	
Time deposits	3 776	3 336	–	–	–	–	43 491	50 602	
Savings deposits	0	0	–	–	–	–	34 904	34 904	
Special deposits	0	0	–	–	–	–	3 941	3 941	
Other deposits	0	84	–	–	–	–	1 250	1 334	
Certificates of deposit	0	27	–	–	–	–	6 209	6 236	
Customer savings certificates	0	0	–	–	–	–	522	522	
Convertible bonds	0	0	–	–	–	–	0	0	
Non-convertible bonds	385	4 705	–	–	–	–	12 914	18 003	
Convertible subordinated liabilities	0	0	–	–	–	–	0	0	
Non-convertible subordinated liabilities	0	630	–	–	–	–	5 982	6 612	
Liabilities under investment contracts	–	10 853	–	–	–	–	0	10 853	
Derivatives	14 432	–	–	–	–	2 430	–	16 861	
Short positions	491	–	–	–	–	–	–	491	
In equity instruments	17	–	–	–	–	–	–	17	
In debt instruments	475	–	–	–	–	–	–	475	
Other	0	44	–	–	–	–	2 465	2 509	
Carrying value including accrued interest expense	19 459	20 563	–	–	–	2 430	170 813	213 265	
a of which repos[2]								*1 589*	
b of which repos[2]								*6 178*	
c of which deposits from banks repayable on demand								*12 658*	

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

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

- Unlike in previous years when accrued interest income and accrued interest expense were presented under separate headings in Note 18, these items will be included under the relevant products in the breakdown of financial assets and financial liabilities from 2012 on. The reference figures have not been restated.
- For reclassifications, see Note 28.
- Transferred financial assets that continue to be recognised in their entirety: KBC regularly lends and/or sells securities with the commitment to buy them back at a later date (repo transactions). Securities lent or sold with such a commitment are transferred to the counterparty, and, in exchange, KBC receives cash or other financial assets. However, KBC retains the main risks and income relating to these securities, and, therefore, continues to recognise them on its balance sheet. In addition, a financial liability is recognised equalling the cash collateral received.
- At year-end 2012, KBC had transferred the following types of financial assets, which continue to be recognised in their entirety:
  a) repo transactions with a carrying value of 3 173 million euros (debt instruments classified as 'held for trading' (296 million euros), 'designated at fair value' (195 million euros), 'available for sale' (780 million euros) and 'held to maturity' (1 904 million euros)) and an associated financial liability with a carrying value of 3 254 million euros (293 million euros classified as 'held for trading', 192 million euros as 'designated at fair value', 770 million euros as 'available for sale' and 1 998 million euros as 'held to maturity');
  b) securities lent with a carrying value of 14 million euros (available-for-sale equity instruments) and an associated financial liability with a carrying value of 15 million euros.

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, 31-12-2011								
Belgium	2 798	4 841	17 527	72 705	1 626	556	–	100 052
Central and Eastern Europe	7 907	808	7 213	37 562	8 575	226	–	62 290
Rest of the world	16 232	8 292	14 751	43 626	4 196	0	–	87 097
Carrying value including accrued interest income	26 936	13 940	39 491	153 894	14 396	782	–	249 439
FINANCIAL ASSETS, 31-12-2012								
Belgium	2 377	2 021	12 947	75 695	14 635	810	–	108 485
Central and Eastern Europe	7 419	715	5 863	30 649	8 840	278	–	53 765
Rest of the world	11 362	13 559	11 812	32 881	5 034	0	–	74 648
Carrying value including accrued interest income	21 159	16 295	30 622	139 225	28 510	1 088	–	236 898
FINANCIAL LIABILITIES, 31-12-2011								
Belgium	1 301	9 455	–	–	–	1 750	78 407	90 913
Central and Eastern Europe	5 880	955	–	–	–	128	43 265	50 227
Rest of the world	20 174	18 268	–	–	–	52	46 170	84 663
Carrying value including accrued interest expense	27 355	28 678	–	–	–	1 929	167 842	225 804
FINANCIAL LIABILITIES, 31-12-2012								
Belgium	567	11 556	–	–	–	2 190	87 796	102 109
Central and Eastern Europe	5 356	961	–	–	–	143	38 775	45 235
Rest of the world	13 535	8 046	–	–	–	97	44 242	65 921
Carrying value including accrued interest expense	19 459	20 563	–	–	–	2 430	170 813	213 265

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, 31-12-2011								
At not more than one year	6 768	2 064	5 165	52 631	1 345	–	–	67 971
At more than one year	2 390	4 228	32 709	97 330	13 052	–	–	149 709
Not specified*	17 779	7 648	1 617	3 933	0	782	–	31 759
Total carrying value (including accrued interest income)	26 936	13 940	39 491	153 894	14 396	782	–	249 439
FINANCIAL ASSETS, 31-12-2012								
At not more than one year	6 230	2 978	5 938	46 217	1 581	–	–	62 945
At more than one year	2 368	7 490	22 617	86 435	26 928	–	–	145 839
Not specified*	12 561	5 827	2 067	6 572	0	1 088	–	28 114
Total carrying value (including accrued interest income)	21 159	16 295	30 622	139 225	28 510	1 088	–	236 898
FINANCIAL LIABILITIES, 31-12-2011								
At not more than one year	5 369	16 857	–	–	–	–	100 403	122 629
At more than one year	284	7 089	–	–	–	–	32 439	39 812
Not specified*	21 702	4 732	–	–	–	1 929	35 000	63 363
Total carrying value (including accrued interest expense)	27 355	28 678	–	–	–	1 929	167 842	225 804
FINANCIAL LIABILITIES, 31-12-2012								
At not more than one year	4 854	4 112	–	–	–	–	91 995	100 961
At more than one year	162	11 750	–	–	–	–	41 841	53 753
Not specified*	14 443	4 701	–	–	–	2 430	36 978	58 551
Total carrying value (including accrued interest expense)	19 459	20 563	–	–	–	2 430	170 813	213 265

* 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. 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	Total
FINANCIAL ASSETS, 31-12-2011							
Unimpaired assets	26 936	13 940	39 196	148 229	14 377	782	243 461
Impaired assets	–	–	735	10 814	75	–	11 623
Impairment	–	–	-440	-5 149	-56	–	-5 645
Total carrying value (including accrued interest income)	26 936	13 940	39 491	153 894	14 396	782	249 439
FINANCIAL ASSETS, 31-12-2012							
Unimpaired assets	21 159	16 295	30 478	133 549	28 508	1 088	231 076
Impaired assets	–	–	293	10 420	9	–	10 723
Impairment	–	–	-149	-4 745	-8	–	-4 902
Total carrying value (including accrued interest income)	21 159	16 295	30 622	139 225	28 510	1 088	236 898

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

Impairment details

(in millions of EUR)	Available for sale		Held to maturity	Loans and receivables		Provisions for off-balance-sheet credit commitments*
	Fixed-income assets	Shares	Fixed-income assets	Individual impairment	Portfolio-based impairment	
IMPAIRMENT, 31-12-2011						
Opening balance	9	245	0	4 594	327	116
Movements with an impact on results						
Impairment recognised	305	114	66	2 495	354	91
Impairment reversed	-1	0	0	-1 179	-311	-117
Movements without an impact on results						
Write-offs	0	-40	0	-642	0	0
Changes in the scope of consolidation	-3	-8	0	-75	-3	0
Transfers to/from non-current assets held for sale and disposal groups	-42	-34	-10	0	0	0
Other	-1	-104	0	-399	-12	-1
Closing balance	267	173	56	4 795	354	89
IMPAIRMENT, 31-12-2012						
Opening balance	267	173	56	4 795	354	89
Movements with an impact on results						
Impairment recognised	50	45	2	2 227	256	157
Impairment reversed	-1	0	0	-1 114	-340	-114
Movements without an impact on results						
Write-offs	-262	-86	-22	-486	0	-4
Changes in the scope of consolidation	-3	-10	0	-352	-32	-9
Transfers to/from non-current assets held for sale and disposal groups	0	0	-18	-424	-24	-7
Other	-52	26	-10	-132	17	-20
Closing balance	0	148	8	4 515	230	92

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

- 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
31-12-2011		
Loans and advances	3 643	2 039
Debt instruments	0	0
Derivatives	0	0
Total	3 643	2 039
31-12-2012		
Loans and advances	3 482	1 469
Debt instruments	0	0
Derivatives	0	0
Total	3 482	1 469

- Financial assets are past due if a counterparty fails to make a payment at the time agreed in the contract. The concept of 'past due' applies to a contract, not to a counterparty. For example, if a counterparty fails to make a monthly repayment, the entire loan is considered past due, but that does not mean that other loans to this counterparty are considered past due.
- Financial assets that are 90 days or more past due are always considered 'impaired'.

Guarantees received

- See Notes 22 and 40.

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

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

Note 22: Maximum credit exposure

(in millions of EUR)			31-12-2011			31-12-2012
	Gross	Collateral received	Net	Gross	Collateral received	Net
Maximum credit exposure						
Equity instruments	2 501	0	2 501	2 435	0	2 435
Debt instruments	62 535	0	62 535	64 860	54	64 806
Loans and advances	157 442	78 303	79 139	144 573	72 246	72 327
of which designated at fair value	2 185	1 904	281	3 113	3 013	100
Derivatives	17 375	1 485	15 889	13 183	2 039	11 144
Other (including accrued interest)	35 824	7 936	27 889	27 608	5 141	22 467
Total	**275 678**	**87 724**	**187 954**	**252 660**	**79 480**	**173 180**

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

Note 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 transactions are transactions that are either carried out on an occasional basis, due to – for example – changes in the regulatory environment, or that are not market-driven but rather entity or client-driven.
- Market value adjustments are recognised on all positions that are measured at fair value, with fair value changes being reported in profit or loss or in equity to cover close-out costs, adjustments for less liquid positions or markets, mark-to-model-related valuation adjustments, counterparty risk and operating expenses. When calculating market value adjustments for the counterparty risk relating to derivatives (excluding MBIA), the group also takes account of its own credit risk for derivatives with a negative fair value.
- In accordance with IFRS requirements, account was taken of the effect of changes in own funding spreads when measuring the fair value of financial liabilities designated at fair value. For the presentation in the balance sheet of the fair value of financial instruments not measured at fair value (see table), no account was taken of changes in credit spreads or prepayment risks.
- The fair value of demand and savings deposits (both of which are repayable on demand) is presumed to be equal to their carrying value.
- Most of the changes in the market value of loans and advances initially designated at fair value are accounted for by changes in interest rates. The effect of changes in credit risk is negligible.
- Financial assets and liabilities that are measured at fair value are those classified as 'available-for-sale', 'held for trading', 'designated at fair value' and 'hedging derivatives'. The other financial assets and liabilities (loans and receivables, financial assets held to maturity, financial liabilities measured at amortised cost) are not measured in the balance sheet at fair value, but their fair value is stated in the table for information purposes.

Fair value of financial assets and liabilities that are not measured 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, 31-12-2011						
Loans and advances to credit institutions and investment firms	14 253	14 503	–	–	–	–
Loans and advances to customers	136 201	140 897	–	–	–	–
Debt instruments	2 890	2 868	14 063	14 347	–	–
Accrued interest income	549	549	334	334	–	–
Total (including accrued interest income)	153 894	158 818	14 396	14 681	–	–
FINANCIAL ASSETS, 31-12-2012						
Loans and advances to credit institutions and investment firms	11 363	11 104	–	–	–	–
Loans and advances to customers	125 695	132 018	–	–	–	–
Debt instruments	2 167	2 084	28 510	31 426	–	–
Total (including accrued interest income)	139 225	145 205	28 510	31 426	–	–
FINANCIAL LIABILITIES, 31-12-2011						
Deposits from credit institutions and investment firms	–	–	–	–	21 259	21 206
Deposits from customers and debt securities	–	–	–	–	143 373	149 337
Liabilities under investment contracts	–	–	–	–	0	0
Other	–	–	–	–	2 408	2 408
Accrued interest expense	–	–	–	–	801	801
Total (including accrued interest expense)	–	–	–	–	167 842	173 752
FINANCIAL LIABILITIES, 31-12-2012						
Deposits from credit institutions and investment firms	–	–	–	–	21 660	21 542
Deposits from customers and debt securities	–	–	–	–	146 689	151 435
Liabilities under investment contracts	–	–	–	–	0	0
Other	–	–	–	–	2 465	2 465
Total (including accrued interest expense)	–	–	–	–	170 813	175 441

Note 24: Financial assets and liabilities measured at fair value – fair value hierarchy

(in millions of EUR)				31-12-2011				31-12-2012
Fair value hierarchy	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value								
Held for trading								
Loans and advances to credit institutions and investment firms	0	4 600	0	4 600	0	3 802	0	3 802
Loans and advances to customers	0	203	0	203	0	600	0	600
Equity instruments	170	108	749	1 028	220	34	197	451
Debt instruments	2 981	1 108	198	4 286	2 033	1 654	523	4 210
Derivatives	22	11 737	4 991	16 750	31	9 023	3 041	12 095
Accrued interest income	–	–	–	69	–	–	–	–
Designated at fair value								
Loans and advances to credit institutions and investment firms	0	305	0	305	1	915	0	916
Loans and advances to customers	0	1 852	27	1 879	0	2 170	27	2 197
Equity instruments	2	18	8	28	2	0	50	53
Investment contracts (insurance)	7 636	16	0	7 652	11 822	25	0	11 847
Debt instruments	3 642	218	136	3 997	836	177	269	1 282
Accrued interest income	–	–	–	79	–	–	–	–
Available for sale								
Equity instruments	1 111	76	259	1 446	705	109	1 117	1 931
Debt instruments	33 595	3 207	498	37 299	23 709	3 322	1 660	28 691
Accrued interest income	–	–	–	746	–	–	–	–
Hedging derivatives								
Derivatives	0	624	0	624	0	1 088	0	1 088
Accrued interest income	–	–	–	158	–	–	–	–
Total (including accrued interest income)	49 160	24 072	6 866	81 149	39 360	22 919	6 885	69 163
Financial liabilities at fair value								
Held for trading								
Deposits from credit institutions and investment firms	0	843	0	843	0	375	0	375
Deposits from customers and debt securities	0	4 285	4	4 288	0	3 979	181	4 161
Derivatives	56	12 201	9 442	21 699	14	9 438	4 979	14 432
Short positions	493	4	0	497	483	8	0	491
Other	0	0	0	0	0	0	0	0
Accrued interest expense	–	–	–	27	–	–	–	–
Designated at fair value								
Deposits from credit institutions and investment firms	0	3 831	0	3 831	0	884	0	884
Deposits from customers and debt securities	0	16 213	1 352	17 565	0	7 416	1 366	8 782
Liabilities under investment contracts	7 014	0	0	7 014	10 853	0	0	10 853
Other	0	0	173	173	0	0	44	44
Accrued interest expense	–	–	–	94	–	–	–	–
Hedging derivatives								
Derivatives	0	1 601	0	1 601	0	2 430	0	2 430
Accrued interest expense	–	–	–	328	–	–	–	–
Total (including accrued interest expense)	7 563	38 979	10 970	57 962	11 351	24 531	6 570	42 451

- The IAS 39 fair value hierarchy prioritises the valuation techniques and the respective inputs into three levels.
  The fair value hierarchy gives the highest priority to 'level 1 inputs'. This means that, when there is an active market, quoted prices have to be used to measure the financial assets or liabilities at fair value. Level 1 inputs are prices that are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency (and that are quoted in active markets accessible to KBC). They represent actual and regularly occurring market transactions on an arm's length basis. The fair value measurement of financial instruments with quoted prices is based on a mark-to-market valuation derived from currently available transaction prices. No valuation technique (model) is involved.
  If there are no price quotations available, an entity establishes fair value by using a model based on observable or unobservable inputs. The use of observable inputs needs to be maximised, whereas the use of unobservable inputs has to be minimised.
  Observable inputs are also referred to as 'level 2 inputs' and reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Observable inputs reflect an active market. Examples of observable inputs are the risk-free rate, exchange rates, stock prices and implied volatility. Valuation techniques based on observable inputs can include discounted cashflow analysis, reference to the current or recent fair value of a similar instrument, or third-party pricing, provided that the third-party price is in line with alternative observable market data.
  Unobservable inputs are also referred to as 'level 3 inputs' and reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions regarding the risks involved). Unobservable inputs reflect a market that is not active. For example, proxies and correlation factors can be considered to be unobservable in the market.
- When the inputs used to measure the fair value of an asset or a liability can be categorised into different levels of the fair value hierarchy, the fair value measurement is classified in its entirety into the same level as the lowest level input that is significant to the entire fair value measurement. For example, if a fair value measurement uses observ-

able 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 in subsequent notes.
- The significant increase in available-for-sale equity instruments classified in level 3 is attributable to the stake still held in Bank Zachodni WBK after the merger with Kredyt Bank. KBC believes that the market for these shares on the reporting date was not active enough (as evidenced by the very limited volume of shares traded) to base the valuation on the most recent market price. Instead, a historical price has been used that provides a more accurate estimate of the actual value of the shareholding. Since this price is not sufficiently recent, the shareholding has been classified as a level 3 valuation in accordance with IFRS rules.

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

Note 25: Financial assets and liabilities measured at fair value – transfers between levels 1 and 2

In 2011, KBC reclassified a number of bond positions from level 1 to level 2, due to the decrease in traded volumes. These positions totalled 1.2 billion euros, 0.2 billion euros of which related to Greek bonds (figures exclude disposal groups). KBC believed that the fair value of Greek sovereign bonds could still be determined on the basis of observable inputs, due to the fact that prices were still being set by various market participants and those prices were in line with each other. In addition, the prices were updated regularly and bid and offer sizes were still being quoted. In addition, the group transferred a small volume of bonds (approximately 0.1 billion euros' worth) out of level 2 and into level 1.

In 2012, KBC also transferred a significant amount in debt instruments (the vast majority of which were classified as 'available for sale') out of level 1 and into level 2. More specifically, roughly 1.2 billion euros was transferred from level 1 to level 2 due to a reduction in market activity for various types of debt instrument. KBC also reclassified around 0.2 billion euros' worth of bonds from level 2 to level 1 because the market for these instruments became more active in 2012.

Note 26: Financial assets and liabilities measured at fair value – focus on level 3

Movements table of assets and liabilities valued in level 3 of the fair value hierarchy – 2011
(in millions of EUR)

Level 3 financial assets

	Held for trading					Designated at fair value				Available for sale		Hedging derivatives
	Loans and advances	Equity instruments	Investment contracts (insurance)	Debt instruments	Derivatives	Loans and advances	Equity instruments	Investment contracts (insurance)	Debt instruments	Equity instruments	Debt instruments	Derivatives
Opening balance	10	993	0	614	2 073	26	1	0	373	398	497	0
Gains or losses	0	-183	0	47	1 694	3	-1	0	-90	-7	-1	0
in profit or loss[1]	0	-183	0	47	1 694	3	-1	0	-90	0	5	0
in other comprehensive income	0	0	0	0	0	0	0	0	0	-7	-5	0
Purchases	0	9	0	3	309	0	0	0	58	22	57	0
Disposals	-10	-72	0	-321	-428	-2	0	0	-1	-99	0	0
Settlements	0	0	0	-132	-1 245	0	0	0	-224	0	-28	0
Transfers into level 3	0	0	0	0	14	0	0	0	68	41	172	0
Transfers out of level 3	0	0	0	0	0	0	0	0	-43	0	-14	0
Transfers into/out of non-current assets held for sale	0	-8	0	0	0	0	8	0	-10	-75	-20	0
Translation differences	0	10	0	-14	74	1	1	0	5	0	0	0
Changes in the scope of consolidation	0	0	0	0	0	0	0	0	0	0	0	0
Other[2]	0	0	0	0	2 500	0	0	0	0	-21	-166	0
Closing balance	0	749	0	198	4 991	27	8	0	136	259	498	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	-127	0	-46	2 041	3	-1	0	0	0	0	0

Level 3 financial liabilities

	Held for trading						Designated at fair value				Hedging derivatives
	Deposits from credit institutions	Deposits from customers and debt certificates	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	21	24	0	6 406	0	0	0	3 806	0	145	0
Gains or losses	0	-14	0	520	0	0	0	-237	0	28	0
in profit or loss[1]	0	-14	0	520	0	0	0	-237	0	28	0
in other comprehensive income	0	0	0	0	0	0	0	0	0	0	0
Issues	0	0	0	1 087	0	0	0	856	0	0	0
Repurchases	0	0	0	-1 527	0	0	0	0	0	0	0
Settlements	-20	-6	0	-405	0	0	0	-267	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	-2 806	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	-1	-1	0	150	0	0	0	0	0	0	0
Changes in the scope of consolidation	0	0	0	0	0	0	0	0	0	0	0
Other[2]	0	0	0	3 211	0	0	0	0	0	0	0
Closing balance	0	4	0	9 442	0	0	0	1 352	0	173	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	-1	0	834	0	0	0	0	0	28	0

1 Recognised primarily in 'Net result from financial instruments at fair value', 'Net realised result from available-for-sale assets' and 'Impairment on available-for-sale assets'.
2 The 'Other' amounts in the 'Derivatives' column under 'Held for trading' relate to an adjustment resulting from a refinement of the method for transferring derivatives on the balance sheet to the level 3 movements table.

Movements table of assets and liabilities valued in level 3 of the fair value hierarchy – 2012
(in millions of EUR)

Level 3 financial assets

	Held for trading					Designated at fair value				Available for sale		Hedging derivatives
	Loans and advances	Equity instruments	Investment contracts (insurance)	Debt instruments	Derivatives	Loans and advances	Equity instruments	Investment contracts (insurance)	Debt instruments	Equity instruments	Debt instruments	Derivatives
Opening balance	0	749	0	198	4 991	27	8	0	136	259	498	0
Gains or losses	0	-230	0	-77	-1 315	0	35	0	141	-9	8	0
in profit or loss[1]	0	-230	0	-77	-1 315	0	35	0	141	4	0	0
in other comprehensive income	0	0	0	0	0	0	0	0	0	-13	8	0
Purchases	0	0	0	7	204	0	0	0	0	102	724	0
Disposals	0	-367	0	-14	-604	0	0	0	-55	-75	-55	0
Settlements	0	0	0	0	-296	0	0	0	0	0	0	0
Transfers into level 3	0	55	0	411	77	0	8	0	51	0	524	0
Transfers out of level 3	0	0	0	-1	-7	0	0	0	0	-5	-40	0
Transfers into/out of non-current assets held for sale[2]	0	-6	0	0	0	0	0	0	0	840	0	0
Translation differences	0	-3	0	-2	-16	-1	-1	0	-4	5	1	0
Changes in the scope of consolidation	0	0	0	0	6							
Other	0	0	0	0	0	0	0	0	0	0	0	0
Closing balance	0	197	0	523	3 041	27	50	0	269	1 117	1 660	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	-130	0	-81	-1 300	0	-2	0	141	-1	0	0

Level 3 financial liabilities

	Held for trading						Designated at fair value				Hedging derivatives
	Deposits from credit institutions	Deposits from customers and debt certificates	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	4	0	9 442	0	0	0	1 352	0	173	0
Gains or losses	0	40	0	-3 192	0	0	0	365	0	-129	0
in profit or loss[1]	0	40	0	-3 192	0	0	0	365	0	-129	0
in other comprehensive income	0	0	0	0	0	0	0	0	0	0	0
Issues	0	0	0	244	0	0	0	0	0	0	0
Repurchases	0	0	0	0	0	0	0	0	0	0	0
Settlements	0	-145	0	-1 727	0	0	0	-349	0	0	0
Transfers into level 3	0	286	0	213	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
Translation differences	0	-4	0	-34	0	0	0	-2	0	0	0
Changes in the scope of consolidation	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	32	0	0	0	0	0	0	0
Closing balance	0	181	0	4 979	0	0	0	1 366	0	44	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	17	0	-3 083	0	0	0	243	0	0	0

1 Recognised primarily in 'Net result from financial instruments at fair value', 'Net realised result from available-for-sale assets' and 'Impairment on available-for-sale assets'.
2 The figure for equity instruments appearing under 'Transfers into/out of non-current assets held for sale' in the 'Available for sale' column relates largely to the shareholding in Bank Zachodni WBK following the merger with Kredyt Bank. More detailed information on the reason why this shareholding has been classified as level 3 is provided in Note 24.

- Some level 3 assets are associated or economically hedged with identical level 3 liabilities, which means that KBC's exposure to unobservable inputs is lower than would appear from the gross figures given in the table.
- KBC uses a Gaussian Copula Mixture model to value all the remaining CDOs and CDO notes of KBC Financial Products. This model models the distribution of default moments and probabilities of the underlying corporate and ABS names. The asset default trigger in the model is derived from the credit default spreads in the market. The correlation between defaults is modelled through Gaussian Copulas and is, therefore, simulated. The value for a CDO tranche is determined by discounting the cashflows associated with the various default curves. The model also ensures that the inner tranches are valued in line with the market, through calibration with CDX and iTraxx credit spread indices.
- Results of profit/loss sensitivity tests on the current model for CDOs originated by KBC Financial Products, in which credit spreads of the underlying assets are shifted are given in the table below. Correlation changes have not been included. This test takes into account the full guarantee agreement with the Belgian State (see below) and a counterparty value adjustment of 80% for MBIA (70% in 2011). The scope includes the entire remaining (hedged and unhedged) portfolio of CDOs structured by KBC Financial Products. CDOs that have reached maturity or been sold or unwound are not included.

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

	Spreads -50%	Spreads -20%	Spreads -10%	Spreads +10%	Spreads +20%	Spreads +50%
31-12-2011	0.78	0.27	0.13	-0.12	-0.22	-0.51
31-12-2012	0.34	0.14	0.07	-0.06	-0.12	-0.28

- The above profit/loss sensitivity test does not take account of correlation changes. Given that correlation (of both the inner and outer tranches) is an important input in the Gaussian Copula Mixture model, a test was also carried out to calculate the combined influence of changes in the current valuation model's correlation and credit spread inputs on CDOs issued by KBC Financial Products. This test takes into account the full guarantee agreement with the Belgian State (see below) and a counterparty value adjustment of 80% for MBIA (70% in 2011). The scope of this test is the same as in the above table. A widening of 50% in the credit spreads combined with an increase in correlation would lead to an additional loss of 0.18 billion euros (0.32 billion euros in 2011) whereas a narrowing of 50% and a reduction in correlation would result in an additional gain of 0.34 billion euros (0.84 billion euros in 2011).
- The next table depicts the results of the profit/loss sensitivity tests performed on a counterparty value adjustment for MBIA in which not only the credit spreads of the underlying assets of the CDOs issued by KBC Financial Products change, but also the counterparty value adjustment for MBIA. The adjustment is currently 80% (in 2011, it was 70%). The scope covers only that portion of CDOs structured by KBC Financial Products and insured by MBIA. The impact of credit spread movements on the CDO positions structured by KBC Financial Products and held or insured by the KBC group is not included.

Profit/loss sensitivity tests based on corporate and ABS credit spread indices and on changes in the counterparty value adjustment for MBIA (in billions of EUR)

	Spreads -50%	Spreads -20%	Spreads -10%	Spreads +10%	Spreads +20%	Spreads +50%
31-12-2011						
MBIA 70%	0.45	0.15	0.07	-0.07	-0.13	-0.29
MBIA 80%	0.38	0.04	-0.05	-0.21	-0.28	-0.46
MBIA 90%	0.31	-0.07	-0.18	-0.36	-0.44	-0.64
MBIA 100%	0.24	-0.19	-0.30	-0.51	-0.59	-0.82
31-12-2012						
MBIA 70%	0.19	0.11	0.09	0.04	0.02	-0.05
MBIA 80%	0.16	0.07	0.03	-0.03	-0.06	-0.14
MBIA 90%	0.14	0.02	-0.02	-0.10	-0.13	-0.23
MBIA 100%	0.12	-0.03	-0.08	-0.17	-0.21	-0.32

- For more information on the structured credit portfolio (CDOs and other ABS), see the 'Value and risk management' section.
- Information on the guarantee agreement with the Belgian State to cover CDO exposure is provided in the 'Additional information' section. The fair value of the equity guarantee with the Belgian State (and the corresponding commitment fee) is measured using a level 3 model that reflects, among other things, movements in the subordinated credit default swap spread of KBC and in the fair value of the hedged super senior exposure since the guarantee agreement was signed. If the fair value of the super senior positions were to improve by 10% on its year-end 2012 and year-end 2011 levels, this would lead to an additional charge of 7 million euros and 2 million euros, respectively, while a similar improvement in KBC's subordinated credit spread would lead to an additional charge of 8 million euros and 6 million euros respectively.

Note 27: Changes in own credit risk

(in millions of EUR) ((+) profit (-) loss; amounts before tax)	
OWN DEBT ISSUES DESIGNATED AT FAIR VALUE, 31-12-2011	
Impact of change in own credit spreads on the income statement	484
Total cumulative impact at balance sheet date	742
OWN DEBT ISSUES DESIGNATED AT FAIR VALUE, 31-12-2012	
Impact of change in own credit spreads on the income statement	-709
Total cumulative impact at balance sheet date	33

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

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

	Spreads -50%	Spreads -20%	Spreads -10%	Spreads +10%	Spreads +20%	Spreads +50%
31-12-2011	-0.38	-0.15	-0.08	+0.08	+0.15	+0.38
31-12-2012	-0.06	-0.02	-0.01	+0.01	+0.02	+0.06

- The main difference in profit/loss sensitivity between the end of 2011 and the end of 2012 was caused by the width of the spreads. The senior spread averaged 480 basis points at year-end 2011, whereas it was approximately 110 basis points at year-end 2012. Consequently, the impact of a certain percentage increase or decrease in these spreads was much less in 2012 than in 2011.
- If no account is taken of the effect of changes in own credit risk, the difference between the carrying value and redemption price of the financial liabilities designated at fair value through profit or loss is limited (less than 0.1 billion euros).

Note 28: Reclassification of financial assets and liabilities

Financial assets reclassified out of 'available for sale' to 'loans and receivables' (in millions of EUR) – situation at 31-12-2012			
Carrying value			1 622
Fair value			1 576
	If not reclassified (available for sale)	**After reclassification (loans and receivables)**	**Impact**
Impact on the revaluation reserve (available-for-sale assets), before tax	-261	-216	45
Impact on the income statement, before tax	0	2	2

- In October 2008, the International Accounting Standards Board (IASB) issued amendments to IAS 39 and IFRS 7 under 'Reclassification of financial assets'. Following the implementation of these amendments, the KBC group reclassified a number of assets out of the 'available for sale' category to the 'loans and receivables' category because they had become less liquid. On the date of reclassification, the assets in question met the definition of loans and receivables, and the group has the intention and ability to hold these assets for the foreseeable future or until maturity. KBC reclassified these assets on 31 December 2008. On the reclassification date (31 December 2008), the estimated recoverable amount of these assets came to 5 billion euros and the effective interest rate varied between 5.88% and 16.77%.
- In 2011, 0.2 billion euros' worth of Hungarian municipal bonds were reclassified out of the 'available for sale' category into the 'loans and receivables' category.
- The above reclassifications had a combined positive impact of 45 million euros on equity and 2 million euros on the income statement (where – besides reversals of specific impairment – 7 million euros was also reversed for portfolio-based impairment on loans and receivables).
- Other reclassifications (not included in the table):
  - In 2011, 1.9 billion euros' worth of high-rated government bonds were reclassified out of the 'available for sale' category into the 'held to maturity' category.
  - In 2012, 4.6 billion euros were reclassified out of the 'available for sale' category and into the 'held to maturity' category.

Note 29: Derivatives

(in millions of EUR)	Held for trading: Carrying value – Assets	Held for trading: Carrying value – Liabilities	Held for trading: Notional amount – Purchased	Held for trading: Notional amount – Sold	Micro hedging: fair value hedge: Carrying value – Assets	Micro hedging: fair value hedge: Carrying value – Liabilities	Micro hedging: fair value hedge: Notional amount – Purchased	Micro hedging: fair value hedge: Notional amount – Sold	Micro hedging: cashflow hedge*: Carrying value – Assets	Micro hedging: cashflow hedge*: Carrying value – Liabilities	Micro hedging: cashflow hedge*: Notional amount – Purchased	Micro hedging: cashflow hedge*: Notional amount – Sold	Portfolio hedge of interest rate risk: Carrying value – Assets	Portfolio hedge of interest rate risk: Carrying value – Liabilities	Portfolio hedge of interest rate risk: Notional amount – Purchased	Portfolio hedge of interest rate risk: Notional amount – Sold
31-12-2011																
Total	**16 750**	**21 699**	**593 601**	**572 961**	**212**	**350**	**6 209**	**6 209**	**406**	**1 058**	**24 495**	**24 490**	**6**	**194**	**4 497**	**4 497**
Breakdown by type																
Interest rate contracts	8 964	9 581	365 443	349 721	212	350	6 209	6 209	380	1 054	24 244	24 259	6	194	4 497	4 497
Interest rate swaps	7 865	8 998	285 443	285 526	212	350	6 209	6 209	380	1 054	24 244	24 259	6	194	4 497	4 497
Forward rate agreements	8	11	8 681	12 644	0	0	0	0	0	0	0	0	0	0	0	0
Futures	13	0	10 179	7 676	0	0	0	0	0	0	0	0	0	0	0	0
Options	1 078	521	61 140	43 504	0	0	0	0	0	0	0	0	0	0	0	0
Forwards	0	51	0	370	0	0	0	0	0	0	0	0	0	0	0	0
Foreign exchange contracts	1 676	1 429	151 987	153 820	0	0	0	0	25	4	251	232	0	0	0	0
Forward foreign exchange operations/currency forwards	415	314	72 576	72 570	0	0	0	0	2	0	25	25	0	0	0	0
Currency and interest rate swaps	1 005	883	61 121	61 664	0	0	0	0	23	4	226	206	0	0	0	0
Futures	0	0	170	170	0	0	0	0	0	0	0	0	0	0	0	0
Options	255	233	18 120	19 416	0	0	0	0	0	0	0	0	0	0	0	0
Equity contracts	2 629	3 507	40 708	43 277	0	0	0	0	0	0	0	0	0	0	0	0
Equity swaps	1 400	1 856	35 074	35 445	0	0	0	0	0	0	0	0	0	0	0	0
Forwards	4	1	4	4	0	0	0	0	0	0	0	0	0	0	0	0
Futures	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Options	1 224	1 639	5 630	7 336	0	0	0	0	0	0	0	0	0	0	0	0
Warrants	1	12	1	492	0	0	0	0	0	0	0	0	0	0	0	0
Credit contracts	3 453	7 162	34 956	25 639	0	0	0	0	0	0	0	0	0	0	0	0
Credit default swaps	3 453	7 162	34 956	25 639	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	28	19	507	504	0	0	0	0	0	0	0	0	0	0	0	0

* 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	Pur-chased	Sold	Assets	Liabilities	Pur-chased	Sold	Assets	Liabilities	Pur-chased	Sold	Assets	Liabilities	Pur-chased	Sold
31-12-2012																
Total	**12 095**	**14 432**	**460 444**	**427 628**	**400**	**341**	**12 552**	**12 537**	**672**	**1 856**	**26 034**	**26 082**	**15**	**232**	**3 535**	**3 535**
Breakdown by type																
Interest rate contracts	7 739	8 613	258 424	237 310	400	341	12 552	12 537	650	1 787	25 390	25 390	15	232	3 535	3 535
Interest rate swaps	6 549	8 035	188 305	188 774	400	341	12 552	12 537	650	1 787	25 390	25 390	15	232	3 535	3 535
Forward rate agreements	3	4	2 609	4 829	0	0	0	0	0	0	0	0	0	0	0	0
Futures	2	0	6 090	4 698	0	0	0	0	0	0	0	0	0	0	0	0
Options	1 185	480	61 172	38 733	0	0	0	0	0	0	0	0	0	0	0	0
Forwards	0	93	247	276	0	0	0	0	0	0	0	0	0	0	0	0
Foreign exchange contracts	944	736	136 981	137 350	0	0	0	0	22	69	644	692	0	0	0	0
Forward foreign exchange operations/currency forwards	162	152	78 047	78 002	0	0	0	0	0	0	51	51	0	0	0	0
Currency and interest rate swaps	720	525	44 162	43 997	0	0	0	0	22	69	593	641	0	0	0	0
Futures	0	0	155	155	0	0	0	0	0	0	0	0	0	0	0	0
Options	61	59	14 616	15 195	0	0	0	0	0	0	0	0	0	0	0	0
Equity contracts	1 815	2 173	35 654	33 577	0	0	0	0	0	0	0	0	0	0	0	0
Equity swaps	1 322	1 411	30 289	30 288	0	0	0	0	0	0	0	0	0	0	0	0
Forwards	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Futures	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Options	493	761	5 365	3 289	0	0	0	0	0	0	0	0	0	0	0	0
Warrants	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Credit contracts	1 576	2 891	29 017	19 025	0	0	0	0	0	0	0	0	0	0	0	0
Credit default swaps	1 576	2 891	29 017	19 025	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 con-tracts	20	20	368	366	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 all derivatives in 2012, but dirty prices for derivatives held for trading and clean prices for hedging derivatives in 2011 (the accrued interest income on hedging derivatives amounted to 158 million euros and the accrued interest expense to 328 million euros in 2011).
- The notional amounts (and the carrying values) exclude the entities that fall under the scope of IFRS 5. 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 reduce a measurement or recognition inconsistency ('an accounting mismatch' that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases). This method is used specifically to avoid the remaining accounting mismatches relating to the loan portfolio (measured at amortised cost) and the interest rate swaps (measured at fair value) in ALM. For this purpose, a (government) bond portfolio was classified as a financial asset at fair value through profit or loss. This portfolio was reduced in 2012. The fair value option is also used for certain financial liabilities with embedded derivatives whose economic risk and characteristics are closely related to those of the host contract (some KBC IFIMA issues), which would otherwise give rise to an accounting mismatch with the hedging instruments.
- In addition, KBC uses micro-hedge accounting permitted under IAS 39 to limit the volatility of results in the following cases:
  - Fair value hedges: used in certain asset-swap constructions, where KBC buys a bond on account of the credit spread. The interest rate risk of the bond is hedged by means of an interest rate swap. This technique is also applied to certain fixed-term debt instruments issued by KBC Bank.
  - Cashflow hedges: used primarily to swap floating-rate liabilities for a fixed rate.
  - Hedges of net investments in foreign operations: the exchange risk attached to foreign-currency investments is hedged by attracting funding in the currency concerned at the level of the investing entity.
- Usually one of the micro-hedging techniques that must be documented individually is used for large individual transactions that can clearly be separated out. For the purposes of ALM, which by definition is macro-management, use is made of the possibilities specifically provided for under IAS 39, namely the 'fair value option' and the 'portfolio hedge of interest rate risk' according to the carved-out version.
- As regards the relationship between risk management and hedge accounting policy, 'economic' management is given priority and the risks have to be hedged in accordance with the general ALM framework. It is then decided what the most efficient option is for limiting (any) resulting accounting mismatch using one of the above hedging techniques.
- For information on fair value adjustments in hedge accounting, see Note 5.
- The estimated cashflows from the cashflow hedging derivatives per time bucket breakdown is given in the table.

Estimated cashflows from the cashflow hedging derivatives (in millions of EUR)	**Inflow**	**Outflow**
Not more than three months	20	-22
More than three but not more than six months	45	-71
More than six months but not more than one year	99	-154
More than one but not more than two years	300	-462
More than two but not more than five years	630	-1 048
More than five years	2 124	-2 701

Notes on other balance sheet items

We have reallocated the various balance sheet items of companies subject to IFRS 5 (see Note 46) to the relevant headings in the balance sheet (under 'Non-current assets held for sale and disposal groups' on the assets side and under 'Liabilities associated with disposal groups' on the liabilities side). However, we have not restated the reference figures, which means that comparability of the figures has been slightly affected.

Note 30: Other assets

(in millions of EUR)	31-12-2011	31-12-2012
Total	**1 871**	**1 341**
Debtors arising out of primary insurance operations	123	125
Debtors arising out of reinsurance operations	18	36
Other debtors and called capital as yet unpaid	0	0
Deposits with ceding companies	10	12
Income receivable (other than interest income from financial assets)	694	429
Other	1 026	738

Note 31: Tax assets and tax liabilities

(in millions of EUR)	31-12-2011	31-12-2012
CURRENT TAXES		
Current tax assets	201	174
Current tax liabilities	255	192
DEFERRED TAXES	**2 155**	**1 558**
Deferred tax assets by type of temporary difference	3 653	2 941
Employee benefits	205	182
Losses carried forward	982	922
Tangible and intangible fixed assets	82	34
Provisions for risks and charges	175	170
Impairment for losses on loans and advances	395	382
Financial instruments at fair value through profit or loss and fair value hedges	811	433
Fair value changes, available-for-sale assets, cashflow hedges and hedges of net investments in foreign operations	897	711
Technical provisions	45	41
Other	61	67
Deferred tax liabilities by type of temporary difference	1 498	1 383
Employee benefits	36	33
Losses carried forward	0	0
Tangible and intangible fixed assets	116	106
Provisions for risks and charges	36	38
Impairment for losses on loans and advances	116	126
Financial instruments at fair value through profit or loss and fair value hedges	615	230
Fair value changes, available-for-sale assets, cashflow hedges and hedges of net investments in foreign operations	423	669
Technical provisions	10	30
Other	146	151
Recognised as a net amount in the balance sheet as follows:		
Deferred tax assets	2 445	2 014
Deferred tax liabilities	290	455
Unused tax losses and unused tax credits	1 441	1 183

- Unused tax losses and unused tax credits concern tax losses of group companies which are not capitalised due to insufficient proof of future taxable profit. Most unused tax losses and unused tax credits can be carried forward for 20 years or more.
- Deferred tax assets relating to tax losses carried forward are justified by the fact that – based on macroeconomic forecasts and the use of conservative scenarios – enough taxable profit will be available in the quite near future.
- The net change in deferred taxes (-597 million euros in 2012) breaks down as follows:
  - decrease in deferred tax assets: -712 million euros;
  - decrease in deferred tax liabilities: -115 million euros.
- The change in deferred tax assets is accounted for by:
  - the decrease in deferred tax assets via the income statement: -223 million euros (owing primarily to losses carried forward (-32 million euros); impairment relating to losses on loans and advances (+42 million euros); financial instruments at fair value through profit or loss (-212 million euros); employee benefits (-21 million euros));
  - the decrease in deferred tax assets following changes in the revaluation reserve for available-for-sale financial assets: -355 million euros;
  - the increase in deferred tax assets consequent on the fall in the market value of cashflow hedges: +173 million euros;
  - the decrease in deferred tax assets due to changes in the scope of consolidation: -300 million euros.

- The change in deferred tax liabilities is accounted for by:
  - the decrease in deferred tax liabilities via the income statement: -198 million euros (owing primarily to financial instruments at fair value through profit or loss (-226 million euros); technical provisions (+20 million euros); impairment relating to losses on loans and advances (+12 million euros));
  - the increase in deferred tax liabilities consequent on the rise in the market value of available-for-sale securities: +313 million euros;
  - the increase in deferred tax liabilities due to the rise in the market value of cashflow hedges: +18 million euros;
  - the decrease in deferred tax liabilities on account of changes in the scope of consolidation: -185 million euros;
  - the decrease in deferred tax liabilities attributable to other items: -56 million euros.
- The deferred tax assets presented in the balance sheet are attributable primarily to KBC Bank and KBC Credit Investments.

Note 32: Investments in associated companies

(in millions of EUR)	31-12-2011	31-12-2012
Total	**431**	**8**
Overview of investments, including goodwill		
Nova Ljubljanska banka	424	0
Other	7	8
Goodwill on associated companies		
Gross amount	210	210
Accumulated impairment	-31	-210
Breakdown by type		
Unlisted	431	8
Listed	0	0
Fair value of investments in listed associated companies	0	0
MOVEMENTS TABLE	**2011**	**2012**
Opening balance (1 January)	496	431
Acquisitions	0	0
Carrying value, transfers	0	0
Share in the result for the period	-58	2
Capital increase	5	0
Dividends paid	-1	0
Share of gains and losses not recognised in the income statement	-12	7
Translation differences	2	-2
Changes in goodwill	0	-179
Transfers to or from non-current assets held for sale and disposal groups	0	-3
Other movements	0	-249
Closing balance (31 December)	431	8

- Associated companies are companies on whose management KBC exerts significant influence, without having direct or indirect full or joint control. In general, KBC has a 20% to 50% shareholding in such companies. In 2011, associated companies related primarily to Nova Ljubljanska banka (NLB). An agreement for the sale of the stake in NLB was reached in December 2012. As a result, the figures for NLB have been recognised at year-end under 'Non-current assets held for sale and disposal groups' (see Note 46). The sale was completed on 11 March 2013.
- Goodwill paid on associated companies is included in the nominal value of 'Investments in associated companies' shown on the balance sheet. An impairment test has been performed and the necessary impairment losses on goodwill have been recognised (see table).
- Most of the figure for 'Other movements' in 2012 was accounted for by impairment relating to NLB due to the fact that the price was below the carrying value.

Note 33: Property and equipment and investment property

(in millions of EUR)	31-12-2011	31-12-2012
Property and equipment	**2 651**	**2 581**
Investment property	**758**	**638**
Rental income	63	69
Direct operating expenses from investments generating rental income	56	58
Direct operating expenses from investments not generating rental income	4	3

MOVEMENTS TABLE	Land and buildings	IT equipment	Other equipment	Total property and equipment	Investment property
2011					
Opening balance	1 579	160	954	2 693	704
Acquisitions	126	80	429	634	31
Disposals	-33	-1	-151	-185	-16
Depreciation	-84	-81	-43	-207	-28
Impairment					
Recognised	0	0	0	0	-30
Reversed	0	0	0	0	0
Transfers to or from non-current assets held for sale and disposal groups	-11	-3	-2	-17	-29
Translation differences	-25	-2	-11	-38	-7
Changes in the scope of consolidation	-16	0	-25	-41	113
Other movements	-20	-2	-166	-187	20
Closing balance	1 516	150	985	2 651	758
of which accumulated depreciation and impairment	995	621	704	2 320	222
of which expenditure on items in the course of construction	46	0	7	53	–
of which finance lease as a lessee	0	0	0	0	–
Fair value 31-12-2011	–	–	–	–	892
2012					
Opening balance	1 516	150	985	2 651	758
Acquisitions	150	92	390	632	55
Disposals	-13	-8	-167	-188	-6
Depreciation	-88	-76	-35	-199	-25
Impairment					
Recognised	-9	-1	-1	-11	-52
Reversed	0	0	0	0	0
Transfers to or from non-current assets held for sale and disposal groups	-82	-4	-6	-91	-31
Translation differences	23	1	7	31	4
Changes in the scope of consolidation	-25	-3	-53	-80	-59
Other movements	-10	1	-155	-164	-7
Closing balance	1 462	152	966	2 581	638
of which accumulated depreciation and impairment	1 052	335	619	2 006	330
of which expenditure on items in the course of construction	2	0	0	2	–
of which finance lease as a lessee	0	0	0	0	–
Fair value 31-12-2012	–	–	–	–	777

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

Note 34: Goodwill and other intangible assets

(in millions of EUR)	Goodwill	Software developed in-house	Software developed externally	Other	Total
2011					
Opening balance	1 861	208	140	47	2 256
Acquisitions	2	69	58	17	147
Disposals	0	-1	-1	-7	-10
Adjustment resulting from subsequent identification	0	0	0	0	0
Amortisation	0	-55	-52	-12	-119
Impairment					
Recognised	-120	0	-3	-4	-127
Reversed	0	0	0	0	0
Transfers to or from non-current assets held for sale and disposal groups	-160	0	-1	-1	-162
Translation differences	-41	0	-4	-3	-48
Changes in the scope of consolidation	-2	0	0	0	-2
Other movements	-38	1	-3	3	-37
Closing balance	1 502	222	134	40	1 898
of which accumulated amortisation and impairment	754	189	584	0	1 527
2012					
Opening balance	1 502	222	134	40	1 898
Acquisitions	1	60	58	17	137
Disposals	-132	-34	-12	-13	-191
Adjustment resulting from subsequent identification	0	0	0	0	0
Amortisation	0	-53	-48	-11	-111
Impairment					
Recognised	-421	0	0	0	-422
Reversed	0	0	0	0	0
Transfers to or from non-current assets held for sale and disposal groups	0	-5	0	-5	-10
Translation differences	35	0	2	2	40
Changes in the scope of consolidation	0	0	-3	-10	-12
Other movements	2	0	-8	7	1
Closing balance	987	191	124	27	1 328
of which accumulated amortisation and impairment	1 195	208	542	0	1 945

- 'Goodwill' includes the goodwill paid on companies included in the scope of consolidation and relating to the acquisition of activities. Goodwill paid on associated companies is included in the nominal value of 'Investments in associated companies' shown on the balance sheet.
- An impairment test has been performed and the necessary impairment losses on goodwill have been recognised (see table and Note 14). This impairment test is performed at least once a year and on a quarterly basis for investments where there is an indication of impairment. In the test, each entity is regarded as a separate cash-generating unit. Each entity has a specific risk profile and it is rare to have different profiles within a single entity.
- Impairment on goodwill under IAS 36 is recognised in profit or loss if the recoverable amount of an investment is lower than its carrying amount. The recoverable amount is defined as the higher of the value in use (calculated based on discounted cashflow analysis) and the fair value (calculated based on multiple analysis, etc.) less costs to sell.
- The discounted cashflow method calculates the recoverable amount of an investment as the present value of all future free cashflows of the business. This method is based on long-term projections about the company's business and the resulting cashflows (i.e. projections for a number of years ahead (usually 20 years), and the terminal value of the business at the end of the specific projection period). These long-term projections are the result of an assessment of past and present performances combined with external sources of information on future performances in the respective markets and the global macroeconomic environment. The terminal growth rate is determined using a long-term average market growth rate. The present value of these future cashflows is calculated using a post-tax compound discount rate, which is based on the Capital Asset Pricing Model (CAPM). A risk-free rate, a market-risk premium (multiplied by an activity beta), and a country risk premium (to reflect the impact of the economic situation of the country where KBC is active) are also used in the calculation. KBC has developed 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, for instance, the carrying value or profit of that company. For the purposes of comparison, account is taken of listed companies (where value is equated to market capitalisation) and of companies involved in mergers or acquisitions (where the value is equated to the sales price).
- The main group companies to which goodwill relates are listed in the table (the consolidated entity in each case, i.e. including subsidiaries).

Goodwill outstanding (in millions of EUR)	31-12-2011	31-12-2012	Discount rates throughout the specific period of cashflow projections 31-12-2011	Discount rates throughout the specific period of cashflow projections 31-12-2012
Absolut Bank	362	–	16.9%–10.3%	–
K&H Bank	219	236	16.6%–10.3%	17.4%–9.5%
ČSOB (Czech Republic)	254	252	*	10.1%–9.8%
ČSOB (Slovakia)	191	191	12.2%–10.1%	11.6%–9.8%
CIBANK	117	117	14.4%–10.3%	11.1%–9.4%
DZI Insurance	130	115	14.4%–10.5%	11.1%–9.4%
Kredyt Bank	66	–	*	–
Rest	163	76	–	–
Total	1 502	987	–	–

* Via fair value analysis.

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

The following change in key assumptions would cause the recoverable amounts for ČSOB in Slovakia, and CIBANK and DZI Insurance in Bulgaria to equal the carrying amount (see table).

Change in key assumptions[1]	Increase in discount rate[2]	Decrease in terminal growth rate[3]	Increase in targeted solvency ratio[4]	Decrease in annual net profit
ČSOB (Slovakia)	1.9%	–	2.3%	-9.0%
CIBANK	2.2%	–	3.2%	-11.6%
DZI Insurance	0.4%	0.2%	5.5%	-0.6%

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

Note 35: Technical provisions, insurance

(in millions of EUR)	31-12-2011	31-12-2012
Technical provisions (before reinsurance) (i.e. gross figures)	**19 914**	**19 205**
Insurance contracts	8 156	8 811
Provision for unearned premiums and unexpired risk	342	358
Life insurance provision	5 194	5 711
Provision for claims outstanding	2 163	2 232
Provision for profit sharing and rebates	10	20
Other technical provisions	447	490
Investment contracts with DPF	11 758	10 394
Life insurance provision	11 674	10 295
Provision for claims outstanding	0	0
Provision for profit sharing and rebates	83	99
Reinsurers' share	**150**	**137**
Insurance contracts	150	137
Provision for unearned premiums and unexpired risk	1	1
Life insurance provision	0	1
Provision for claims outstanding	148	135
Provision for profit sharing and rebates	0	0
Other technical provisions	0	0
Investment contracts with DPF	0	0
Life insurance provision	0	0
Provision for claims outstanding	0	0
Provision for profit sharing and rebates	0	0

MOVEMENTS TABLE	**Gross 2011**	**Reinsurance 2011**	**Gross 2012**	**Reinsurance 2012**
INSURANCE CONTRACTS, LIFE				
Opening balance	6 678	4	5 623	3
Deposits excluding fees	686	0	753	0
Provisions paid	-431	0	-573	0
Accretion of interest	167	0	91	0
Cost of profit sharing	7	0	3	0
Exchange differences	-50	0	30	0
Transfers out of/into liabilities associated with disposal groups	-1 344	-1	0	0
Changes in the scope of consolidation	0	0	0	0
Other movements	-91	0	250	-1
Closing balance	5 623	3	6 177	2
INSURANCE CONTRACTS, NON-LIFE				
Opening balance	3 746	276	2 533	147
Changes in the provision for unearned premiums	8	0	-4	0
Payments regarding claims of previous years	-262	-9	-246	-23
Surplus/shortfall of claims provision in previous years	-174	-10	-93	13
Provision for new claims	281	15	298	6
Transfers	0	0	0	0
Exchange differences	-41	-4	10	1
Transfers out of/into liabilities associated with disposal groups	-1 234	-121	0	0
Changes in the scope of consolidation	0	0	0	0
Other movements	209	0	134	-8
Closing balance	2 533	147	2 633	135
INVESTMENT CONTRACTS WITH DPF, LIFE				
Opening balance	12 830	0	11 758	0
Deposits excluding fees	782	0	391	0
Provisions paid	-649	0	-1 035	0
Accretion of interest	344	0	336	0
Cost of profit sharing	1	0	0	0
Exchange differences	-2	0	1	0
Transfers out of/into liabilities associated with disposal groups	-1 297	0	0	0
Changes in the scope of consolidation	-251	0	0	0
Other movements	0	0	-1 057	0
Closing balance	11 758	0	10 394	0

- Technical provisions relate to insurance contracts and investment contracts with a discretionary participation feature (DPF).
- Liabilities under investment contracts without DPF are measured at fair value. These liabilities concern mainly unit-linked contracts, which are recognised under financial liabilities (see Note 18).
- The technical provisions for life insurance 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. At present, IFRS 4 refers extensively to local accounting principles for the recognition of technical provisions. 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 are:
  - 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 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 the technical provisions for claims outstanding 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. The technical provision for claims outstanding is generally not discounted except when long-term obligations and/or annuities (e.g., hospitalisation, industrial accidents) are involved.
- In 2012, there were no major changes in assumptions leading to a significant change in the valuation of insurance assets and liabilities, except for the introduction of new indicative tables, which led to adjustments in the reserves for bodily injury claims.

Note 36: Provisions for risks and charges

(in millions of EUR)	Provisions for restructuring	Provisions for taxes and pending legal disputes	Other	Subtotal	Provisions for off-balance-sheet credit commitments	Total
2011						
Opening balance	27	387	70	484	116	600
Movements with an impact on results						
Amounts allocated	24	382	21	427	91	518
Amounts used	-20	-39	-2	-61	0	-61
Unused amounts reversed	-3	-9	-3	-15	-117	-132
Transfers out of/into liabilities associated with disposal groups	0	-1	-7	-8	0	-8
Changes in the scope of consolidation	0	0	0	0	0	0
Other movements	-1	-26	-1	-28	-1	-29
Closing balance	27	695	78	800	89	889
2012						
Opening balance	27	695	78	800	89	889
Movements with an impact on results						
Amounts allocated	20	32	18	70	157	227
Amounts used	-8	-379	-7	-394	-4	-398
Unused amounts reversed	-7	-21	-2	-31	-114	-145
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	-9	-21	19	-12	-36	-47
Closing balance	23	305	105	433	92	526

- For most of the provisions recorded, no reasonable estimate can be made of when they will be used.
- Restructuring provisions were set aside mainly for KBC Bank (2012: 3 million euros; 2011: 1 million euros), KBC Financial Products (2012: 4 million euros; 2011: 16 million euros), the Central and Eastern European subsidiaries of KBC Bank (2012: 10 million euros; 2011: 1 million euros) and KBC Lease Deutschland (2012: 0 million euros; 2011: 6 million euros).
- As regards provisions for taxes and pending legal disputes:
  - the remaining amount of the provision for commercial disputes involving CDOs came to 0.04 billion euros at the end of 2012;
  - see Note 8 for information relating to the 5-5-5 product;
  - see the information on legal disputes in the bullet points below.
- 'Other provisions' included those set aside for miscellaneous risks and future expenditure.
- As regards the most significant legal disputes pending, claims filed against KBC group companies are – in keeping with IFRS rules – treated on the basis of an assessment of whether they will lead to an outflow of resources (i.e. 'probable outflow', 'possible outflow' or 'remotely probable outflow'). Provisions are set aside for 'probable outflow' cases (see 'Notes on the accounting policies'). No provisions are constituted for 'possible outflow' cases, but information is provided in the financial statements if such cases might have a material impact on the balance sheet (i.e. when the claim could lead to a possible outflow of more than 25 million euros). All other claims ('remotely probable outflow'), of whatever magnitude, that represent a minor or no risk at all do not have to be reported. Nonetheless, for reasons of transparency, KBC also provides information on the current status of the most important cases in this category.
- The most important cases are listed below. The information provided is limited in order not to prejudice the position of the group in ongoing litigation.
- Possible outflow:
  - When Lehman Brothers went bankrupt in September 2008, KBC Bank had derivative transactions outstanding with Lehman Brothers Finance AG (LBF) under an ISDA Master Agreement. The bankruptcy triggered an event of default and early termination of all outstanding transactions. LBF is disputing a number of matters in this regard, including the valuation method used by KBC Bank and – in a letter of claim dated 21 December 2012 – asserts that the net amount payable to LBF under the ISDA agreement is 58.1 million US dollars plus 52.8 million US dollars in interest accruing since September 2008. KBC Bank believes it has various arguments to defend the valuation method used and is also strongly disputing the interest rate applied by LBF. No provision has been set aside for these amounts. KBC Bank will determine its position based on the findings of a further investigation into the valuation of the transactions terminated and a legal assessment of the situation.
- Probable outflow:
  - KBC Diversified Fund, a segregated portfolio of KBC AIM Master Fund spc., filed a claim against Lehman Brothers International Europe (LBIE) in relation to derivatives amounting to 44.3 million US dollars. Provisions have been set aside for this amount. KBC is negotiating with the administrator of LBIE regarding the valuation of a number of terminated transactions. KBC Bank calculated an ISDA close-out amount of 29.2 million US dollars payable by Lehman Brothers Special Financing Inc. (LBSF) to KBC. Provisions have been set aside for this amount. LBSF's administrator is contesting the valuation of some of the derivative transactions. An initial meeting to discuss the disputed valuation took place on a without prejudice basis on 17 December 2012, during which the administrator requested additional information on KBC's valuation process.
  - In 2003, a major case of fraud at K&H Equities Hungary was uncovered. Numerous customers suffered substantial losses on their securities portfolios as a result of unauthorised speculative transactions and possible misappropriations of funds. Instructions and portfolio overviews were forged or tampered with. In August 2008, criminal sentences were handed down. An appeal is pending. Almost all claims have already been settled either amicably or following an arbitral decision. Appropriate provisions have been set aside for the claims still outstanding, taking into account compensation provided by an external insurer.
  - From the end of 1995 until the beginning of 1997, KBC Bank and KB Consult were involved in the transfer of cash companies. KBC Bank and/or KB Consult were joined to proceedings in a number of cases. In addition, KB Consult, together with KBC Bank and KBC Group NV,

was summoned to appear in the proceedings before the Bruges court sitting in chambers. On 9 November 2011, this court dismissed the charges against KBC Group NV, but KB Consult and KBC Bank were referred to the criminal court. However, the Belgian State has since lodged an appeal with the Indictment Division. At year-end 2012, a provision of 30.8 million euros remained set aside to deal with the potential impact of claims for damages in this respect. The transfer of a cash company is in principle completely legitimate. Nevertheless, it later transpired that certain purchasers were acting in bad faith since they did not make any investments at all and did not file tax returns for the cash companies they had purchased. KBC Bank and KB Consult immediately took the necessary measures to preclude any further involvement with these parties.

- In March 2000, Rebeo and Trustimmo, two subsidiaries of Almafin (a subsidiary of KBC Bank), together with four former directors of Broeckdal Vastgoedmaatschappij (a real estate company) were summoned by the Belgian Ministry of Finance to appear before the civil court in Brussels regarding non-payment of 16.7 million euros in taxes owed by Broeckdal. However, Broeckdal contested this claim and in December 2002 initiated court proceedings against the Belgian Ministry of Finance before the civil court in Antwerp. The civil case pending before the Brussels court has been suspended until final judgment has been passed in the tax-related proceedings pending before the Antwerp court. Broeckdal was wound up by court order on 2 November 2010 and was declared properly wound up and dissolved on 13 September 2011. A provision of 29.6 million euros has been set aside to cover potential damages.
- In 1991, a syndicate of banks (including KBC Bank NV's London branch) refinanced the Bell Group. Some Bell Group companies granted security. When the group collapsed in April 1991, the banks recovered the outstanding amounts by enforcing their security rights. The Bell Group liquidators started legal proceedings, claiming repayment of all amounts recovered by the banks by alleging that the banks' security rights had been granted unlawfully. In a judgment delivered on 28 October 2008, the Supreme Court of Western Australia ordered the banks to repay all the amounts recovered and also to pay compound interest. The syndicate of banks appealed this decision. In a ruling on 17 August 2012, the Supreme Court of Western Australia Court of Appeal increased the amount payable following the recalculation of interest. In view of that decision and pending the decision of the High Court of Australia, KBC Bank has set aside a provision of some 64 million euros. Even if the banks are granted leave for appeal, the debate before the High Court will be limited to the amount of interest payable.

Note 37: Other liabilities

(in millions of EUR)	31-12-2011	31-12-2012
Total	**3 322**	**3 474**
Breakdown by type		
Retirement benefit obligations or other employee benefits	886	790
Deposits from reinsurers	69	71
Accrued charges (other than from interest expenses on financial liabilities)	727	530
Other	1 640	2 083

- For more information on retirement benefit obligations, see Note 38.

Note 38: Retirement benefit obligations

(in millions of EUR)	31-12-2011	31-12-2012
DEFINED BENEFIT PLANS		
Reconciliation of defined benefit obligations		
Defined benefit obligations at the beginning of the period	1 645	1 823
Current service cost	88	94
Interest cost	80	74
Plan amendments	0	0
Actuarial gain (loss)	129	350
Benefits paid	-117	-127
Exchange differences	4	4
Curtailments	-2	-6
Transfers under IFRS 5	-11	-16
Changes in the scope of consolidation	-2	0
Other	9	-4
Defined benefit obligations at the end of the period	1 823	2 191
Reconciliation of the fair value of plan assets		
Fair value of plan assets at the beginning of the period	1 439	1 557
Actual return on plan assets	95	218
Employer contributions	125	113
Plan participant contributions	18	20
Benefits paid	-117	-127
Exchange differences	1	3
Settlements	-2	-2
Transfers under IFRS 5	-7	-13
Changes in the scope of consolidation	-1	0
Other	6	-3
Fair value of plan assets at the end of the period	1 557	1 765
of which financial instruments issued by the group	4	0
Funded status		
Plan assets in excess of defined benefit obligations	-265	-425
Unrecognised net actuarial gains	-104	109
Unrecognised transaction amount	0	0
Unrecognised past service cost	0	0
Unrecognised assets	0	-5
Unfunded accrued/prepaid pension cost	-372	-321
Movement in net liabilities or net assets		
Unfunded accrued/prepaid pension cost at the beginning of the period	-437	-372
Net periodic pension cost	-51	-64
Employer contributions	125	113
Exchange differences	0	0
Transfers under IFRS 5	1	1
Changes in the scope of consolidation	0	0
Other	-11	1
Unfunded accrued/prepaid pension cost at the end of the period	-372	-321
Amounts recognised in the balance sheet		
Prepaid pension cost	80	83
Accrued pension liabilities	-452	-403
Unfunded accrued/prepaid pension cost	-372	-321
Amounts recognised in the income statement		
Current service cost	88	94
Interest cost	80	74
Expected return on plan assets	-80	-79
Adjustments to limit prepaid pension cost	-1	2
Amortisation of unrecognised prior service costs	0	0
Amortisation of unrecognised net gain (loss)	-16	-3
Employee contributions	-18	-20
Curtailments	-2	-5
Settlements	-1	2
Changes in the scope of consolidation	0	0
Actuarially determined net periodic pension cost*	51	64
Actual rate of return on plan assets	**6.6%**	**14.0%**

(in millions of EUR)	31-12-2011	31-12-2012
Principal actuarial assumptions used (based on weighted averages)		
Discount rate (during the year)	4.6%	4.0%
Discount rate (at year-end)	4.0%	2.3%
Expected rate of return on plan assets	5.5%	5.0%
Expected rate of salary increase	3.1%	3.1%
Rate of pension increase	0.4%	0.4%
DEFINED CONTRIBUTION PLANS		
Expenses for defined contribution plans	0	1

* Included under staff expenses (see Note 12).

- The pension claims of the staff of the various KBC group companies are covered by pension funds and group insurance schemes, the most important of which are defined benefit plans. The main defined benefit plans are those managed by the OFP Pensioenfonds KBC and the OFP Pensioenfonds Senior Management KBC which cover KBC Bank, KBC Insurance (since 2007) and most of their Belgian subsidiaries, and the KBC Insurance group insurance scheme (for staff employed prior to 1 January 2007). The assets of these first two plans are managed chiefly by KBC Asset Management. The benefits are dependent on, among other things, the employee's years of service, as well as on his/her remuneration in the years leading up to his/her retirement. The annual funding requirements for these plans are determined based on standard actuarial cost methods.
- The expected return on plan assets (ROA) is calculated on the basis of the rate applying to specific investments, account taken of the new detailed strategy for allocating assets under management.

ROA = (W x LDI rate T) + (X x corp rate T) + (Y x (govt rate T + 3%)) + (Z x (govt rate T +1.75%)), where:
LDI rate = 2 x euro swap rate T – 1 x 6-month euro swap rate;
Govt rate = OLO rate T;
Corp rate = euro swap rate T + corporate spread;
T = average duration of the liabilities;
W = percentage of liability driven investments;
X = percentage of corporate bonds;
Y = percentage of shares;
Z = percentage of real estate.
The risk premiums of 3% and 1.75%, respectively, are based on the anticipated long-term returns from shares and real estate.

Additional information regarding retirement benefit obligations (in millions of EUR)					
Changes in main headings in the main table	**2008**	**2009**	**2010**	**2011**	**2012**
Defined benefit obligations	1 884	1 997	1 645	1 823	2 191
Fair value of plan assets	1 293	1 529	1 439	1 557	1 765
Unfunded accrued/prepaid pension cost	-512	-512	-437	-372	-321
Composition of the group's largest pension plans		**shares**	**bonds**	**real estate**	**cash**
31-12-2011					
KBC pension fund		33%	52%	9%	6%
KBC Insurance group insurance scheme		32%	51%	9%	8%
31-12-2012					
KBC pension fund		36%	48%	10%	6%
KBC Insurance group insurance scheme		35%	51%	8%	6%
Impact of changes in the assumptions used in the actuarial calculation of plan assets and gross liabilities*	**2008**	**2009**	**2010**	**2011**	**2012**
Impact on plan assets	0	0	0	0	0
Impact on gross liabilities	-88	-18	-84	-76	213
Contributions expected in 2013					
KBC pension fund					95
KBC Insurance group insurance scheme					1

*Arising from defined benefit plans. A plus sign signifies a positive impact, a minus sign a negative impact; relates to all pension plans combined in the above section.

Note 39: Parent shareholders' equity and non-voting core-capital securities

Quantities	31-12-2011	31-12-2012
Ordinary shares	357 980 313	416 967 355
of which ordinary shares that entitle the holder to a dividend payment	*344 619 736*	*416 967 355*
of which treasury shares	*18 169 054*	*302*
Mandatorily convertible bonds	0	0
Non-voting core-capital securities	220 338 982	118 644 067
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 Quantities	**Ordinary shares**	**Non-voting core-capital securities**
2011		
Opening balance	357 938 193	237 288 134
Issue of shares/core-capital securities	42 120	-16 949 152
Conversion of mandatorily convertible bonds into shares	0	0
Other movements	0	0
Closing balance	357 980 313	220 338 982
2012		
Opening balance	357 980 313	220 338 982
Issue of shares/core-capital securities	58 987 042	-101 694 915
Conversion of mandatorily convertible bonds into shares	0	0
Other movements	0	0
Closing balance	416 967 355	118 644 067

- 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.
- In December 2012, the group increased its equity by around 1.25 billion euros by issuing some 59 million new shares following the capital increase announced on 10 December 2012 (+58 835 294 new shares) and the capital increase reserved for staff (+151 748 new shares). For more information, see the 'Company annual accounts' section.
- Treasury shares: at year-end 2012, KBC group companies held 302 ordinary KBC shares in portfolio, a decline of 18 168 752 on the year-earlier figure. This was almost entirely accounted for by the sale on 16 October 2012 of all KBC shares held by KBC Group NV and KBC Bank NV, as required under the plan agreed with the European Commission. More information on the sale of treasury shares in 2012 is provided in the 'Company annual accounts' section. The voting rights attached to the shares held by KBC Group NV and its direct and indirect subsidiaries are suspended.
- For information on stock option plans, see Note 12; for information on the authorisation to increase capital, see the 'Company annual accounts' section.
- Preference shares (367 million euros at year-end 2012; 370 million euros at year-end 2011) are not included in 'Parent shareholders' equity', but in 'Minority interests'. These instruments meet the IAS 32 definition of equity instruments. As they are not owned by the shareholders, they are presented under 'Minority interests'.
- Non-voting core-capital securities: since the end of 2008, KBC Group NV 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 Flemish Region (each in the amount of 3.5 billion euros). The other features of the transactions are dealt with under 'Capital transactions and guarantee agreements with the government in 2008 and 2009' in the 'Additional information' section. On 2 January 2012, KBC repaid 0.5 billion euros (plus a 15% penalty) to the Belgian State, recognising the amount in the balance sheet at year-end 2011. On 17 December 2012, KBC repaid 3 billion euros (plus a 15% penalty) to the Belgian State, recognising the amount on the balance sheet at year-end 2012. KBC is aiming to reimburse 1.17 billion euros (plus a 50% penalty) to the Flemish Regional Government in the first half of 2013, a repayment that will be subject to the customary approval of the National Bank of Belgium.

Other notes

Note 40: Commitments and guarantees granted and received

(in millions of EUR)	31-12-2011	31-12-2012
Credit commitments – undrawn amount		
Given	33 218	27 802
Irrevocable	21 291	16 440
Revocable	11 927	11 362
Received	1 090	53
Financial guarantees		
Given	12 456	11 053
Guarantees/collateral received	47 790	37 607
For impaired and past due assets	3 981	2 716
For assets that are not impaired or past due	43 809	34 891
Other commitments		
Given	147	116
Irrevocable	143	116
Revocable	4	0
Received	93	0
Carrying value of financial assets pledged by KBC as collateral		
For liabilities*	46 963	20 811
For contingent liabilities	4 682	5 413

* At year-end 2012, some 3.5 billion euros' worth of residential mortgage loans and cash collections were entered in the cover asset register for the special estate of the covered bond programme (more information on covered bonds is provided under 'Liquidity risk' in the 'Value and risk management' section).

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

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

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

Collateral obtained by taking possession (in millions of EUR)	31-12-2011	31-12-2012
Non-current assets held for sale	0	0
Property and equipment	0	0
Investment property	170	2
Equity instruments and debt securities	0	0
Cash	237	167
Other	8	29
Total	414	197

Note 41: Leasing

(in millions of EUR)	31-12-2011	31-12-2012
Finance lease receivables		
Gross investment in finance leases, receivable	5 489	4 791
At not more than one year	1 464	1 208
At more than one but not more than five years	2 690	2 342
At more than five years	1 335	1 241
Unearned future finance income on finance leases	826	678
Net investment in finance leases	4 659	4 110
At not more than one year	1 277	1 054
At more than one but not more than five years	2 340	2 060
At more than five years	1 043	996
of which unguaranteed residual values accruing to the benefit of the lessor	10	33
Accumulated impairment for uncollectable lease payments receivable	191	174
Contingent rents recognised in income	104	119
Operating lease receivables		
Future aggregate minimum rentals receivable under non-cancellable leases	430	428
At not more than one year	146	136
At more than one but not more than five years	260	271
At more than five years	23	21
Contingent rents recognised in income	0	0

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

Note 42: Related-party transactions

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

	2011							2012						
	Subsidiaries	Associated companies	Joint ventures	Belgian State	Flemish Region	Other	Total	Subsidiaries	Associated companies	Joint ventures	Belgian State	Flemish Region	Other	Total
Assets	263	268	122	23 142	1 280	1 164	26 238	248	183	123	29 263	750	1 229	31 796
Loans and advances	58	154	85	762	0	1 137	2 196	98	132	83	0	0	1 227	1 541
Current account advances	2	1	0	0	0	379	381	1	1	0	0	0	440	441
Term loans	56	153	85	762	0	759	1 815	97	131	83	0	0	787	1 099
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	115	36	28	0	0	0	178	96	32	26	0	0	0	155
Held for trading	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Investment securities	115	36	28	0	0	0	178	96	32	26	0	0	0	155
Other amounts receivable	91	78	9	22 380	1 280	26	23 864	53	19	14	29 263	750	2	30 100
Liabilities	741	146	30	166	0	25	1 109	657	134	35	426	0	85	1 337
Deposits	733	134	30	0	0	25	922	656	126	35	0	0	83	900
Deposits	732	133	30	0	0	25	920	656	126	35	0	0	83	900
Other	1	1	0	0	0	0	2	0	1	0	0	0	0	0
Other financial liabilities	5	0	0	0	0	0	5	0	0	0	0	0	0	0
Debt certificates	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Subordinated liabilities	5	0	0	0	0	0	5	0	0	0	0	0	0	0
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	3	12	0	166	0	0	182	1	8	0	426	0	2	437
Income statement	12	0	4	957	42	42	1 056	-8	-5	6	950	35	36	1 013
Net interest income	16	0	2	957	42	43	1 061	0	-1	2	950	35	42	1 028
Earned premiums, insurance (before reinsurance)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Dividend income	3	4	1	0	0	0	9	1	3	4	0	0	0	7
Net fee and commission income	0	-1	0	0	0	-2	-3	1	-2	0	0	0	-1	-3
Other net income	4	0	0	0	0	1	6	0	0	0	0	0	0	0
General administrative expenses	-12	-3	0	0	0	-2	-17	-11	-4	0	0	0	-4	-19
Guarantees														
Guarantees issued by the group							0							0
Guarantees received by the group							0							0

Transactions with key management (members of the Board of Directors and Executive Committee of KBC Group NV) (in millions of EUR)*	2011	2012
Total*	**12**	**11**
Breakdown by type of remuneration		
Short-term employee benefits	6	9
Post-employment benefits	6	2
Defined benefit plans	6	2
Defined contribution plans	0	0
Other long-term employee benefits	0	0
Termination benefits	0	0
Share-based payments	0	0
Stock options (in units)		
At the beginning of the period	35 100	20 300
Granted	0	0
Exercised	0	-3 000
Composition-related changes	-14 800	-17 300
At the end of the period	20 300	0
Advances and loans granted to key management and partners	1	1

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

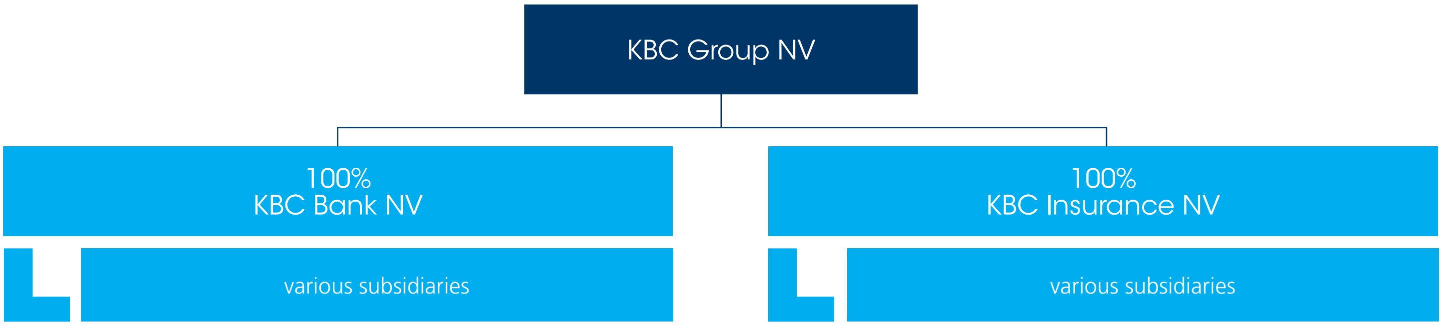
- The 'Other' heading in the first table comprises primarily KBC Ancora, Cera and MRBB. The recoverability of the claims outstanding in respect of Cera and KBC Ancora depends in part on the performance of the KBC group.
- All related-party transactions occur at arm's length.
- The Belgian State and Flemish Region are considered in the strict sense only (i.e. excluding companies controlled by these parties).
- There were no material transactions with associated companies other than shown in the table.
- Key management comprises the members of the Board of Directors and Group Executive Committee. More detailed information on remuneration paid to key management staff is provided in the 'Corporate governance statement' section.
- Information on the capital transactions and guarantee agreements with the Belgian Federal and Flemish Regional governments is provided under 'Additional information'. Please note that:
  - KBC Group NV redeemed 0.5 billion euros' worth of non-voting core-capital securities from the Belgian Federal Government (and paid a 15% penalty) on 2 January 2012. This was recognised in the balance sheet at year-end 2011. KBC Group NV repaid 3 billion euros and paid a 15% penalty to the Belgian Federal Government on 17 December 2012. This was recognised in the balance sheet at year-end 2012.
  - In 2009, KBC entered into a guarantee agreement with the Belgian State to cover most of its potential downside risk exposure to CDOs. Included in the 2012 results is the related cost which is recognised in 'Net result from financial instruments at fair value through profit or loss'. The guarantee agreement was reviewed at the end of 2012 (for more details, see the 'Additional information' section).
  - In 2011 and 2012, KBC paid a coupon (595 million euros in each year) on the non-voting core-capital securities issued to the Belgian Federal and Flemish Regional governments in 2008 and 2009.

Note 43: Statutory auditor's remuneration

In 2012, KBC Group NV and its subsidiaries paid Ernst & Young Bedrijfsrevisoren BCVBA fees amounting to a total of 13 114 829 euros for standard audit services (15 530 397 euros in 2011). Remuneration paid for other services came to 2 580 042 euros in 2012 (4 105 087 euros in 2011), and comprised 1 214 912 euros for other certifications, 183 927 euros for tax advice and 1 181 203 euros for other non-audit assignments (1 282 382, 174 338 and 2 648 367 euros, respectively, in 2011).

Note 44: Principal subsidiaries and associated companies at year-end 2012

The following table shows the group's legal structure in simplified form. Essentially, it comprises a holding company – KBC Group NV – which controls two large companies, viz. KBC Bank and KBC Insurance. Each of these companies has several subsidiaries and sub-subsidiaries, the most important of which are listed in the table.



Company	Registered office	Ownership percentage at group level	Business unit[1]	Activity
KBC BANK				
Fully consolidated subsidiaries				
Absolut Bank[2]	Moscow – RU	99.00	GC	Credit institution
Antwerp Diamond Bank NV[2]	Antwerp – BE	100.00	GC	Credit institution
CBC Banque SA	Brussels – BE	100.00	B	Credit institution
CIBANK EAD	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[2]	Bremen – DE	100.00	GC	Credit institution
KBC Bank Funding LLC & Trust (group)	New York – US	100.00	MB	Issuance of preference shares
KBC Bank Ireland Plc	Dublin – IE	100.00	MB	Credit institution
KBC Commercial Finance NV	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 Securities NV	Brussels – BE	100.00	MB	Stock exchange broker, corporate finance
K&H Bank Rt.	Budapest – HU	100.00	CEE	Credit institution
Associated companies				
Nova Ljubljanska banka d.d. (group)[2]	Ljubljana – SI	22.04	GC	Credit institution
KBC INSURANCE				
Fully consolidated subsidiaries				
ADD NV	Heverlee – BE	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	100.00	CEE	Insurance company
VAB Group	Zwijndrecht – BE	79.81	B	Automobile assistance
K&H Insurance Rt.	Budapest – HU	100.00	CEE	Insurance company
KBC Banka A.D.[2]	Belgrade – RS	100.00	GC	Credit institution
KBC Group Re SA	Luxembourg – LU	100.00	B	Insurance company
KBC Insurance NV	Antwerp – BE	100.00	B	Insurance company
Proportionately consolidated subsidiaries				
NLB Vita d.d.	Ljubljana – SI	50.00	GC	Insurance company
KBC GROUP NV (other direct subsidiaries)				
Fully consolidated subsidiaries				
KBC Global Services NV	Brussels – BE	100.00	GC	Group service provider
KBC Group NV	Brussels – BE	100.00	GC	Holding company

1 Business unit abbreviations (for presentation in the results): B = Belgium; CEE = Central & Eastern Europe; MB = Merchant Banking; GC = Group Centre.
2 Falls under the scope of IFRS 5.

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

- For a complete list of the companies included in or excluded from the scope of consolidation, as well as the associated companies, go to www.kbc.com.

Note 45: Main changes in the scope of consolidation

Company	Direct parent company	Consolidation method	Ownership percentage at group level		Comments
			31-12-2011	31-12-2012	
Additions					
None					
Exclusions					
Fidea NV	KBC Insurance NV	Full	100.00%	–	Sold in 1Q2012
KBC Clearing NV	KBC Bank NV	Full	100.00%	–	Deconsolidated in 2Q2012 due to immateriality
Tuir WARTA SA	KBC Insurance NV	Full	100.00%	–	Deconsolidated on 30 June 2012 following sale
KBL EPB (group)	KBC Group NV	Full	100.00%	–	Sold in 3Q2012
Kredyt Bank SA	KBC Bank NV	Full	80.00%	–	Deconsolidated on 31 December 2012 following merger with Bank Zachodni WBK
Centea NV	KBC Bank NV	Full	–	–	Sold in 3Q2011 (included for 6 months in the 2011 results)
Name changes					
None					
Changes in ownership percentage and internal mergers					
VAB Group	KBC Insurance NV	Full	74.81%	79.81%	Stake increased in 2Q2012
KBC Real Estate NV	KBC Bank NV	Full	100.00%	–	Merged with KBC Bank on 1 July 2012
Nova Ljubljanska banka d.d.	KBC Bank NV	Equity	25.00%	22.04%	Stake reduced in 3Q2012

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 have to be met before it can be applied, viz.:
  1 Management is committed to a plan to sell.
  2 An active programme to locate a buyer and complete the plan is initiated.
  3 The target price is reasonable in relation to its current fair value.
  4 The sale is within 12 months of classification.
  5 It is unlikely that the plan will be significantly changed or withdrawn.
- If all five of the above conditions are met, the assets and liabilities of the divestments are presented under a separate heading in the balance sheet (under 'Non-current assets held for sale and disposal groups' on the assets side and under 'Liabilities associated with disposal groups' on the liabilities side). As permitted under IFRS, the reference figures have not been restated. If the disposal groups are also classified as discontinued operations, their results (and the reference figures) are recognised under a single heading in the income statement, i.e. 'Net post-tax result from discontinued operations'.
- The following companies fell under the scope of IFRS 5:
  - At year-end 2012: primarily Absolut Bank, Antwerp Diamond Bank, KBC Bank Deutschland, KBC Banka and Nova Ljubljanska banka (NLB). None of these entities is classified as a 'discontinued operation'. An agreement to sell Absolut Bank and NLB was reached at the end of December 2012. Antwerp Diamond Bank, KBC Bank Deutschland and KBC Banka were added in the second quarter of 2012 to the list of entities that fall under IFRS 5, due to the ongoing negotiations and specific progress being made in the sales processes (and new insight being acquired into the prices), the approach of the sales deadline under the restructuring plan agreed with the European Commission, and KBC management's aim of carrying out the divestments as soon as possible.
  - At year-end 2011: KBL EPB, Fidea and WARTA. Only KBL EPB was classified as a 'discontinued operation'.
- The following information relates to the divestment agreements that had already been signed, but not yet completed, on 31 December 2012.

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

- The table below contains details of the impact of activities falling under the scope of IFRS 5.

(in millions of EUR)	2011	2012
A DISCONTINUED OPERATIONS		
Income statement		
Income statement, KBL EPB		
Net interest income	151	55
Net fee and commission income	349	167
Other net income	63	34
Total income	563	257
Operating expenses	-437	-220
Impairment	-107	-22
Share in results of associated companies	1	0
Result before tax	19	15
Income tax expense	6	-8
Result after tax	25	7
Result from sale agreement for KBL EPB		
Impairment recognised on remeasurement to fair value less costs to sell	-444	25
Tax income relating to remeasurement to fair value less costs to sell (deferred taxes)	0	0
Result from sale (after tax)	-444	25
Net post-tax result from discontinued operations	**-419**	**32**
Cashflow statement, KBL EPB	**2011**	**2012**
Net cash from or used in operating activities	2 200	-1 612
Net cash from or used in investing activities	-8	8
Net cash from or used in financing activities	-569	6
Net cash inflows/outflows	1 623	-1 597
Earnings per share from discontinued operations, KBL EPB	**2011**	**2012**
Basic	-1.23	0.09
Diluted	-1.23	0.09
Commitments, KBL EPB	**31-12-2011**	**31-12-2012**
Credit commitments – undrawn amount (given)	3 053	–
Credit commitments – undrawn amount (received)	2 682	–
Financial guarantees (given)	3 378	–
Financial guarantees (received)	5 218	–
Other commitments (given)	39	–
Other commitments (received)	0	–
Derivatives – notional amounts, KBL EPB	**31-12-2011 assets/liabilities**	**31-12-2012 assets/liabilities**
Held for trading		
Interest rate contracts	12 810 / 12 810	–
Foreign exchange contracts	8 392 / 8 326	–
Equity contracts	2 597 / 2 597	–
Credit contracts	2 / 2	–
Commodity and other contracts	19 / 19	–
Micro hedging: fair value hedge		
Interest rate contracts	1 235 / 1 235	–
Foreign exchange contracts	7 / 10	–
Equity contracts	0 / 0	–
Portfolio hedge of interest rate risk		
Interest rate contracts	171 / 171	–

(in millions of EUR)

B NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS AND LIABILITIES ASSOCIATED WITH DISPOSAL GROUPS AND LIABILITIES ASSOCIATED WITH DISPOSAL GROUPS (figures between brackets relate to discontinued operations)

Balance sheet	31-12-2011	31-12-2012
Assets		
Cash and cash balances with central banks	1 076 (1 076)	484 (0)
Financial assets	16 797 (12 523)	6 407 (0)
Fair value adjustments of the hedged items in portfolio hedge of interest rate risk	12 (12)	0 (0)
Tax assets	110 (95)	83 (0)
Investments in associated companies	13 (13)	3 (0)
Investment property and other equipment	278 (224)	113 (0)
Goodwill and other intangible assets	352 (196)	14 (0)
Other assets	485 (103)	35 (0)
Total assets	19 123 (14 242)	7 138 (0)
Liabilities		
Financial liabilities	12 901 (12 710)	3 657 (0)
Technical provisions (before reinsurance)	4 533 (424)	0 (0)
Tax liabilities	38 (6)	12 (0)
Provisions for risks and charges	30 (22)	9 (0)
Other liabilities	631 (304)	61 (0)
Total liabilities	18 132 (13 466)	3 739 (0)
Other comprehensive income	**2011**	**2012**
Available-for-sale reserve	-81 (-72)	101 (78)
Deferred tax on above reserve	29 (20)	-27 (-22)
Hedging reserve (cashflow hedges)	0 (0)	7 (0)
Translation differences	7 (7)	55 (-4)
Total	-45 (-46)	136 (52)

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 statutory auditor. The section also includes information on exposure to the sovereign bonds of a selection of countries and on the portfolio of structured credit (see under 'Credit risk').

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

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

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

Note 49: General information (IAS 1)

- Name: KBC Group.
- Incorporated: 9 February 1935 as Kredietbank; 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 National Bank of Belgium.
- Life: Indefinite.
- Object: the company is a financial holding company which has as its object the direct or indirect holding and management of participating interests in other companies, including – but not restricted to – credit institutions, insurance companies and other financial institutions. The company also has as its object the provision of support services to third parties, as mandatary or otherwise, in particular to companies in which the company has a participating interest – either directly or indirectly. The company may perform all acts that can contribute directly or indirectly to the achievement of its object in the broadest sense (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 and are published on www.kbc.com. The financial statements and annual report are filed with the National Bank of Belgium. These documents can also be obtained from the company's registered office or downloaded from www.kbc.com. Extracts of minutes concerning decisions on the appointment and the termination of the offices 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 are published in the financial press and/or on www.kbc.com. Convening notices of general meetings of shareholders are published in the *Belgian Official Gazette*, in the financial press, in the media and on www.kbc.com.
- General Meeting of Shareholders: a General Meeting is held annually at the registered office of the company or at any other place indicated in the convening notice, at 10 a.m. on the first Thursday of May, or, if this day is a statutory public holiday or bank holiday, at 10 a.m. on the business day immediately preceding it.
- The right of a shareholder to attend the General Meeting and to exercise voting rights at said meeting is granted solely on the basis of the accounting record of the shares in the name of the shareholder on the record date, i.e. at midnight (Belgian time) on the fourteenth day before the General Meeting, either by entry of the shares in the share register, by entry of the shares on the accounts of a recognised account holder or clearing house, or by presenting any bearer shares to a financial intermediary, and this regardless of the number of shares that the shareholder possesses on the day of the General Meeting. The right of a holder of bonds, warrants or certificates issued in co-operation with the company, to attend the General Meeting is similarly granted solely on the basis of the accounting record of these securities in his/her name on the record date. Every shareholder and every holder of bonds, warrants or certificates issued in co-operation with the company, who wishes to attend the General Meeting, must, by no later than the sixth day before the day of the General Meeting, inform the company or a person so designated by the company of his/her intention to attend and also indicate the number of securities he/she wishes to represent. Holders of bearer or book-entry securities wishing to attend the General Meeting must also ensure that the company or a person so designated by the company, receives on the same day at the latest, a certificate supplied by the financial intermediary, the recognised account holder or the clearing house, which states the number of bearer or book-entry securities – submitted or registered in their name on their accounts on the record date – they wish to represent when attending the General Meeting. The provisions of this Article also apply to the holders of profit-sharing certificates – which must be in registered or book-entry form – in the cases where such holders have the right to attend the General Meeting.

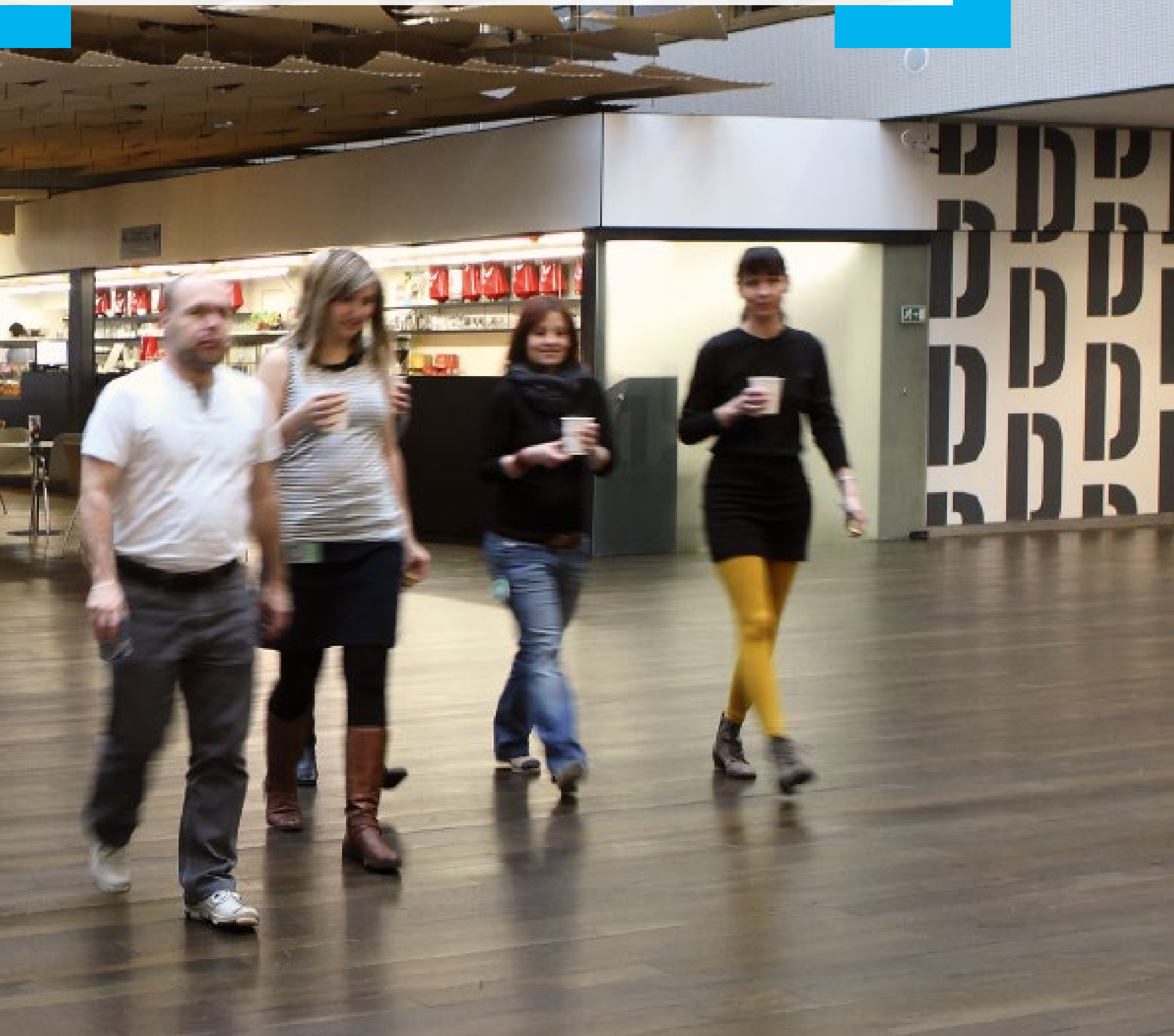
3 Company annual accounts

The company annual accounts of KBC Group NV are presented here in abridged form. A full set of these accounts will be submitted for approval to the General Meeting of Shareholders of 2 May 2013.

As required by law, the company annual accounts, the report of the Board of Directors and the statutory auditor's report are filed with the National Bank of Belgium. These documents are available free of charge from KBC Group NV, Investor Relations Office, IRO, Havenlaan 2, 1080 Brussels, Belgium. They can be consulted at www.kbc.com after they have been filed.

The statutory 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 report.



Balance sheet, profit and loss account, and profit appropriation

Company balance sheet after profit appropriation (B-GAAP)

(in millions of EUR)	31-12-2011	31-12-2012
Fixed assets	**16 493**	**15 068**
Financial fixed assets	16 493	15 068
Affiliated companies	16 482	15 068
Participating interests	16 232	14 818
Amounts receivable	250	250
Companies linked by participating interests	11	1
Participating interests	1	1
Amounts receivable	10	0
Current assets	**1 907**	**817**
Amounts receivable within one year	21	20
Trade debtors	0	0
Other amounts receivable	20	20
Investments	1 849	375
Own shares	154	0
Other investments	1 695	375
Cash at bank and in hand	28	415
Deferred charges and accrued income	9	6
Total assets	**18 400**	**15 885**
Equity	**10 016**	**10 857**
Capital	1 245	1 450
Issued capital	1 245	1 450
Share premium account	4 337	5 385
Reserves	1 445	1 447
Legal reserve	125	127
Reserves not available for distribution	156	1
Untaxed reserves	190	190
Reserves available for distribution	975	1 129
Profit (Loss(-)) carried forward	2 989	2 575
Amounts payable	**8 384**	**5 028**
Amounts payable at more than one year	6 901	3 600
Financial debts	6 901	3 600
Subordinated loans	6 500	3 500
Non-subordinated bonds	401	100
Amounts payable within one year	1 457	1 416
Amounts payable at more than one year falling due within the year	730	0
Financial debts	113	400
Credit institutions	0	0
Other loans	113	400
Trade debts	6	5
Taxes, remuneration and social security charges	1	1
Remuneration and social security charges	1	1
Other amounts payable	607	1 010
Accrued charges and deferred income	26	12
Total liabilities	**18 400**	**15 885**

Company profit and loss account (B-GAAP)*

(in millions of EUR)	31-12-2011	31-12-2012
Operating income	2	7
Other operating income	2	7
Operating charges	57	100
Services and other goods	52	94
Remuneration, social security charges and pensions	5	6
Operating profit (loss (-))	**-56**	**-93**
Financial income	3 226	1 171
Income from financial fixed assets	3 216	913
Income from current assets	8	10
Other financial income	3	249
Financial charges	921	1 120
Debt charges	706	1 004
Write-downs on current assets: increase (decrease (-))	215	-120
Other financial charges	1	236
Profit (Loss (-)) on ordinary activities, before tax	**2 249**	**-42**
Extraordinary income	6	92
Reversal of write-downs on financial fixed assets	0	92
Gains on disposal of fixed assets	6	0
Extraordinary charges	434	6
Write-downs on financial fixed assets	434	0
Loss on disposal of fixed assets	0	6
Profit (Loss (-)) for the period, before tax	**1 821**	**44**
Income taxes	0	-2
Profit (Loss (-)) for the period	**1 821**	**46**
Profit (Loss (-)) for the period to be appropriated	**1 821**	**46**

* 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)

(in millions of EUR)	31-12-2011	31-12-2012
Profit (Loss (-)) to be appropriated	**2 992**	**3 034**
Profit (Loss (-)) for the period to be appropriated	1 821	46
Profit (Loss (-)) carried forward from the previous period	1 171	2 989
Transfers to equity	**0**	**2**
To the legal reserve	0	2
To other reserves	0	0
Profit (Loss (-)) to be carried forward	**2 989**	**2 575**
Profit to be distributed	**3**	**457**
Dividends	3	417
Directors' entitlements	0	0
Other beneficiaries, employee profit-sharing	0	40

It will be proposed to the General Meeting of Shareholders that the profit for appropriation for the 2012 financial year be distributed as shown in the table. If this proposal is approved, the gross dividend will come to 1.00 euro per share for the 2012 financial year. All shares are entitled to dividend.

Notes to the company annual accounts

Note 1: Financial fixed assets (B-GAAP; non-consolidated)

(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 31-12-2011	**16 232**	**250**	**1**	**10**
Acquisitions in 2012	0	0	0	0
Disposals in 2012	-910	0	0	-10
Other changes in 2012	-504	0	0	0
Carrying value at 31-12-2012	**14 818**	**250**	**1**	**0**

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%);
- KBC Global Services NV (99.99%).

The main change in 2012 concerned the completion of the sale of the shareholding in KBL EPB (-910 million euros) and the repayment of a portion of share premium by KBC Insurance NV (-500 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 (bonds issued by Nova Ljubljanska banka) were sold to KBC Bank NV in 2012.

Note 2: Changes in equity (B-GAAP; non-consolidated)

(in millions of EUR)	31-12-2011	Capital increase by private placement	Capital increase for staff	Appropriation of results	31-12-2012
Capital	1 245	205	1	0	1 450
Share premium account	4 337	1 046	2	0	5 385
Reserves	1 445	0	0	2	1 447
Profit (Loss) carried forward	2 989	0	0	-414	2 575
Equity	**10 016**	**1 251**	**3**	**-412**	**10 857**

At year-end 2012, the company's issued share capital amounted to 1 450 401 447.91 euros, represented by 416 967 355 shares, and the share premium account to 5 384 641 464.66 euros. The share capital is fully paid up. In 2012, the share capital increased by 205 274 906.16 euros and the number of shares by 58 987 042. The share premium account went up by 1 047 814 296.42 euros. The new shares were issued by way of two capital increases decided upon by the Board of Directors under its authority to raise capital, with a suspension of the preferential subscription rights of existing shareholders:

- During the first capital increase on 13 December 2012, which by means of a private placement was reserved exclusively for institutional and professional investors, 58 835 294 new shares (without VVPR strip) were issued at a price of 21.25 euros a share. The capital was increased by 204 746 823.12 euros and the share premium account by 1 045 503 174.38 euros. The transaction was carried out to help achieve the company's aim of maintaining a common equity ratio of 10% (under fully loaded Basel III rules and including the remaining state aid) as of 1 January 2013. For the existing shareholders, this capital increase led to a dilution of 4.34% in net asset value per share and to a dilution of 14.12% in voting rights and share of profit.
- During the second capital increase on 19 December 2012, which was reserved exclusively for the staff of KBC Group NV and some of its Belgian subsidiaries, 151 748 shares (with VVPR strip) were issued at a price of 18.71 euros a share. These shares are blocked for two years, since the issue price was less than the market price of the KBC share. The capital was increased by 528 083.04 euros and the share premium account by 2 311 122.04 euros. By carrying out this capital increase, KBC Group NV aims to strengthen ties with its staff and the staff of its Belgian subsidiaries. Given the limited extent of the capital increase, the financial ramifications for existing shareholders are minor.

All of the shares issued in 2012 will also be entitled to dividend from the 2012 financial year (payment in 2013).

At year-end 2012, the number of VVPR strips issued came to 58 498 373. On 1 January 2013, the rate of withholding tax on most types of investment income was increased to 25%, so that the VVPR strips no longer give entitlement to a reduced rate of withholding tax on dividends payable as of that date (Act of 27 December 2012, *Belgian Official Gazette* of 31 December 2012).

The authorisation to increase capital may be exercised until 21 May 2014 for an amount of 693 933 425.16 euros. Based on a par value of 3.48 euros a share, a maximum of 199 406 156 new KBC Group NV shares can therefore be issued under this authorisation.

Note 3: Shareholders

Notifications received

The table below gives an overview of the notifications received in 2011 and 2012 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 10*bis* of the *Articles of Association* of KBC Group NV stipulates the threshold at which individuals must disclose their shareholdings. KBC publishes these notifications on www.kbc.com. 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*	Notification relating to	Explanation	Number of KBC shares (= voting rights) on date concerned	% of total voting rights on date concerned
BlackRock Inc.	2 March 2011	Size of holding moves below the 3% notification threshold	10 701 448	2.99%
BlackRock Inc.	6 June 2011	Size of holding exceeds the 3% notification threshold	10 833 173	3.03%
BlackRock Inc.	23 June 2011	Size of holding moves below the 3% notification threshold	10 392 675	2.90%
BlackRock Inc.	11 July 2011	Size of holding exceeds the 3% notification threshold	10 840 797	3.03%
BlackRock Inc.	2 December 2011	Size of holding moves below the 3% notification threshold	10 518 102	2.94%
KBC Group NV	16 October 2012	Size of holding moves below the 5% and 3% notification thresholds (as a result of the sale of all own shares held by KBC Group NV and KBC Bank NV)	300	0.00%
BlackRock Inc.	6 December 2012	Size of holding exceeds the 3% notification threshold	11 026 587	3.08%
Cera CVBA and KBC Ancora Comm. VA (combined)	13 December 2012	Number of shares held by Cera goes up (no change at KBC Ancora), as does the total number of KBC shares (following the capital increase), causing the combined Cera CVBA and KBC Ancora Comm. VA holding to move below the 30% notification threshold, and the (individual) KBC Ancora Comm. VA holding to move below the 20% notification threshold	111 443 546	26.74%

* More detailed information can be found in the respective notification forms available at www.kbc.com.

Shareholder structure

The 'Corporate governance statement' section contains an overview of the shareholder structure at year-end 2012, based on all the notifications received pursuant to the Belgian Act of 2 May 2007.

Own shares held by KBC group companies

KBC shares held by KBC group companies	Address	Number of KBC shares on 31-12-2011	Number of KBC shares on 31-12-2012
KBC Group Re SA (Assurisk)	5, Place de la Gare, 1616 Luxembourg, Grand Duchy of Luxembourg	300	300
KBC Bank NV*	Havenlaan 2, 1080 Brussels, Belgium	3 919 045	0
KBC Securities NV	Havenlaan 12, 1080 Brussels, Belgium	2	2
Total		3 919 347	302
As a percentage of the total number of shares		*1.1%*	*0.0%*
KBC Group NV itself	Havenlaan 2, 1080 Brussels, Belgium	14 249 707	0
Grand total		18 169 054	302
As a percentage of the total number of shares		*5.1%*	*0.0%*

* Direct subsidiary.

The average par value of the KBC share came to 3.48 euros during 2012.

KBC's strategic plan, approved by the European Commission in November 2009, also includes the sale of own shares that KBC holds on its balance sheet. In line with this agreement, KBC Group NV and KBC Bank NV announced on 16 October 2012 the successful completion of the private placement of 18.2 million KBC shares (5.1% of the issued capital at that time). The gross proceeds from this transaction came to 350 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 4: Balance sheet

At year-end 2012, total assets came to 15 885 million euros. 'Financial fixed assets' are discussed in Note 1. Listed under 'Current assets', 'Investments' came to 375 million euros. The decrease compared to 2011 is related to the short-term investment of the interim dividend received from KBC Bank NV in December 2011 (1 500 million euros). 'Equity' is dealt with in Note 2. At 5 028 million euros, 'Amounts payable' were down 3 356 million euros on their year-earlier level, due primarily to the redemption of 3.5 billion euros' worth of core-capital securities held by the Belgian Federal Government (0.5 billion euros in January 2012 and 3 billion euros in December 2012), repayment of 530 million euros in loans that had become due, the issue of new commercial paper in the amount of 400 million euros and 457 million euros in debt resulting from the appropriation of profit for the 2012 financial year.

Note 5: Profit and loss account

KBC Group NV generated a net profit of 46 million euros in 2012, as opposed to a net profit of 1 821 million euros a year earlier. The main financial income items and charges in 2012 were:

- dividend receipts from financial fixed assets totalling 913 million euros (3 210 million euros a year earlier);
- the reversal of write-downs amounting to 120 million euros, due to the sale of own shares in portfolio;
- the coupon payment on the core-capital securities issued to the Belgian Federal and Flemish Regional governments (543 million euros);
- the 15% penalty (450 million euros) paid to the Belgian Federal Government in relation to the redemption of 3 billion euros' worth of core-capital securities in December 2012.

The main extraordinary income item in 2012 concerned the reversal of write-downs amounting to 92 million euros on completion of the sale of KBL EPB.

Note 6: Statutory auditor's remuneration

In 2012, KBC Group NV paid Ernst & Young Bedrijfsrevisoren BCVBA fees of 83 823 euros for standard audit services. Remuneration paid for non-standard audit services came to 115 393 euros.

Note 7: Branch offices

KBC Group NV does not have any branch offices (either in Belgium or abroad).

Note 8: Additional information

The information required in accordance with 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


KBC PRESENTEERT
HET GAT IN DE MARKT
Als u ons laat weten wat deze gemeente nodig heeft, kunnen wij ondernemende mensen helpen om dat gat te vullen. Want zo helpen we elkaar vooruit.
KBC gaat op zoek naar de gaten in de markt van alle gemeenten in Vlaanderen.
Want mensen van hier helpen met middelen van hier is beter voor hier.
kbc.be/hetgatindemarkt
Ontvangst

Capital transactions and guarantee agreements with the government in 2008 and 2009

Core-capital securities sold to the Belgian State and the Flemish Region

Since the end of 2008, KBC Group NV has issued a total of 7 billion euros in perpetual, non-transferable, non-voting core-capital securities that have equal ranking (*pari passu*) with ordinary shares upon liquidation. These have been subscribed by the Belgian State (the Federal Holding and Investment Company) and the Flemish Region, each in the amount of 3.5 billion euros. The transaction with the Belgian State was concluded in December 2008, while the agreement with the Flemish Region was signed in July 2009. 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). The other features of the transactions are (simplified):

- Issue price: 29.50 euros per security.
- Coupon: higher of (i) 2.51 euros per security (corresponding to an interest rate of 8.5%), and (ii) 120% of the dividend paid on ordinary shares for 2009 (coupon payment in 2010) and 125% for 2010 and subsequent years (coupon payments in 2011 and later). No coupon is payable if there is no dividend.
- Buyback option: subject to the approval of the financial regulator, KBC Group NV may at any time repurchase all or some of the securities at 150% of the issue price (44.25 euros), payable in cash.
- Exchange option (only valid for the transaction with the Belgian State): after three years (i.e. from December 2011), KBC Group NV may at any time exchange all or some of the securities for ordinary shares on a one-for-one basis. Should KBC Group NV decide to do this, the State may choose to receive payment in cash for the securities. The cash amount will be equal to 115% (i.e. a 15% penalty) of the issue price as of the fourth year and will increase each subsequent year by 5 percentage points, with a cap at 150%.

On 2 January 2012, KBC repaid a first tranche of 500 million euros to the Belgian Federal Government, along with a 15% penalty (see 'exchange option' above; recognised in the balance sheet on 31 December 2011). On 17 December 2012, KBC repaid 3 billion euros plus a 15% penalty to the Belgian Federal Government (recognised in the balance sheet on 31 December 2012). As regards the remaining 3.5 billion euros owed to the Flemish Regional Government, KBC aims to repay 1.17 billion euros, together with the 50% penalty, in the first half of 2013. This repayment is subject to the customary approval of the National Bank of Belgium.

Guarantee agreement in respect of CDO and MBIA-related exposure

In May 2009, KBC signed an agreement with the Belgian State regarding a guarantee for a substantial part of its structured credit portfolio. The plan basically comprises a notional amount that initially totalled 20 billion euros (now 12.2 billion euros, see below) with 5.5 billion euros relating to unhedged super senior CDO investments and 14.4 billion euros relating to counterparty exposure to MBIA. The transaction is structured as follows (the CDO portfolio consists of several different CDOs; the guarantee structure applies to each CDO; the following figures refer to the sum of all CDOs covered by the plan).

Since the CDO exposure has been reduced considerably since the agreement was concluded, the initial amounts have changed. Amounts at year-end 2012 and the initial amounts are presented in each case below.

- First tranche of 1.7 billion euros (initially 3.2 billion euros): KBC bears all credit losses.
- Second tranche of 1.5 billion euros (initially 2.0 billion euros): KBC bears any credit losses and 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 9 billion euros (initially 14.8 billion euros): the Belgian State will compensate 90% of any credit losses in cash (KBC continues to bear 10% of the risk).

This agreement mitigates a substantial part of the potential negative impact of the relevant MBIA and CDO exposure. Nevertheless, the results will remain volatile in the future, since rising or falling market values, for instance, could lead to existing valuation losses being reversed or fresh valuation losses being 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 its impact on the income statement can be found in Note 5 in the 'Consolidated financial statements' section.

In December 2012, KBC reached an agreement with the Belgian Federal Government regarding revision of the guarantee agreement. Additional clauses have been added to the revised agreement that grant KBC a conditional discount on the outstanding fees (under certain strict conditions and limited to a set maximum amount). In other words, the government has included an incentive for KBC if KBC succeeds in significantly reducing the government's exposure. Any future impact on KBC's results will depend on market conditions and opportunities that arise going forward.

Glossary of ratios used

Basic earnings per share
[result after tax, attributable to equity holders of the parent] / [average number of ordinary shares, less treasury shares]. If a coupon (and/or penalty) is paid on the core-capital securities sold to the Belgian Federal and Flemish Regional governments, it will be deducted from the numerator.

CAD ratio
[regulatory capital] / [total weighted risks]. 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).

Common equity ratio (Basel III)
[common equity tier-1 capital] / [total weighted risks]. The calculation is based on the most recently available Capital Requirement Regulation and Capital Requirement Directive (CRD IV) and includes in the numerator the core-capital securities sold to the government that are grandfathered by the regulator.

Cost/income ratio
[operating expenses of the banking activities] / [total income of the banking activities].

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

Credit cost ratio
[net changes in impairment for credit risks] / [average outstanding loan portfolio]. For a definition of the loan portfolio, see the 'Value and risk management' section (for example, governments bonds are not included).

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, less treasury shares and non-mandatorily convertible bonds]. If a coupon (and/or penalty) is paid on the core-capital securities sold to the Belgian Federal and Flemish Regional governments, it will be deducted from the numerator.

Equity market capitalisation
[closing price of KBC share] x [number of ordinary shares].

Liquidity coverage ratio (LCR)
[stock of high-quality liquid assets] / [total net cash outflows over the next 30 calendar days].

Net interest margin of the group
[underlying net interest income of the banking activities] / [average interest-bearing assets of the banking activities].

Net stable funding ratio (NSFR)
[available amount of stable funding] / [required amount of stable funding].

Non-performing loan ratio
[amount outstanding of non-performing loans (loans for which principal repayments or interest payments are more than 90 days in arrears or overdrawn)] / [total outstanding loan portfolio].

Parent shareholders' equity per share
[parent shareholders' equity] / [number of ordinary shares, 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 result recorded 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 Federal and Flemish Regional 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 weighted risks]. 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 Federal and Flemish Regional governments).

List of companies included in or excluded from the scope of consolidation, and associated companies as at 31 December 2012

The list of companies included in or excluded from the scope of consolidation, and associated companies as at 31 December 2012 is available at www.kbc.com.
An abridged list of the main group companies can be found in Note 44 in the 'Consolidated financial statements' section.

Management certification

'I, Luc Popelier, 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, including its consolidated subsidiaries, and that the annual report provides a fair overview of the development, the results and the situation of KBC Group NV, including its consolidated subsidiaries, as well as an overview of the main risks and uncertainties to which they are exposed.'

Contact details and financial calendar

Contact details

KBC Telecenter (Information on products, services and publications of the KBC group can be obtained on weekdays between 8 a.m. and 10 p.m., and on Saturdays and bank holidays between 9 a.m. and 5 p.m.)
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Press
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Financial calendar

The most up-to-date version of the financial calendar is available at www.kbc.com.

Earnings release for 4Q 2012 and full year 2012	14 February 2013
Publication of the *Report to Society*	April 2013
Publication of the *Annual Report* and the *Risk Report for 2012*	2 April 2013
Publication of the *CSR Report for 2012*	2 April 2013
General Meeting (agenda available at www.kbc.com)	2 May 2013
Ex-coupon date / record date / dividend payment	13 / 15 / 16 May 2013
Earnings release for 1Q 2013	16 May 2013
Earnings release for 2Q 2013	8 August 2013
Earnings release for 3Q 2013	14 November 2013
Earnings release for 4Q 2013	13 February 2014

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