2009 KBC ANNUAL REPORT

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TO THE READER

CENTRAL & EASTERN EUROPE AND RUSSIA 'CEER' as it appears in this annual report refers to 'Central & Eastern Europe and Russia', as in the name of our CEER Business Unit. COMPANY NAME 'KBC', 'the group' or the 'KBC group' as used in this annual report refer to the consolidated entity, i.e. KBC Group NV including its subsidiaries and sub-subsidiaries. 'KBC Group NV' refers solely to the parent company. 'KBC Bank and Insurance Holding Company' refers to KBC before the merger with Almanij. TRANSLATION This annual report is available in Dutch, French and English. The Dutch version is the original; the other language versions are unofficial translations. KBC warrants that every reasonable effort has been made to avoid any discrepancies between the different language versions. However, should such discrepancies exist, the Dutch version will take precedence.

FORWARD-LOOKING STATEMENTS The expectations, forecasts and statements regarding future developments that are contained in this annual report are, of course, based on assumptions and are contingent on a number of factors that will come into play in the future. Consequently, the actual situation may turn out to be (substantially) different. REPORT OF THE BOARD OF DIRECTORS This report in its entirety serves as the report of the Board of Directors to the Annual General Meeting of Shareholders.

GROUP PASSPORT

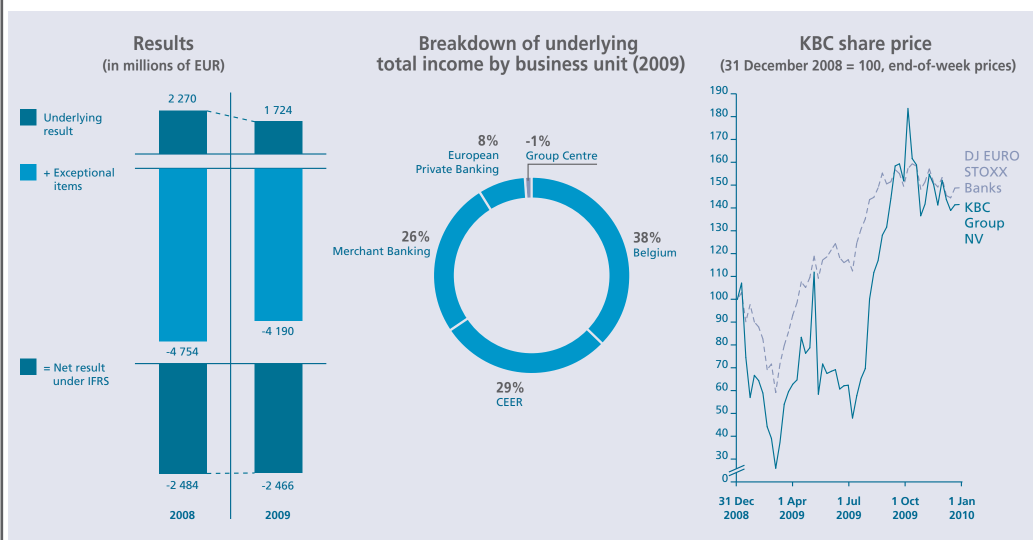
Area of operation and strategy

KBC is an integrated bancassurance group, catering mainly for retail, SME and mid-cap customers. It occupies leading positions on its home markets of Belgium, the Czech Republic, Slovakia, Hungary, Poland and Bulgaria. Elsewhere around the globe, the group has established a presence in selected countries and regions.

Shareholders		**Bank branches**	
KBC Ancora	23%	Belgium	861
Cera	7%	Central & Eastern Europe and Russia	1 381
MRBB	12%	**Insurance agencies**	
Other core shareholders	11%	Belgium	498
KBC group companies	5%	Central and Eastern Europe	11 272
Free float	42%	**Number of staff (in FTEs)**	
Total	100%	Belgium	17 695
Customers (estimate)		Central & Eastern Europe and Russia	31 380
Belgium	4 million	Rest of the world	5 110
Central & Eastern Europe and Russia	9 million	Total	54 185
Information		**Management**	
Website	www.kbc.com	President of the Executive Committee	Jan Vanhevel
Telecentre	kbc.telecenter@kbc.be	Chairman of the Board of Directors	Jan Huyghebaert

Long-term credit ratings	**KBC Bank**	**KBC Insurance**	**KBC Group NV**
Fitch	A	A	A
Moody's	Aa3	–	A1
Standard & Poor's	A	A	A-

Data as at 31 December 2009, unless otherwise indicated. For definitions and comments, see the detailed tables and analyses in this annual report.



KEY FINANCIAL FIGURES

	2004	2005	2006	2007	2008	2009
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
Loans and advances to customers	111 177	119 475	127 152	147 051	157 296	153 230
Securities	98 862	125 810	111 959	105 023	94 897	98 252
Deposits from customers and debt securities	157 712	171 572	179 488	192 135	196 733	193 464
Gross technical provisions and liabilities under investment contracts, insurance	17 190	22 394	25 121	26 833	26 724	29 951
Parent shareholders' equity, including non-voting core-capital securities	12 328	15 751	17 219	17 348	14 210	16 662
Risk-weighted assets at group level (Basel I to end of 2006, Basel II since 2007)	114 795	128 680	140 016	146 998	155 291	143 359
Assets under management	156 677	196 358	208 560	230 890	206 842	205 234
Income statement (in millions of EUR)						
Total income	7 632	8 370	9 650	9 802	4 827	5 310
Operating expenses	-4 944	-4 914	-4 925	-5 219	-5 600	-5 292
Impairment	-365	-103	-175	-267	-2 234	-2 777
Net profit, group share	1 615	2 249	3 430	3 281	-2 484	-2 466
Basic earnings per share (in EUR)	4.48	6.26	9.68	9.46	-7.31	-7.26
Diluted earnings per share (in EUR)	4.39	6.15	9.59	9.42	-7.28	-7.26
Underlying results (in millions of EUR)						
Total income	7 632	8 323	8 738	9 481	9 172	9 111
Operating expenses	-4 944	-4 794	-4 976	-5 164	-5 591	-4 888
Impairment	-365	-54	-175	-191	-743	-1 913
Net profit, group share	1 615	2 306	2 548	3 143	2 270	1 724
Basic earnings per share (in EUR)	4.48	6.42	7.19	9.06	6.68	5.08
Diluted earnings per share (in EUR)	4.39	6.27	7.13	9.02	6.66	5.08
Net profit per business unit						
Belgium	–	1 096	1 104	1 364	1 145	1 103
Central & Eastern Europe and Russia	–	327	426	641	687	140
Merchant Banking	–	821	871	965	418	411
European Private Banking	–	190	181	211	161	140
Group Centre	–	-127	-33	-36	-140	-71
KBC share						
Number of shares outstanding, end of period ('000)	310 849	366 567	363 217	355 115	357 753	357 918
Equity per share, end of period (in EUR)	33.6	43.8	49.2	50.7	31.5	28.4
Highest share price for the financial year (in EUR)	59.8	79.0	93.3	106.2	95.0	39.4
Lowest share price for the financial year (in EUR)	37.3	56.0	76.2	85.9	18.2	5.5
Average share price for the financial year (in EUR)	49.2	66.4	85.9	95.8	65.2	20.9
Share price at year-end (in EUR)	56.5	78.7	92.9	96.2	21.5	30.4
Gross dividend per share (in EUR)	1.84	2.51	3.31	3.78	0.0	0.0
Equity market capitalisation, end of period (in billions of EUR)	17.6	28.8	33.7	34.2	7.7	10.9
Ratios						
Return on equity	14%	18%	24%	21%	-18%	-23%
Return on equity (based on underlying profit)	14%	18%	18%	20%	16%	16%
Cost/income ratio, banking	65%	60%	53%	56%	104%	104%
Cost/income ratio, banking (based on underlying profit)	65%	58%	58%	57%	64%	55%
Combined ratio, non-life insurance	95%	96%	96%	96%	95%	98%
Credit cost ratio, banking	0.20%	0.01%	0.13%	0.13%	0.70%	1.11%
Tier-1 ratio, group (Basel I to end of 2006, Basel II since 2007)	11%	10%	10%	9%	9%	11%

For definitions and comments, see the detailed tables and analyses in this annual report. The figures for 2004 are based on a combined KBC-Almanij entity (except for 'Number of shares outstanding' and 'Equity market capitalisation', which relate solely to the KBC Bank and Insurance Holding Company). Moreover, the IAS 32, IAS 39 and IFRS 4 standards were not applied to the 2004 figures, and underlying profit was equated to net profit. The underlying results are described in the 'Our results in 2009' section.

2009 MAIN EVENTS

January
- Agreement is reached with the Flemish Regional Government on additional measures to bolster the group's capital structure, which results in the core capital being strengthened by 2 billion euros, later increased to 3.5 billion euros.
- A strategic assessment is launched to substantially reduce the group's risk profile, to review risk management and to achieve a further sustainable increase in the capital ratios.

May
- Luc Philips is appointed as the group's Chief Financial Officer, succeeding Herman Agneessens on his retirement.
- The marked deterioration in the creditworthiness of monoline insurer MBIA and valuation losses relating to the remaining super senior CDO tranches have a highly adverse impact on the first-quarter results.
- The group signs a guarantee agreement with the Belgian Federal Government to limit the future negative influence of the structured credit portfolio.
- Market research shows that customer confidence in KBC remains high.

June
- The European Commission provisionally approves the measures agreed with the Belgian and Flemish governments to bolster KBC's capital structure.

August
- The group publishes positive results again for the second quarter of 2009.

September
- The Executive Committee is significantly reorganised and rejuvenated. Jan Vanhevel is appointed Chief Executive Officer, succeeding André Bergen.
- KBC concludes new company collective labour agreements in Belgium, providing a clear framework in the areas of job security, variable pay, purchasing power, labour flexibility and the distribution network.

October
- The repurchase programme for a number of hybrid loans that was announced in September is successfully closed. It has a positive impact on the results and raises the group's core tier-1 capital ratio.
- KBC's website (www.kbc.com) is recognised as 'Best Corporate Website in Belgium' by the Belgian Association of Financial Analysts.

November
- The group publishes strong third-quarter results.
- The European Commission approves KBC's strategic plan. The updated strategy focuses on bancassurance for retail, SME and mid-cap customers in Belgium, the Czech Republic, Slovakia, Hungary, Poland and Bulgaria. The scaling down or sale of non-core activities will over time reduce risk-weighted assets by approximately 25%.
- KBC presents its new strategy at an Investor Day in London.
- *The New Economy* magazine names KBC the 'Most Sustainable Bank in Belgium'.

December
- Several projects linked to the divestment of non-core activities are launched.
- A study by Hallvarsson & Halvarsson names KBC's corporate website (www.kbc.com) the best in Belgium.
- KBC receives ISO 14001 certification for the environmental management system for its support services in Belgium.

STATEMENT

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

Substantial recovery in results **from 2Q 2009 on**

Future CDO-related risks limited **thanks to guarantee agreement with Belgian State**

Renewed strategy with **focus on home markets in Belgium and Central Europe**

This annual report marks the conclusion of what has been an exceptional year for our group.

We ended 2009 with a renewed strategic plan that will re-establish KBC as a tightly focused European regional player, with a lower risk profile, attractive earnings potential and clear objectives, all of which will prepare and equip us for the future.

The year got off, however, to a considerably less positive start. During the first quarter, the steep deterioration in the creditworthiness of the US monoline insurer MBIA, combined with further value markdowns on our CDO portfolio, were instrumental in generating a substantial loss, despite encouraging underlying earnings. To safeguard our solvency and our future results, we signed a guarantee agreement with the Belgian Federal Government, which will largely mitigate the potential negative impact of future valuation losses on our structured credit portfolio. We also further strengthened our capital base by issuing core-capital securities to the Flemish Regional Government.

During the quarters that followed, we focused on rebuilding our group's long-term profitability. To that end, we closely examined our strategy and risk management policy, adapting them to the changed environment that has emerged from the financial crisis. We will also concentrate even more on our core activities – lending, insurance and asset management – and on our home markets in Belgium and Central and Eastern Europe. This refocusing exercise lay at the heart of our updated strategy, which in turn underpinned the plan that the European Commission approved on 18 November.

The plan in question clearly sets out the kind of group we aim to be in the future. To summarise (a detailed description can be found elsewhere in this annual report), we will continue to focus on bancassurance for retail, SME and mid-cap customers. We will develop these activities further in Belgium and in five selected markets in Central and Eastern Europe, namely the Czech Republic, Slovakia, Hungary, Poland and Bulgaria. Consequently, we will either sell or scale down certain non-core activities, such as the European network of KBL European Private Bankers, a number of specialist merchant banking operations and lending activities in non-home markets, provided these are not tied to operations in our home markets. We will also generate additional funds to repay government support by selling several complementary distribution channels, including Centea and Fidea in Belgium and Żagiel in Poland, and by making a public offering of a minority stake in ČSOB, our Czech banking subsidiary.

The decision to divest is a highly exceptional measure that is being taken in response to exceptional circumstances. It should not be interpreted in any way as a lack of appreciation for the staff of the entities in question, for their efforts or for their contribution to our group's success. On the contrary, we rate their work extremely highly and continue to believe in their future success, albeit under the wing of a new owner.

We are firmly convinced that our new strategy will pave the way towards achieving sustainable results in the years ahead. The results for the second, third and fourth quarters of the year certainly augur well for the future. Average net earnings of 0.4 billion euros in these quarters show that we have clearly turned the page on the 3.6 billion euro loss recorded in the first quarter. For 2009 as a whole, we recorded an overall net loss of 2.5 billion euros. However, if we disregard the direct impact of the financial crisis and other exceptional items, we posted an underlying operating profit of 1.7 billion euros.

Given the continuing uncertainty in the economic environment, this is a highly satisfactory result that is attributable to several factors, including a lower cost base. Compared to a year earlier, our underlying costs have fallen by no less than 13%, thanks in part to the scaling down of certain activities and the implementation of cost-control programmes across the group. Impairment charges on securities declined from 1.3 billion euros in 2008 to 350 million euros in 2009, due to the reduction in size of our equity portfolio and, of course, to the gradual recovery of the stock markets. Healthy loan and deposit spreads pushed up underlying net interest income by 12%. Sales of life insurance rose by 11% and the combined ratio for the non-life business came to 98%. Loan losses increased sharply, but all in all remained at an acceptable level, well below the disastrous numbers some were predicting.

The recovery in our profitability from the second quarter on, together with underlying results that have remained good throughout, reflect the enduring strength of our business model, the core of which has been fully retained in our renewed strategy. That model continues to be underpinned by our very loyal staff, a faithful customer base and a group of core shareholders who have demonstrated their continuing support, even when times were hard. We are sincerely grateful to all of these stakeholders. We would also like to extend a special word of thanks to the Belgian and Flemish governments for the support they provided when our group hit difficult times.

We are ready for the future. Our clear vision for the years ahead is backed up by a strong business plan in which the customer remains a clear focal point. We have started implementing this plan and will monitor its performance closely. We will ensure that change processes are professionally led and that internal dialogue can take place unambiguously and with respect, fully in keeping with our business culture. We are convinced that our group is once again prepared for what lies ahead and that, thanks to the combination of a reduced risk profile and a robust business model, it can look forward to a promising future.

Jan Vanhevel,
President of the Executive Committee
of KBC Group

Jan Huyghebaert,
Chairman of the Board of Directors
of KBC Group

OUR STRATEGY AND MANAGEMENT

A renewed strategy

At the end of 2009, the group unveiled a renewed strategic plan for the years ahead. This strategy aims to further transform our group into a more focused, regional European player with a lower risk profile, while still retaining past strengths, notably the unique and successful bancassurance concept and the extra engine of growth provided by our presence in Central and Eastern Europe.

The strategic plan formed the basis on which the European Commission decided whether KBC would be able to redeem the government-held securities within a reasonable timeframe. This is the standard procedure followed by all European financial institutions taking part in the economic stimulus plans implemented by EU Member States. The plan received European Commission approval at the end of November.

The core business of the renewed KBC group continues to be the provision of bancassurance services to retail, SME and mid-cap customers in Belgium and a selection of countries in Central and Eastern Europe. A number of activities will be run down, curtailed or sold in the coming years in order to further reduce the group's risk profile and to enable it to pay back within a reasonable period of time the aid received from government. This is expected to result in an overall reduction of approximately 25% in the group's risk-weighted assets. In addition to scaling down non-core activities, we will make a public offering of a minority stake in our Czech banking subsidiary. The plan also provides sufficient flexibility to cope with potential setbacks, such as worse-than-anticipated macroeconomic growth figures.

We will pursue organic growth in the years ahead, without embarking on any major acquisitions. Our aim is to achieve a tier-1 capital ratio for the group as a whole of at least 10% (under current Basel II rules). Targets will be set for each line of business, adjusted to the development phase in which it finds itself. Appropriate cost-control principles will also be applied consistently throughout the group. This should result in a cost/income ratio of between 50% and 55% as soon as reasonably normal economic conditions prevail again.

The main points of the renewed strategic plan are summarised below. Examples of their specific implementation can be found in the sections dealing with the respective business units.

Bancassurance model continued and growth engine maintained in **Central & Eastern Europe**

Capital to be freed up and risk profile lowered by **scaling down and selling non-core activities**

Redemption of government securities **via profit generation and releasing capital by refocusing on core activities**

New solvency target: **tier-1 ratio of 10% (Basel II)**

Changes at the top of KBC: **rejuvenation of Executive Committee**

Focus on six geographic home markets

The group's ambition is to be a strong European regional financial player, with a clear geographic focus.

The group will concentrate its activities in Belgium and five countries in Central and Eastern Europe, namely the Czech Republic, Slovakia, Hungary, Poland and Bulgaria (the 'core countries'). It has a significant banking, asset management and insurance presence in each of these core countries, which means that it can continue to fully develop its core bancassurance business (see below) in them. They also constitute a healthy mix of developed economies and growth countries – all are EU Member States – which is fully in line with the group's desired risk profile.

Focus on bancassurance for retail, SME and mid-cap customers

KBC's bancassurance concept has proved exceptionally successful and will continue to be developed in all the group's home markets.

The group will focus on retail, SME and mid-cap customers in these home markets, offering them a comprehensive range of banking, asset management, and life and non-life insurance products and services. The existing bancassurance model will be retained, but it will be further adapted where necessary to take account of local market conditions. This means that not only the bancassurance activity as a whole, but also the underlying banking and insurance operations individually, will have to meet certain minimum profitability requirements. Appropriate action will be taken in respect of activities or countries where that is not yet the case.

Scaling down of non-core activities

The group's new focus means that a substantial proportion of its non-core activities and its activities in non-core countries will be run down.

In the case of Central and Eastern Europe, it will seek to sell its operations in Serbia (KBC Banka) and Russia (Absolut Bank) when optimum market conditions arise. This reflects the fact that the basic conditions for developing a successful bancassurance presence (i.e. ownership of both a bank and an insurance company, a significant market position and a stable environment within the EU) are not currently met in either country. As previously announced, the group also still intends to sell its minority interest in Nova Ljubljanska banka in Slovenia.

Outside its home markets, the group has a presence in various countries in Western Europe, North America and Southeast Asia. This relates chiefly to the merchant banking operations of KBC Bank and to the network of KBL European Private Bankers. KBC intends to focus its presence outside its home markets on serving its network customers (customers whom KBC also caters for in its home market). Most other activities outside the core markets will therefore be sold or run down. Specifically, this means:

- selling the KBL European Private Bankers network in due course;
- selling, curtailing or gradually scaling down a number of specialist investment banking activities, including most of the operations of the subsidiary, KBC Financial Products;
- running down a large proportion of the loan portfolios outside the home markets.

The reduction in the group's non-core activities will release substantial amounts of capital, which will be used to finance organic growth in the home markets and to pay back the government support received.

> When we analyse the impact of the crisis, it's reassuring to see that our basic business model has been largely unaffected and that the same strategic principles continue to apply to our presence in Central and Eastern Europe. Our future growth – unlike that of many of our competitors – won't be held back by funding issues, thanks to our high deposit-to-loan ratio. What's more, surveys show that our customers and staff have retained a high level of confidence in us.
>
> ***Jan Vanhevel, KBC Group CEO***

Additional actions

In addition to the aforementioned scaling down of a number of non-core activities, the following actions will be pursued to facilitate the repayment within a reasonable timeframe of the government support received (see below):

- Selling several complementary distribution channels in Belgium (i.e. Centea's network of independent bank agents and the distribution of Fidea insurance policies via brokers) and in Poland (viz. consumer finance via Żagiel). These sales will not undermine the primary bancassurance distribution model in the respective markets. Centea and Fidea represent a market share of roughly 1–2% of total loans, deposits and insurance in Belgium, while Żagiel has a share of approximately 3% of the Polish market for unsecured consumer finance.
- Making a public offering of a minority stake in our Czech banking subsidiary, ČSOB. Similar transactions might subsequently be set up for other group companies in Central and Eastern Europe.
- Implementing other financial optimisation measures, such as realising capital gains through real-estate sale-and-lease-back operations and selling treasury shares currently held on the balance sheet.

The group also has a number of options (including the sale of activities in Ireland), which will only be considered if the planned actions do not achieve the intended reduction in debt owed to government.

OUR STRATEGY AND MANAGEMENT

Overview of the 'old' and the 'new' KBC group (simplified)

	Belgium Business Unit	CEER Business Unit	Merchant Banking Business Unit	European Private Banking Business Unit
RETAIN AND DEVELOP (main core companies and core activities)	KBC Bank and KBC Insurance CBC Banque and CBC Assurances	ČSOB and ČSOB Pojišt'ovna (Czech Republic) ČSOB and ČSOB Poist'ovňa (Slovakia) K&H Bank and K&H Insurance (Hungary) Kredyt Bank and WARTA (Poland) CIBank and DZI Insurance (Bulgaria)	Corporate banking (Belgium) Corporate banking for network customers abroad Traditional money and capital market activities Stock brokerage and corporate finance for the home markets	–
FUTURE SALE OR RUN-DOWN (main non-core companies and non-core activities)	Centea Fidea	NLB and NLB Vita (Slovenia) Absolut Bank (Russia) KBC Banka (Serbia) Żagiel (Poland)	Various specialised investment banking activities (including the activities of KBC Financial Products and KBC Peel Hunt) Corporate banking abroad for non-network customers	Entire European private banking network

Maintaining a strong capital base and redeeming the core-capital securities sold to the government

KBC wants to position itself as a well-capitalised and risk-aware group, and to maintain a group tier-1 ratio of at least 10% in the years ahead (under the current Basel II rules).

The capital base still currently includes 7 billion euros in core-capital securities issued to the Belgian and Flemish governments (see below for a more detailed description). KBC is planning to redeem these securities in full in the foreseeable future. The capital required to do this and the funds needed to finance organic growth in the years ahead will be accumulated primarily by:

- further growing the existing capital surplus via profit generation in the coming years.
- running down or selling activities, which will considerably reduce the level of risk-weighted assets. This will release a significant amount of capital. A total of roughly 39 billion euros in risk-weighted assets will be considered for scaling down or sale in the period 2009–13, representing approximately 25% of the group total (banking and insurance combined, compared to the situation at year-end 2008). The greatest reduction in risk-weighted assets will occur in the merchant banking operations.
- realising capital gains on divestments.
- making a public offering of a minority stake in ČSOB (Czech Republic). If necessary, a similar operation may subsequently be performed for other group companies in the region.
- carrying out other financial operations (sale of existing treasury shares, sale-and-lease-back of buildings, etc.).

Sources for funding organic growth and redeeming core-capital securities sold to the Belgian and Flemish governments

Uses		Sources
Capital required to redeem core-capital securities sold to the State*		Current capital surplus
		Internal profit generation
		Reduction in risk-weighted assets
Funding organic growth		Capital gains on sale of activities
		Public offering of minority stake in ČSOB
		Other measures

* 7 billion euros redemption at 150% (in the case of the transaction with the Belgian government, there is also an exchange option allowing redemption at 115–150%: see below).

Overview of capital transactions with the government

KBC's solvency position was considered to be exceptionally strong until just before the crisis. However, the market's demand for higher capital buffers, combined with substantial valuation losses on the structured credit portfolio, meant that in order to maintain its capital base at a sufficiently high level, the group was obliged to bolster its capital structure by issuing securities to the Belgian Federal Government and to the Flemish Regional Government. This comprised a total of 7 billion euros in core-capital securities, 3.5 billion euros' worth of which were purchased by the Belgian State and 3.5 billion euros by the Flemish Region, together with a guarantee agreement for 20 billion euros in respect of CDO and MBIA-related exposure.

7 billion euros' worth of core-capital securities sold to the Belgian State and the Flemish Region

Since the end of 2008, the KBC group has issued 7 billion euros in perpetual, non-transferable, non-voting core-capital securities that have equal ranking (*pari passu*) with ordinary shares upon liquidation. These have been subscribed by the Belgian State (the Federal Holding and Investment Company) and the Flemish Region (each in the amount of 3.5 billion euros). The transaction with the Belgian State was concluded in December 2008, while the agreement with the Flemish Region was signed in July 2009.

The KBC group used the proceeds of these transactions to strengthen the core capital of its banking activities by a total of 5.5 billion euros (via an ordinary capital increase at KBC Bank) and to raise the solvency margin of its insurance activities by 1.5 billion euros (via an ordinary capital increase at KBC Insurance).

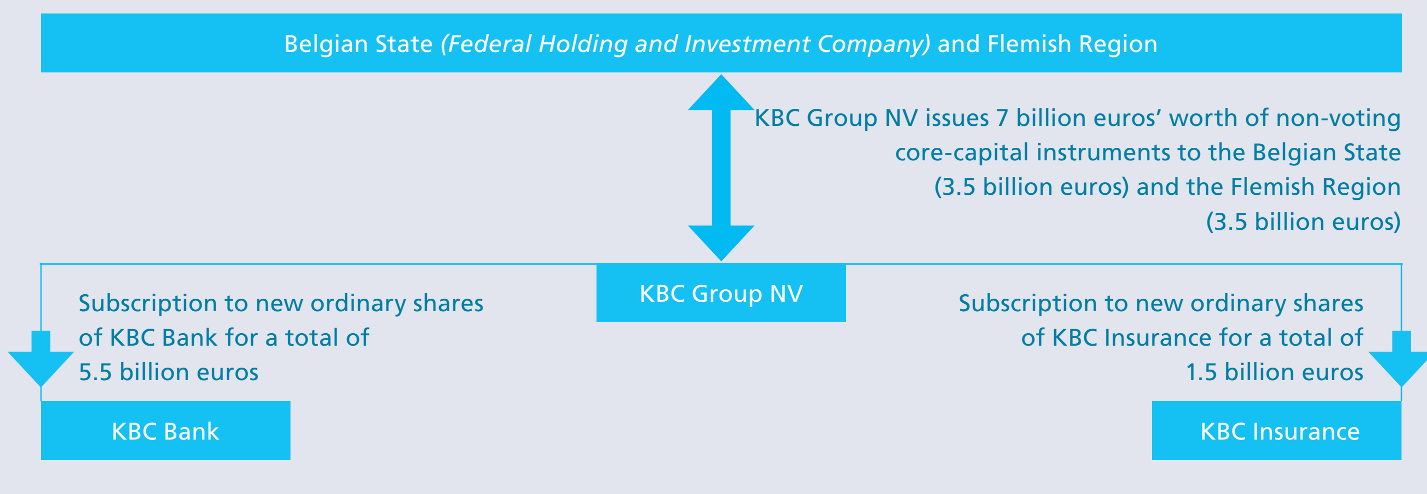
Other features of the transactions:

- Issue price: 29.50 euros per security.
- Coupon: the higher of (i) 2.51 euros per security (corresponding to an interest rate of 8.5%), and (ii) 120% of the dividend paid on ordinary shares for 2009 (coupon payment in 2010) and 125% for 2010 and subsequent years (coupon payments in 2011 and later). No coupon will be paid if there is no dividend.
- Buyback option: subject to the approval of the financial regulator, KBC 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 applies to the transaction with the Belgian State): after three years (i.e. in December 2011), KBC may at any time exchange the securities for ordinary shares on a one-for-one basis. Should KBC decide to do this, the State may choose to receive payment in cash for the securities. The cash amount will be equal to 115% of the issue price as of the fourth year, and will increase each subsequent year by 5 percentage points (with a cap at 150%).

On 30 September 2009, KBC submitted a detailed plan to the European Commission in respect of this government support. In addition to the renewed strategy, the plan included a repayment schedule for these core-capital securities. The European Commission approved the plan on 18 November 2009. Further details in this regard can be found in this section, under 'Maintaining a strong capital base and redeeming the core-capital securities sold to the government'.

OUR STRATEGY AND MANAGEMENT

Overview of capital transactions with the Belgian State and the Flemish Region



Guarantee agreement for 20 billion euros in respect of CDO- and MBIA-related exposure

On 14 May 2009, KBC Group NV signed a guarantee agreement with the Belgian State regarding a substantial part of its structured credit portfolio.

The plan basically comprises a notional amount totalling 20 billion euros, with 5.5 billion euros in unhedged super senior CDO investments and 14.4 billion euros in counterparty exposure to MBIA. Against payment of a fee, KBC has purchased a State guarantee which covers 90% of the risk of default, after a first-loss tranche in which KBC bears any loss in full.

The transaction is structured as follows:

- First tranche of 3.2 billion euros: KBC bears any credit losses in full.
- Second tranche of 2.0 billion euros: KBC bears any credit losses. It has the option of asking the Belgian State to subscribe to newly issued KBC shares at market value, for 90% of the loss in this tranche (KBC continues to bear 10% of the risk).
- Third tranche of 14.8 billion euros: 90% of any credit losses will be compensated in cash by the State (KBC continues to bear 10% of the risk).

This agreement largely mitigates the potential negative impact of the relevant MBIA and CDO exposure. On commencement of the agreement, the remaining *downside* risk related primarily to the parts of the guarantee structure where KBC bore the risk of loss. Nevertheless, the results will remain volatile to a certain degree in the future, since rising market values, for instance, could lead to existing valuation losses being reversed (which would have a positive impact on the results). If, however, the market value of the products in question were then to decline once again, fresh valuation losses would have to be recorded. Whatever the case, the guarantee agreement will cap the cumulative total of valuation losses.

Guarantee agreement with the Belgian State relating to the portfolio of structured credit (simplified)

Tranches*	Guarantee structure	Commitment to subscribe to capital increase
First-loss tranche of 3.2 billion euros	KBC bears the loss in full up to 5.2 billion euros.	–
Second-loss tranche of 2 billion euros		If KBC so requests, the Belgian State will subscribe to new KBC shares for an amount equal to 90% of the losses in the second-loss tranche, i.e. 1.8 billion euros.
Third-loss tranche of 14.8 billion euros	The Belgian State reimburses 90% of the losses (KBC continues to bear 10% of the risk).	–

* The CDO portfolio consists of several different CDOs. The guarantee structure applies to each CDO; the figures stated in the table refer to the sum of all CDOs covered by the plan.

Group legal structure and management structure

The group's legal structure at the end of 2009 is shown in the schematic. The group comprises a holding company – KBC Group NV – in control of three underlying companies, viz. KBC Bank, KBC Insurance and KBL European Private Bankers (KBL EPB). Each of these companies has several subsidiaries and sub-subsidiaries. Full details in this regard can be found at www.kbc.com.

The group's management structure has been built around five business units. Each is managed by its own management committee, which operates under the Group Executive Committee and oversees both the banking and the insurance activities.

The management committees are chaired by a Chief Executive Officer (CEO), except at the Shared Services & Operations Business Unit, where the management committee is chaired by the Chief Operating Officer (COO). Together with the Group CEO, the Chief Financial Officer (CFO) and the Chief Risk Officer (CRO), these individuals constitute the Group Executive Committee. A description of each business unit can be found in the relevant sections of this annual report.

OUR STRATEGY AND MANAGEMENT

Group Executive Committee

The Group Executive Committee, which is responsible for managing the group in line with the general strategy set by the Board of Directors, is chaired by the Group CEO. The members of the Group Executive Committee are appointed by the Board of Directors and some also sit on the Board as executive directors. More information on the management of KBC is available in the 'Corporate governance' section.

The Executive Committee was radically reshuffled and rejuvenated in 2009. Jan Vanhevel was appointed Chief Executive Officer (CEO), succeeding André Bergen. John Hollows became CEO of the CEER Business Unit, Luc Popelier succeeded Guido Segers as CEO of the Merchant Banking Business Unit (market activities) and Johan Thijs was appointed CEO of the Belgium Business Unit, where he took over from Danny De Raymaeker, who became Chief Operating Officer. Herman Agneessens retired and was replaced as Chief Financial Officer by Luc Philips, while former Chief Operating Officer Chris Defrancq took up the post of Chief Risk Officer.

Jan Vanhevel

°1948

Doctorate in Law and Master's Degree in Notarial Sciences (Katholieke Universiteit Leuven)

Joined KBC in 1971

Group CEO and CEO of Corporate Banking Operations in the Merchant Banking Business Unit

Luc Popelier

°1964

Master's Degree in Applied Economic Sciences (Universiteit Antwerpen)

Joined KBC in 1988

CEO of Market Activities in the Merchant Banking Business Unit

Johan Thijs

°1965

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

Joined KBC in 1988

CEO of the Belgium Business Unit

°1959

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

Joined KBC in 1984

Chief Operating Officer (COO)

Danny De Raymaeker

Luc Philips

°1951

Master's Degree in Commercial and Financial Sciences (Hoger Instituut voor Bestuurs- en Handelswetenschappen, Brussels)

Joined KBC in 1971

Chief Financial Officer (CFO)

Chris Defrancq

°1950

Master's Degree in Mathematics (Universiteit Gent) and Master's Degree in Actuarial Sciences (Katholieke Universiteit Leuven)

Joined KBC in 1998

Chief Risk Officer (CRO)

John Hollows

°1956

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

Joined KBC in 1996

CEO of the CEER Business Unit

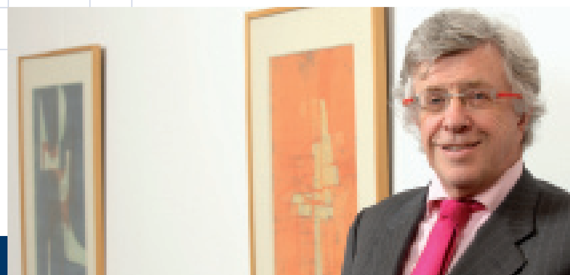
°1947

Degree in Civil Engineering (Université catholique de Louvain), MBA (University of Chicago)

Joined KBC in 1983

CEO of the European Private Banking Business Unit

Etienne Verwilghen



INFORMATION FOR OUR SHAREHOLDERS AND BONDHOLDERS

KBC Bank ratings:
Aa3 (Moody's)
A (S&P)
A (Fitch)

KBC share price in 2009:
up 42%

Market capitalisation at year-end 2009:
11 billion euros

Repurchase programme for certain hybrid securities successfully concluded in 2009

Shareholders

31-12-2009*	Number of ordinary shares	%
KBC Ancora	82 216 380	23%
Cera	25 903 183	7%
MRBB	42 562 675	12%
Other core shareholders	39 867 989	11%
Subtotal	**190 550 227**	**53%**
KBC group companies	18 189 217	5%
Free float	149 178 681	42%
Total	**357 918 125**	**100%**

* The figures are based on the value date. For KBC Ancora, Cera, MRBB and the 'Other core shareholders', this is the situation stated in the most recent disclosures on or prior to the balance sheet date (1 September 2008); in the case of the other figures, it is 31 December 2009. No convertible bonds were in circulation at balance sheet date.

Credit ratings

31-12-2009	Long-term rating (+ outlook)	Short-term rating
Fitch		
KBC Bank	A (Stable)	F1
KBC Insurance	A (Stable)	–
KBC Group NV	A (Stable)	F1
Moody's		
KBC Bank	Aa3 (Negative)	P-1
KBC Group NV	A1 (Negative)	P-1
Standard & Poor's		
KBC Bank	A (Stable)	A1
KBC Insurance	A (Stable)	–
KBC Group NV	A- (Stable)	A2

Main developments related to long-term ratings in 2009 and in the opening months of 2010:
In January 2009, Moody's lowered the ratings of KBC Group NV and KBC Bank by one notch.
In March 2009, Standard & Poor's lowered the ratings of KBC Group NV, KBC Bank and KBC Insurance by one notch.
In May 2009, Fitch lowered the ratings of KBC Group NV, KBC Bank and KBC Insurance by one notch.

KBC share in 2009

Share details			
Ticker codes			
Bloomberg			KBC BB
Datastream			B:KB
Reuters			KBC.BR
	2007	**2008**	**2009**
Number of shares outstanding at year-end (in '000)	355 115	357 753	357 918
Number of shares entitled to dividend at year-end (in '000)	342 568	341 819	344 392
Highest share price for the financial year (in EUR)	106.2	95.0	39.4
Lowest share price for the financial year (in EUR)	85.9	18.2	5.5
Average share price for the financial year (in EUR)	95.8	65.2	20.9
Closing share price for the financial year (in EUR)	96.2	21.5	30.4
Equity market capitalisation at year-end (in billions of EUR)	34.2	7.7	10.9
Average daily volume traded (number of shares)	784 602	1 035 638	1 564 962
Average daily volume traded (in millions of EUR)	75.2	67.5	31.1
Equity per share	50.7	31.5	28.4

Annual return (including dividends)	KBC Group NV	DJ EURO STOXX Banks
1 year (2008–2009)	+42%	+54%
3 years (2006–2009)	-29%	-18%
5 years (2004–2009)	-9%	-2%

Dividend: no dividend will be paid for the 2009 financial year. Barring unforeseen circumstances, KBC intends to resume paying cash dividends in 2011 (based on earnings in 2010).

Change in the number of KBC Group NV treasury shares	
Total number of treasury shares held by KBC Group NV at year-end 2008	14 253 502
Changes in 2009	0
Total number of treasury shares held by KBC Group NV at year-end 2009	14 253 502

INFORMATION FOR OUR SHAREHOLDERS AND BONDHOLDERS

Information on hybrid tier-1 issues

Coupons to be paid on outstanding hybrid tier-1 securities issued by KBC

The rule in the context of state aid provided to a variety of European financial institutions is that 'non-mandatory coupons' on subordinated perpetual hybrid tier-1 securities are not to be paid. However, since coupon payments on the relevant KBC hybrid issues are deemed to be mandatory, KBC accordingly paid all the coupons on these instruments in 2009. No early redemptions (calls) were made.

Repurchase programme for hybrid loans

Towards the end of the year, KBC decided to buy back a number of outstanding hybrid issues (see table). This repurchase transaction was concluded on 13 October 2009, with 70% of the nominal value being paid in each instance. In total, approximately 72% of the outstanding amount of the relevant hybrid loans was repurchased for a total nominal amount of 1.1 billion euros. KBC paid for the transaction using its available cash. The repurchase programme had a positive impact of 0.1 billion euros (after tax) on the results, and a positive effect of 0.19% on the group's core tier-1 ratio.

Repurchase of hybrid tier-1 securities issued or guaranteed by KBC Bank (31-12-2009)	Description	Original nominal amount	Nominal amount (31-12-2009)
KBC Bank	directly issued perpetual debt securities	525 million GBP	45 million GBP
KBC Bank Funding Trust II	non-cumulative guaranteed trust preferred securities	280 million EUR	119 million EUR
KBC Bank Funding Trust III	non-cumulative guaranteed trust preferred securities	600 million USD	173 million USD
KBC Bank Funding Trust IV	non-cumulative guaranteed trust preferred securities	300 million EUR	121 million EUR

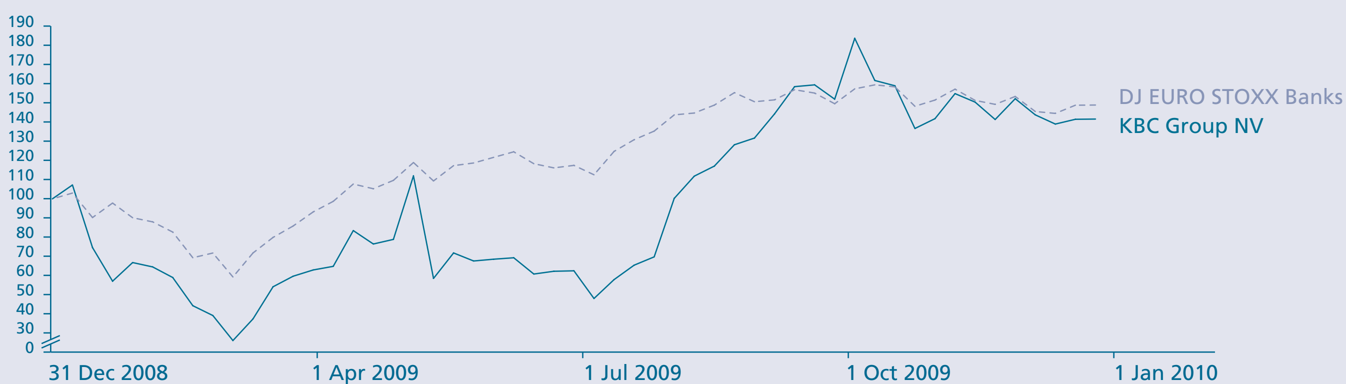
Financial calendar

2009 financial year	Earnings release: 11 February 2010 Publication of the embedded value in the life insurance business: 31 March 2010 Annual Report and Risk Report for 2009 available: 9 April 2010 Corporate Social Responsibility Report available: 22 April 2010 AGM: 29 April 2010
1Q 2010	Earnings release: 12 May 2010
2Q 2010	Earnings release: 5 August 2010
3Q 2010	Earnings release: 10 November 2010
4Q 2010	Earnings release: 10 February 2011

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

Contact details for investors, analysts and the press

Investor Relations Office	
E-mail	investor.relations@kbc.com
Website	www.kbc.com
Address	KBC Group NV, Investor Relations Office – IRO, 2 Havenlaan, 1080 Brussels, Belgium
Press	
Press Office	Viviane Huybrecht (General Manager of Group Communication/Company Spokesperson)
Tel.	+ 32 2 429 85 45
E-mail	pressofficekbc@kbc.be
Website	www.kbc.com
Address	KBC Group NV, Group Communication – GCM, 2 Havenlaan, 1080 Brussels, Belgium



OUR RESULTS IN 2009

- Underlying net operating results were satisfactory, with 1.7 billion euros being recorded compared with 2.3 billion euros in 2008. The Belgium Business Unit accounted for 1.1 billion euros of this figure, the CEER Business Unit for 0.1 billion euros, the Merchant Banking Business Unit for 0.4 billion euros, the European Private Banking Business Unit for 0.1 billion euros and the Group Centre for -0.1 billion euros.

- The group's net result under IFRS was a negative 2.5 billion euros in 2009. It was adversely affected by valuation markdowns on structured products (primarily in the first quarter), by unwinding losses related to discontinued derivative trading activities (chiefly in the second quarter) and by value markdowns on goodwill (mainly in the fourth quarter). After a loss-making first quarter, net results were positive again from the second quarter on.

- Healthier loan and deposit spreads boosted interest income (up 587 million euros or 12% year-on-year on an underlying basis).

- Sales of life insurance rose (by 11% year-on-year) and the combined ratio for the non-life insurance business came to 98%.

- Underlying net fee and commission income fell by 186 million euros (-11%) year-on-year. Following a sharp decline in the first quarter, fee and commission income from asset management activities started to rise again from the second quarter of 2009.

- Trading income remained virtually unchanged (on an underlying basis, it rose by 5 million euros year-on-year).

- On balance, capital gains from investment portfolios were up (by 178 million euros), but dividends fell (by 114 million euros).

- Underlying costs were cut by 703 million euros (-13%) compared to 2008, thanks in part to lower variable employee remuneration and the run-down of merchant banking activities.

- Loan losses increased sharply, rising by 1.1 billion euros (up 132%) year-on-year. They remained low in Belgium, but were higher in Central and Eastern Europe and on loan portfolios outside the home markets. Value markdowns on goodwill came to 0.5 billion euros. However, valuation markdowns on securities were lower (down 1 billion euros or 74% on the figure for 2008), thanks to the stock market recovery.

- Credit volumes declined by 4%, with the increase in Belgium (+3%) being offset by a decline in Central and Eastern Europe (-6%) and at Merchant Banking (-7%), the latter resulting from the scaling down of the international loan portfolio. Outstanding life insurance reserves increased by 12%, compared to year-end 2008.

- Total equity stood at 17.2 billion euros on 31 December 2009 (including 7 billion euros in core-capital instruments sold to the Belgian and Flemish governments). The group's tier-1 capital ratio was 10.8% at year-end.

2009:

Underlying net result of
1.7 billion euros

Impact of exceptional items is
-4.2 billion euros

Underlying net interest income
up 12%

Underlying operating expenses
cut by 13%

Loan losses increase by
1.1 billion euros

Group tier-1 capital ratio at year-end amounts to **10.8%**

Overview of the income statement

Income statement, KBC group (in millions of EUR)	IFRS		Underlying result	
	2008	2009	2008	2009
Net interest income	4 992	6 065	4 910	5 497
Gross earned premiums, insurance	4 585	4 856	4 585	4 856
Non-life	2 052	1 925	2 052	1 925
Life	2 533	2 931	2 533	2 931
Gross technical charges, insurance	-3 883	-4 436	-3 883	-4 416
Non-life	-1 205	-1 244	-1 205	-1 224
Life	-2 678	-3 192	-2 678	-3 192
Ceded reinsurance result	-72	-64	-72	-64
Dividend income	259	145	196	96
Net (un)realised gains from financial instruments at fair value through profit or loss	-3 481	-3 450	933	938
Net realised gains from available-for-sale assets	95	273	343	293
Net fee and commission income	1 714	1 492	1 755	1 569
Other net income	618	428	404	342
Total income	**4 827**	**5 310**	**9 172**	**9 111**
Operating expenses	-5 600	-5 292	-5 591	-4 888
Impairment	-2 234	-2 777	-743	-1 913
on loans and receivables	-822	-1 903	-641	-1 883
on available-for-sale assets	-1 333	-350	-44	-16
Share in results of associated companies	-1	-22	13	-22
Profit before tax	**-3 007**	**-2 781**	**2 850**	**2 289**
Income tax expense	629	234	-470	-507
Net post-tax income from discontinued operations	0	0	0	0
Profit after tax	**-2 379**	**-2 547**	**2 381**	**1 782**
Profit after tax, attributable to minority interests	105	-82	111	58
Profit after tax, attributable to the equity holders of the parent	**-2 484**	**-2 466**	**2 270**	**1 724**
Breakdown by business unit				
Belgium Business Unit	-397	961	1 145	1 103
Central & Eastern Europe and Russia Business Unit	188	-242	687	140
Merchant Banking Business Unit	-2 164	-3 272	418	411
European Private Banking Business Unit	-153	109	161	140
Group Centre	41	-21	-140	-71
Breakdown by legal structure				
Banking	-1 272	-2 423	1 454	1 114
Insurance	-987	-140	744	505
European Private Banking	-146	97	155	125
Holding-company activities	-79	1	-83	-20
Return on equity (ROE)	-18%	-23%	16%	16%
Cost/income ratio, banking	104%	104%	64%	55%
Combined ratio, non-life insurance	95%	98%	95%	98%
Credit cost ratio, banking	0.70%	1.11%	0.46%	1.11%

For a definition of the ratios, see 'Glossary of ratios used'. For a description of the underlying result, see below.

The main changes to the scope of consolidation in 2009 are given in Note 41 in the 'Consolidated annual accounts' section. The overall impact on the net result of these changes and of fluctuations in the exchange rates of the main non-euro currencies was limited (roughly +0.1 billion euros on a net result of -2.5 billion euros).

OUR RESULTS IN 2009

IFRS-based results compared to underlying results

In addition to the overview of the income statement, which has been prepared in accordance with IFRS (as adopted for use in the European Union), KBC publishes 'underlying results', which exclude all exceptional items and in which certain items have been rearranged to provide a clearer picture of how the results from ordinary business activities are developing. A detailed description of the differences with respect to the IFRS figures can be found in the 'Consolidated annual accounts' section, under 'Notes on segment reporting'. The following tables summarise these differences and provide an overview of the items not included in the underlying results in 2008 and 2009.

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

Overview of items excluded from the underlying result (in millions of EUR)	**2008**	**2009**
Amounts before tax and minority interests		
Changes in fair value of ALM hedging instruments	-454	79
Changes in fair value of own debt instruments	371	44
Exceptional items		
Losses relating to CDOs/monoline insurers	-4 004	-1 849
Fee for government guarantee scheme to cover CDO-related risks	–	-1 409
Valuation losses on equity portfolio	-1 101	-367
Valuation losses on US and Icelandic banks	-439	65
Loss from unwinding derivative positions (KBC Financial Products)	-245	-1 078
Impairment on goodwill	-10	-493
Redemption of hybrid tier-1 securities	–	128
Other	26	141
Taxes and minority interests relating to the above items	1 104	549
Total exceptional items	**-4 754**	**-4 190**

Key balance sheet, solvency and assets under management figures

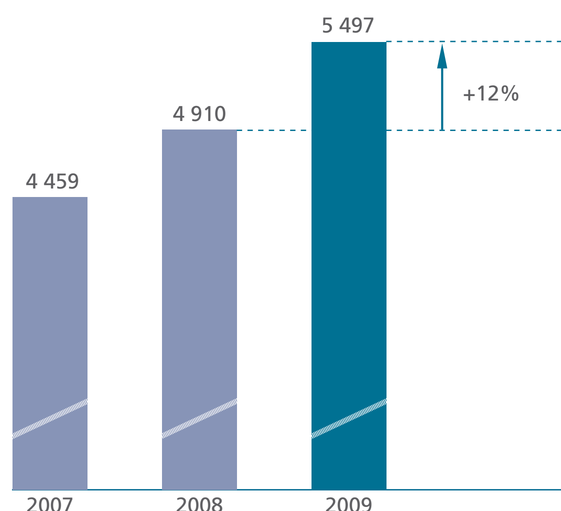
Selected balance-sheet and solvency items and assets under management, KBC group (in millions of EUR)	**2008**	**2009**
Total assets	355 317	324 231
Loans and advances to customers	157 296	153 230
Securities	94 897	98 252
Deposits from customers and debt securities	196 733	193 464
Gross technical provisions and liabilities under investment contracts, insurance	26 724	29 951
Risk-weighted assets	155 291	143 359
Total equity	15 376	17 177
of which parent shareholders' equity	10 710	9 662
Equity per share (in EUR)	31.5	28.4
Tier-1 ratio (group)	8.9%	10.8%
Assets under management by business unit	206 842	205 234
Belgium	151 037	145 719
Central & Eastern Europe and Russia	11 729	12 419
Merchant Banking	36	20
European Private Banking	44 040	47 076

Net interest income

Healthier loan and deposit spreads boost interest income

Net interest income came to 6 065 million euros in 2009. On an underlying basis, the figure was 5 497 million euros, a rise of 12% on the previous year. This came about mainly as a result of the net interest margin widening (from 1.68% to 1.84%) due to healthier loan and deposit spreads in 2009 (including in Belgium where, for instance, the base rate applying to traditional savings deposits fell to 1%, down from its record level of 4% in the summer of 2008), a shift towards deposit products with a higher margin for the group (including the shift from time deposit accounts to savings accounts), and the positive impact of reinvesting the core-capital securities issued to the government.

Generally speaking, loan volumes fell by 4% and deposit volumes by 5% year-on-year. The slight increase in Belgian retail credit (+3%) was cancelled out by a deliberate reduction in credit in several Central European markets (-6%, primarily Russia and Hungary) and in the international loan portfolio (-7%), due to the strategic refocus on the home markets.

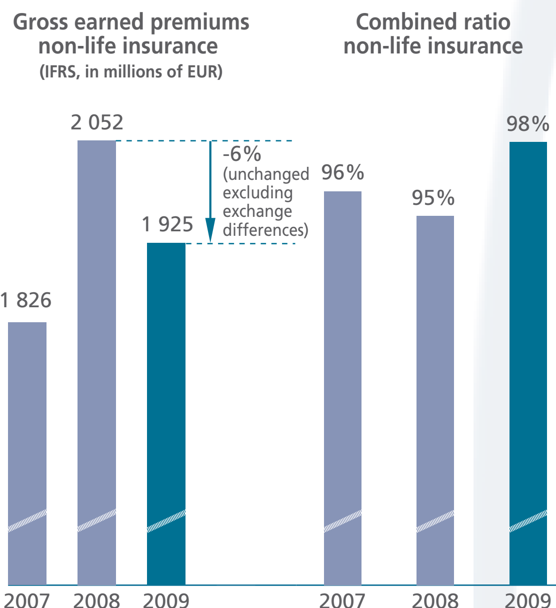


Non-life premiums and technical charges

Premium income more or less stable, and higher combined ratio in Central and Eastern Europe

Gross earned premiums in non-life insurance came to 1 925 million euros in 2009, more or less the same as the year-earlier figure (excluding the negative impact of the depreciation of several CEER currencies against the euro). In Belgium, there was an increase of 3.5% – a continuation of the steady growth of the past – but in Central and Eastern Europe, which already accounts for 40% of the group's premium income, premium income from the non-life business fell by 5% (disregarding the currency effect).

Once again, the non-life insurance business chalked up good technical results, as reflected by *inter alia* a combined ratio of 98%, a level that was nonetheless slightly higher than in 2008 (95%). This was attributable chiefly to Central and Eastern Europe, where the combined ratio rose to 104%, primarily on account of the high claims burden in Poland, which pushed up the combined ratio for that country to a high 113%. This ratio came to 104% in Slovakia, but remained below 100% in the other countries (90% in the Czech Republic, 83% in Hungary and 96% in Bulgaria). The claims reserve ratio for the group as a whole stood at 181% at year-end 2009.

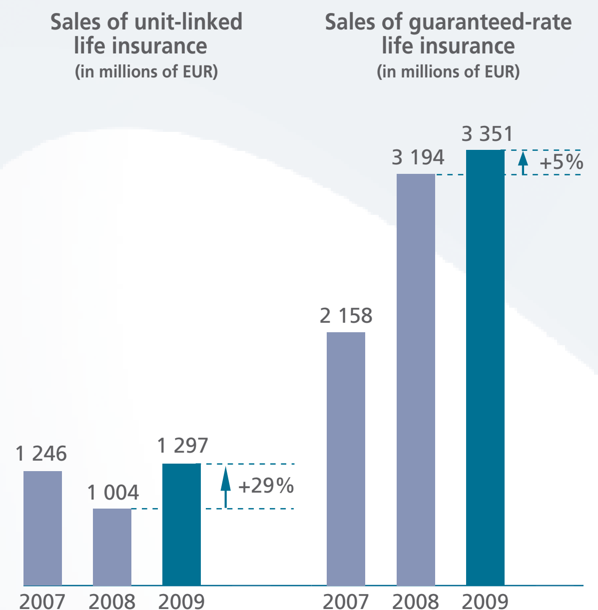


Life premiums and technical charges

Increased sales of life insurance

Gross earned premiums in life insurance came to 2 931 million euros in 2009. However, in compliance with IFRS, that figure does not include certain types of life product (mostly unit-linked products). If the premium income from such products is included, premium income from the life insurance business totalled 4.7 billion euros, 11% more than a year earlier. The increase was accounted for by the Belgium and European Private Banking business units and was due to products offering a guaranteed rate of interest (non-linked products), which grew by 5% over a one-year period (still reflecting the flight towards safety that occurred mainly in the first half of the year), and to unit-linked life insurance products. The premium income generated by these unit-linked products rose again from the second quarter of 2009 (with a sharp acceleration in the fourth quarter), as the investment climate improved, and ended the year 29% up on the figure for 2008.

The group's total life reserves stood at 25 billion euros on 31 December 2009, 12% more than the year-earlier figure. The Belgium Business Unit accounted for the bulk of these reserves (87%), while the European Private Banking and CEER business units were each good for roughly 6%.

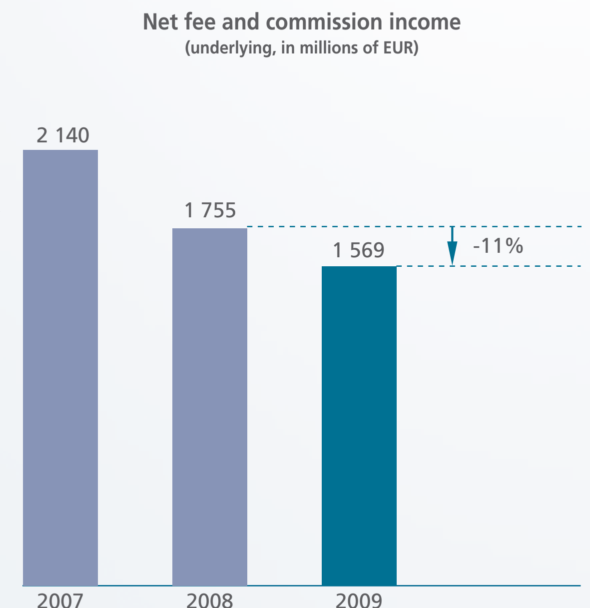


Net fee and commission income

Fee and commission income from asset management activities rise again from 2Q 2009 on

Net fee and commission income amounted to 1 492 million euros in 2009, or 1 569 million euros on an underlying basis. The latter figure is 11% less than a year earlier. On a quarterly basis, however, fee and commission income gradually began to rise again from the second quarter onwards, following an exceptionally weak first three months. This revival is attributable primarily to growth in fee and commission income from asset management activities, thanks to the gradual improvement of the investment climate and a shift towards products with a higher margin for the group. There was also a decrease in fees and commission paid (to insurance agents) for the sale of insurance, which – on balance – had a positive impact on total net fee and commission income.

At the end of 2009, the group's total assets under management (investment funds and assets managed for private and institutional investors) amounted to approximately 205 billion euros, roughly comparable with the level a year earlier (with the net outflow being offset by an increase in the price of the assets themselves). Most of the assets were managed by the Belgium Business Unit (146 billion euros) and the European Private Banking Business Unit (47 billion euros). At year-end 2009, the CEER Business Unit had already accounted for 12 billion euros' worth of assets under management.

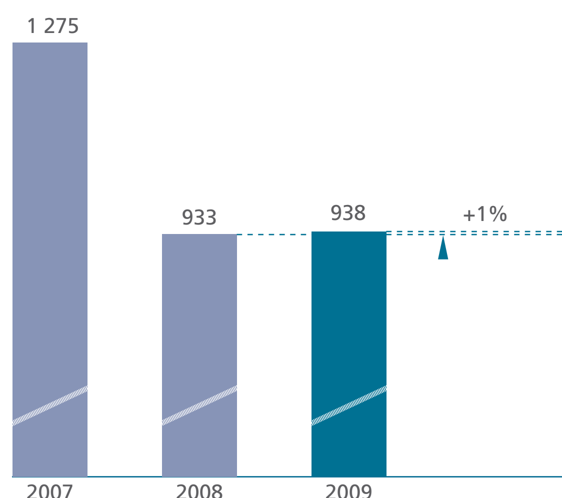


OUR RESULTS IN 2009

Trading and fair value income

Satisfactory trading income, but CDO risks weigh heavily on IFRS result

Net (un)realised gains from financial instruments at fair value through profit or loss (trading and fair value income) came to a negative 3 450 million euros in 2009 and – like 2008 – were adversely affected by adjustments to the value of CDOs. If these and other exceptional items (such as the loss stemming from the discontinuation of certain derivative trading activities at KBC Financial Products, the positive overall effect of changes in the fair value of own debt instruments and the fair-value adjustments of ALM hedging instruments whose underlying is not reported at fair value under IFRS) are excluded from this trading and fair value income figure and all trading-related income recorded under IFRS in various other income items are included, underlying trading and fair value income amounted to 938 million euros in 2009, compared with 933 million euros a year earlier. This was attributable in part to the strong performance of money and capital-market activities, particularly in the dealing room in Brussels.



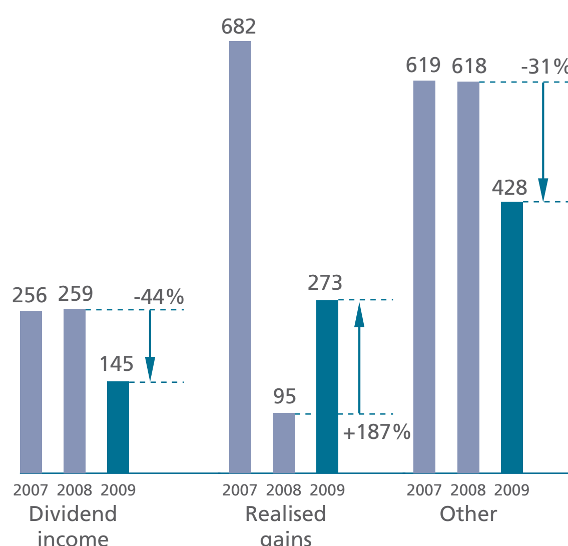
Other income

Lower dividend income, but higher capital gains on shares and bonds

At 145 million euros, dividend income was down about 44% on the year-earlier figure, due to companies paying lower dividends and the group's equity portfolios being scaled down.

Net realised gains from available-for-sale financial assets came to 273 million euros, almost three times as much as in 2008, thanks to the gradual recovery of the stock markets and the higher gains realised on the sale of bonds.

Other net income amounted to 428 million euros. The main items classified as exceptional and included under this heading appear in the table entitled 'Reconciliation of profit according to IFRS and underlying profit', which can be found under 'Notes on segment reporting' in the 'Consolidated annual accounts' section. On an underlying basis – i.e. not including these exceptional items – other net income amounted to 342 million euros in 2009, compared to 404 million euros in 2008. Around 30 million euros of this decline was accounted for by a change in classification methodology (i.e. a shift between 'Operating expenses' and 'Other income').

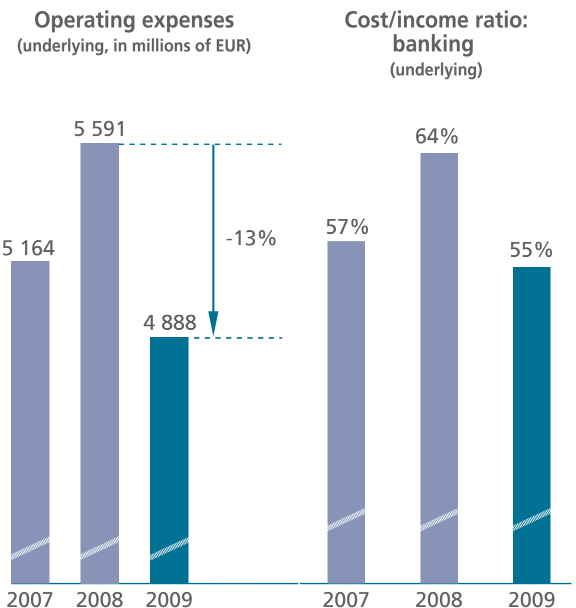


Operating expenses

Lower expenses due to reduced variable employee remuneration and run-down of merchant banking activities

Operating expenses came to 5 292 million euros in 2009, or 4 888 million euros on an underlying basis, roughly 13% lower than the year-earlier figure (for the calculation of underlying expenses, a number of items were excluded, including the provisions set aside for CDO claims and the cost of running down investment banking activities). Besides the limited impact of the accounting reclassification referred to under 'Other income', the reduction in costs was due mainly to lower variable employee remuneration and a reduced workforce (from 59 279 to 54 185 FTEs in the space of a year), partly consequent on the run-down of certain merchant banking activities. For that reason, underlying costs declined most markedly in the Merchant Banking Business Unit (-23%). In the Belgium Business Unit, they fell by 11% and in the CEER Business Unit by 14% (two-thirds of which was attributable to the depreciation of the relevant currencies against the euro). Costs rose by 6% in the European Private Banking Business Unit.

The underlying cost/income ratio for the banking activities (operating expenses/total income) was 55% in 2009, a considerable improvement on the previous year (64%). The ratio came to 56% for the Belgium Business Unit, to 59% for the CEER Business Unit, to 40% for the Merchant Banking Business Unit and to 75% for the European Private Banking Business Unit. The net expense ratio for the insurance activities (net expenses/net written premiums) was 32%, compared with 34% in 2008 (31% for the Belgium Business Unit, 36% for the CEER Business Unit and 20% for the Merchant Banking Business Unit).

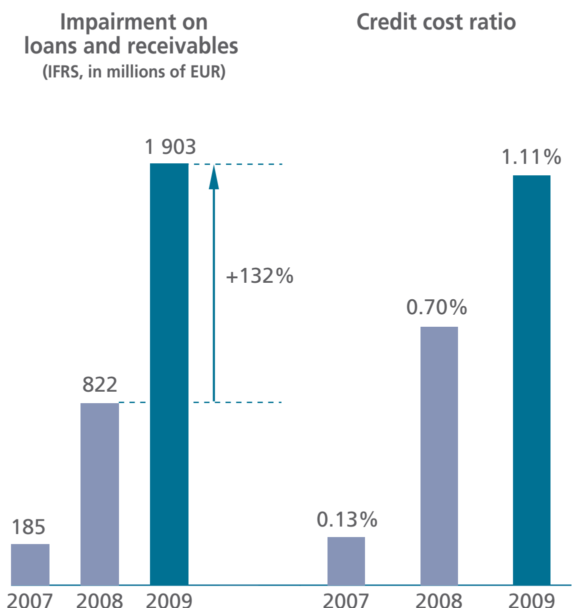


Impairment on loans

Loan losses remain low in Belgium, but go up in the rest of the world

Impairment on loans (loan losses) amounted to 1 903 million euros in 2009, up 1 081 million euros on the 2008 figure, and clearly reflecting the deteriorating economic climate in the period under review. As a result, the credit cost ratio amounted to 111 basis points in 2009, compared to 70 basis points in 2008. The increase in loan losses was most marked in the CEER and Merchant Banking business units. In the Merchant Banking Business Unit, the increase (+543 million euros) was due primarily to the loan portfolios outside the home markets and to mortgage-backed US securities (recorded as loans). This served to push up the credit cost ratio to 132 basis points. Loan losses in the CEER Business Unit went up by 541 million euros (proportionately, mainly in Poland and Russia). Loan losses in the Belgium Business Unit remained at the extremely low level of just 17 basis points.

The proportion of non-performing loans in the total loan portfolio rose from 1.8% in 2008 to 3.4% in 2009. Although non-performing loans could still rise further in the early stages of economic recovery (given the lag effect), the group expects loan losses to remain manageable in 2010, as well.



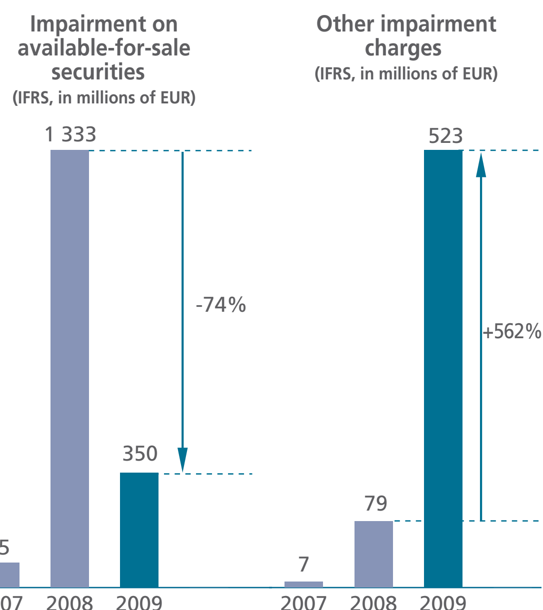
OUR RESULTS IN 2009

Impairment on other assets

Lower value markdowns on shares, but higher markdowns on goodwill

Impairment on available-for-sale assets (350 million euros in 2009) includes value markdowns on shares and bonds in the investment portfolio. The markdowns on shares – primarily in the investment portfolios of the group's insurers – came to 338 million euros in 2009, a markedly lower level than in 2008 (918 million euros), which naturally reflects the recovery in share prices in 2009. Markdowns on bonds fell from 415 million euros in 2008 (chiefly related to troubled US and Icelandic banks) to 12 million euros. Impairment on shares and impairment charges relating to US and Icelandic banks are classified as exceptional items and have, therefore, been eliminated from the underlying results.

Other impairment charges came to 523 million euros (79 million euros in 2008) and relate largely to value markdowns on goodwill in relation to certain subsidiaries (primarily in the CEER Business Unit, and more particularly the subsidiaries in Russia, Bulgaria and Slovakia). Markdowns of this kind have also been eliminated from the underlying results.



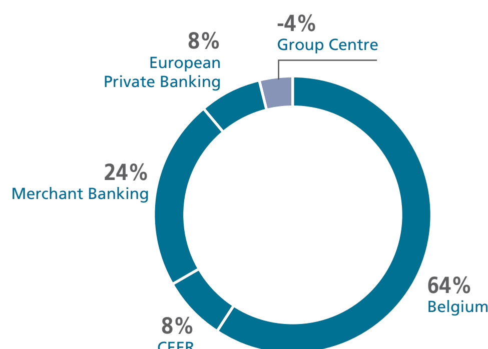
Net results per business unit

Value markdowns on structured credit have a strong influence on the Merchant Banking Business Unit. Results remain robust in the Belgium Business Unit.

Like the results for the group as a whole, the net result per business unit (Belgium 961 million euros, CEER -242 million euros, Merchant Banking -3 272 million euros and European Private Banking 109 million euros) was strongly influenced by exceptional items, such as the value adjustments to CDOs and losses associated with the scaling down of certain derivative trading activities (both items chiefly affected the results of the Merchant Banking Business Unit). An overview of all the items not included in the underlying results is given towards the start of this section.

However, the underlying operating result – i.e. excluding these exceptional items – remained positive in all business units. In the Belgium Business Unit, underlying net profit came to 1 103 million euros, a strong performance that was underpinned primarily by higher net interest income and lower costs. In the CEER Business Unit, it amounted to 140 million euros, a sharp year-on-year decline that was caused primarily by higher loan losses. At 411 million euros, underlying net profit in the Merchant Banking Business Unit was roughly the same as in 2008. In the European Private Banking Business Unit, this underlying figure came to 140 million euros, slightly lower than the year-earlier figure.

An analysis of the results for each business unit can be found in the relevant sections of this annual report.



Balance sheet

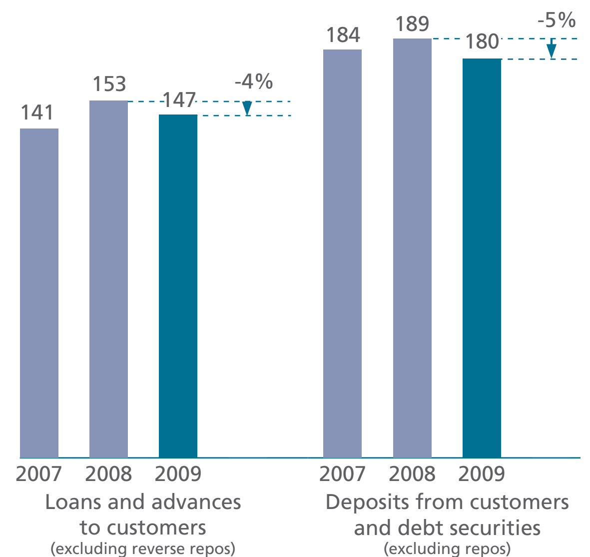
Smaller loan portfolio due to scaling back of international lending

At the end of 2009, the KBC group's total assets came to 324 billion euros, down 9% year-on-year.

As in 2008, loans and advances to customers ('loans', 147 billion euros at the end of 2009, not including the volume of reverse repurchase agreements) and securities (98 billion euros) were the main products on the asset side of the balance sheet. Loans were down 4% on the figure at year-end 2008, with the limited increase at the Belgium Business Unit (+3%) being offset by a decline at the CEER Business Unit (-6%) and the scaling back of the international loan portfolios in the Merchant Banking Business Unit (-7%) as per the new strategy. The main credit products were term loans (72 billion euros) and home loans (59 billion euros).

The group's total deposits (excluding the volume of repurchase agreements) fell by 5% to 180 billion euros, with the increase at the CEER Business Unit (+4%) being cancelled out by a decline at the Belgium Business Unit (-6%) and the Merchant Banking Business Unit (-5%). The main products were time deposits (57 billion euros), demand deposits (44 billion euros) and savings deposits (39 billion euros, i.e. 10 billion euros more in the space of a year).

Technical provisions and liabilities under the insurer's investment contracts totalled 30 billion euros. Most of this figure was accounted for by the life reserves (25 billion euros, up 12% on the figure at the end of 2008 and attributable primarily to Belgium).



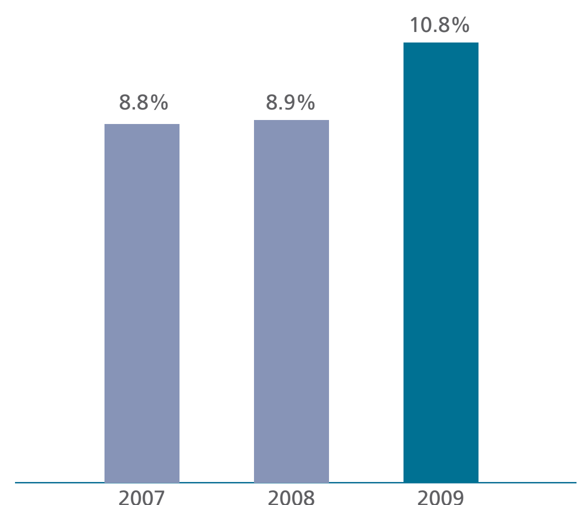
Solvency

Tier-1 ratio rises to 10.8%, core tier-1 ratio comes to 9.2%

On 31 December 2009, the group's total equity came to 17.2 billion euros. This figure includes parent shareholders' equity (9.7 billion euros), minority interests (0.5 billion euros) and non-voting core-capital securities sold to the Belgian and Flemish governments (7 billion euros – see 'Overview of capital transactions with the government' in the 'Our strategy and management' section).

On balance, total equity rose by 1.8 billion euros in 2009. The main items included in this figure were the 3.5 billion euros' worth of core-capital securities sold to the Flemish Regional Government, the 1.6-billion-euro increase in unrealised gains and losses on available-for-sale assets and the negative annual result (-2.5 billion euros). As a result, the group's tier-1 ratio amounted to 10.8% (core tier-1 ratio of 9.2%) at the end of 2009.

For a detailed overview of changes in equity, see the 'Consolidated statement of changes in equity' in the 'Consolidated annual accounts' section.



OUR BUSINESS UNITS

Income remains robust and loan losses low in the
Belgium Business Unit

Loan losses up but manageable in the
Merchant Banking and CEER Business Units

Exceptional valuation losses on assets concentrated primarily in the **Merchant Banking Business Unit**

Belgium Business Unit

Net result in 2009:
961 million euros (IFRS), or 1 103 million euros (underlying)

Share in underlying total net result of the group (2009): 64%

New strategy remains focused on bancassurance – complementary distribution channels to be sold

Johan Thijs
CEO of the Belgium Business Unit

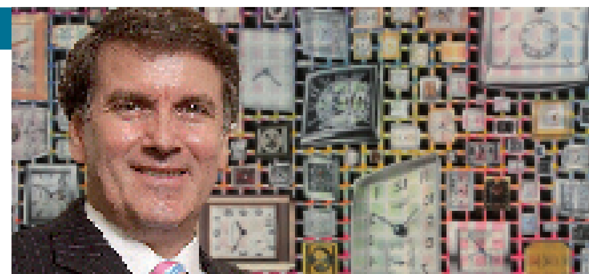
This business unit brings together all the group's banking and insurance activities in Belgium. More specifically, it comprises the Belgian retail and private banking activities of KBC Bank, the Belgian activities of KBC Insurance and the activities of a number of Belgian subsidiaries. The main group companies that belonged to this unit in 2009 were ADD, CBC Banque, Centea, Fidea, KBC Asset Management, KBC Bank (Belgian retail and private banking activities), KBC Insurance and VAB Group.

Central & Eastern Europe and Russia Business Unit

Net result in 2009:
-242 million euros (IFRS) or 140 million euros (underlying)

Share in underlying total net result of the group (2009): 8%

New strategy focuses on bancassurance in the five home markets of the Czech Republic, Slovakia, Hungary, Poland and Bulgaria



John Hollows
CEO of the CEER Business Unit

The Central & Eastern Europe and Russia (CEER) Business Unit comprises all group banking and insurance activities (i.e. retail bancassurance and merchant banking) pursued in Central and Eastern Europe and Russia. The main group companies that belonged to this unit in 2009 were Absolut Bank (Russia), CIBANK (Bulgaria), ČSOB (Slovakia), ČSOB (Czech Republic), ČSOB Poist'ovňa (Slovakia), ČSOB Pojišt'ovna (Czech Republic), DZI Insurance (Bulgaria), K&H Bank (Hungary), K&H Insurance (Hungary), KBC Banka (Serbia), Kredyt Bank (Poland), NLB Vita (Slovenia), Nova Ljubljanska banka (Slovenia, minority interest) and WARTA (Poland).

Merchant Banking Business Unit

Luc Popelier
CEO of the Merchant Banking Business Unit (market activities*)

This business unit comprises the services provided to larger SME and corporate customers as well as all market activities (apart from those in Central and Eastern Europe). The main group companies belonging to this business unit in 2009 were Antwerp Diamond Bank (various countries), Assurisk (Luxembourg), KBC Commercial Finance (Belgium), KBC Bank (merchant banking activities), KBC Bank Deutschland (Germany), KBC Bank Ireland (Ireland), KBC Clearing (Netherlands), KBC Credit Investments (Belgium), KBC Finance Ireland (Ireland), KBC Financial Products (various countries), KBC Lease (various countries), KBC Internationale Financieringsmaatschappij (Netherlands), KBC Peel Hunt (UK), KBC Private Equity (Belgium), KBC Securities (various countries) and Secura (Belgium).

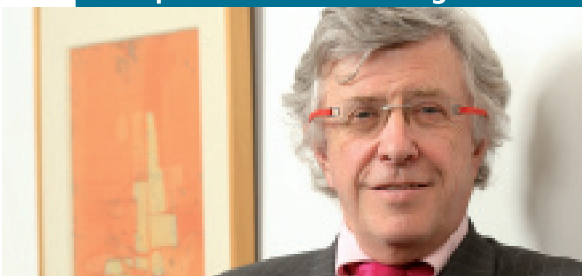
* Corporate banking activities report to the Group CEO.

Net result in 2009:
-3 272 million euros (IFRS)
or 411 million euros (underlying)

Share in underlying total net result of the group (2009): 24%

New strategy focuses on clients with ties to KBC's home markets; various specialised investment banking activities will be run down

European Private Banking Business Unit



Etienne Verwilghen
CEO of the European Private Banking Business Unit

This business unit comprises the activities of both the KBL European Private Bankers group (KBL EPB) and the insurance company VITIS Life Luxembourg SA. The main group companies belonging to this unit in 2009 were Brown Shipley & Co. Ltd. (UK), KBL EPB (Luxembourg), KBL EPB Polska (Poland), KBL Richelieu Banque Privée (France), KBL Monaco Private Bankers (Monaco), KBL Swiss Private Banking (Switzerland), Merck Finck & Co. (Germany), Puilaetco Dewaay Private Bankers SA (Belgium), Theodoor Gilissen Bankiers NV (Netherlands) and VITIS Life Luxembourg SA (Luxembourg).

Net result in 2009:
109 million euros (IFRS)
or 140 million euros (underlying)

Share in underlying total net result of the group (2009): 8%

The group's **new strategy** includes the sale of this business unit's activities

Shared Services & Operations Business Unit

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

This business unit provides support to and serves as a product factory for the other business units. It encompasses a number of divisions that provide products and services to the entire group. The main divisions belonging to this unit in 2009 were Asset Management, Payments, Consumer Finance, Trade Finance, ICT, Leasing and Organisation.

The **result** generated by this unit is allocated to the group's other business units

The **new strategy** entails focusing on core markets and core activities

BELGIUM BUSINESS UNIT

Contribution to group results

Belgium Business Unit (in millions of EUR)	IFRS 2008	IFRS 2009	Underlying result* 2008	Underlying result* 2009
Net interest income	1 997	2 659	1 983	2 406
Gross earned premiums, insurance	3 053	3 526	3 053	3 526
Gross technical charges, insurance	-2 918	-3 471	-2 918	-3 471
Ceded reinsurance result	-21	-25	-21	-25
Dividend income	148	69	148	65
Net (un)realised gains from financial instruments at fair value through profit or loss	-1 031	34	47	80
Net realised gains from available-for-sale assets	119	109	355	141
Net fee and commission income	724	623	724	623
Banking	925	841	925	841
Insurance	-200	-218	-200	-218
Other net income	177	142	177	142
Total income	**2 247**	**3 667**	**3 548**	**3 487**
Operating expenses	-2 029	-2 013	-2 029	-1 813
Impairment	-652	-361	-46	-99
on loans and receivables	-46	-97	-46	-97
on available-for-sale assets	-600	-261	0	-2
Share in results of associated companies	0	0	0	0
Profit before tax	**-434**	**1 293**	**1 473**	**1 575**
Income tax expense	35	-352	-326	-468
Net post-tax income from discontinued operations	0	0	0	0
Profit after tax	**-398**	**942**	**1 147**	**1 106**
attributable to minority interests	-2	-19	2	3
attributable to equity holders of the parent	**-397**	**961**	**1 145**	**1 103**
Banking	167	726	474	743
Insurance	-563	235	671	361
Risk-weighted assets, group (period-end) (Basel II)	33 650	33 652	33 650	33 652
Allocated capital (period-end)	3 134	3 247	3 134	3 247
Return on allocated capital	–	27%	36%	32%
Cost/income ratio, banking	87%	61%	71%	56%
Combined ratio, non-life insurance	96%	94%	96%	94%

* For information on how the underlying figures are calculated, see 'Our results in 2009' and the reconciliation table in this section.

Profit after tax, attributable to equity holders of the parent (reconciliation between IFRS and the underlying figures) (in millions of EUR)	2008	2009
Profit after tax, attributable to equity holders of the parent (IFRS)	-397	961
Less		
valuation losses on CDOs (after tax)	-505	-81
valuation losses on shares (after tax)	-833	-286
valuation losses related to Lehman Brothers, Washington Mutual and the Icelandic banks (after tax)	-2	0
redemption of hybrid tier-1 securities (after tax)	0	22
other exceptional items* (after tax)	-202	202
Profit after tax, attributable to equity holders of the parent (underlying)	1 145	1 103

* Including changes in the fair value of certain ALM hedging instruments.

In 2009, the Belgium Business Unit generated a net profit of 961 million euros, as opposed to a net loss of 397 million euros a year earlier. Underlying net profit (see table) amounted to 1 103 million euros, down 4% on 2008.

Net interest income totalled 2 659 million euros in 2009. On an underlying basis, it came to 2 406 million euros, a significant increase (+21%) on the year-earlier figure. This was chiefly attributable to a return to healthier deposit and loan margins since the beginning of 2009 (following the exceptionally high rates of interest paid on deposits since the summer of 2008), and the shift on the deposit side towards products that generate a higher margin for the group. Together, these factors caused the net interest margin for the Belgian banking activities to widen from 1.47% in 2008 to 1.58% in 2009. The group's total volume of loans and deposits in Belgium ended the year a respective 3% higher and 6% lower than their year-end 2008 level.

Gross earned insurance premiums amounted to 3 526 million euros. The figure for non-life insurance was 955 million euros, an increase of 3.5% compared with 2008, in keeping with the steady growth reported in recent years. Non-life activities also recorded an exceptionally good technical result. This is illustrated by the very favourable combined ratio of 94%, 2 percentage points better than in 2008. In the life insurance business, premium income came to 2 572 million euros but, as required under IFRS, this figure does not reflect investment contracts without a discretionary participation feature (DPF) (these can be more or less equated to unit-linked life insurance policies). If the premium income from such products is included, total premium income for the life insurance activities in Belgium amounted to 3.1 billion euros, no less than 11% more than a year earlier. Unit-linked products accounted for 0.5 billion euros of this figure (-21% compared with 2008, but with a clear recovery towards the end of the year) and guaranteed-rate products for 2.6 billion euros (+21%, still illustrating the flight to safety prompted by the uncertain economic situation). At year-end 2009, the outstanding life reserves in this business unit totalled 22 billion euros, up 12% on the year-earlier figure.

Net fee and commission income amounted to 623 million euros. Fee and commission *income* in the banking business fell by 9% year-on-year, due primarily to the sharp decline in the first quarter. This was followed by a gradual recovery, underpinned by fresh increases in fee and commission income for investment funds. Fees and commission *paid* (primarily to agents in the insurance business) rose by 9%. Assets under management in the Belgium Business Unit (investment funds and assets managed on an advisory and discretionary basis) fell by 4% year-on-year to 146 billion euros.

Net realised gains from available-for-sale assets came to 109 million euros, a decline of 8% on the year-earlier figure, due in part to the insurer's equity portfolios being scaled down. This, together with the generally lower level of corporate dividend payments, also explains why dividend income was more than halved in 2009. Net (un)realised gains from financial instruments at fair value through profit or loss (fair value income) came to 34 million euros. On an underlying basis, i.e. not including exceptional items (such as adjustments to the value of CDOs held by this business unit, etc.), fair value income amounted to 80 million euros, compared with 47 million euros in 2008. At 142 million euros, other net income was down on the figure for 2008 (177 million euros), though a large part of it – about 40 million euros – was related to the reclassification of items from the expenses heading to 'Other net income'.

Operating expenses came to 2 013 million euros. On an underlying basis (i.e. disregarding provisions set aside in 2009 for CDO claims), they fell by 11% year-on-year. Apart from the impact of the accounting reclassification referred to above (where some 40 million euros was reclassified under 'Other net income'), this was due to the cost-saving measures implemented at every group company, lower variable pay and a 3% reduction in the workforce of this business unit. This gave the unit an underlying cost/income ratio for its banking activities of 56%, which is a significant improvement on the figure of 71% in 2008. The net expense ratio for the insurance activities was 31%, compared with 33% in 2008.

Impairment recorded on *loans and receivable*s amounted to 97 million euros, which – despite being more than double the 2008 figure – remains at an extremely low level. This duly generated a very favourable credit cost ratio of 17 basis points (9 basis points in 2008). A relatively low 1.7% of the Belgian retail credit portfolio was non-performing at year-end 2009, comparable with the year-earlier figure. Impairment on *available-for-sale assets* (primarily shares) fell from 600 million euros in 2008 to 261 million euros in 2009. The 2009 figure related almost entirely to the first quarter of the year. Thanks to the gradual stock market recovery, virtually no impairment was recorded on available-for-sale assets in the rest of 2009. No other impairment charges worthy of note were recorded.

BELGIUM BUSINESS UNIT

Facts and figures

Belgium Business Unit	2008	2009
Customers and staff		
Customers (estimates, in millions)	3.9	3.9
Staff (in FTEs, not including staff of departments providing support to other business units or the group as a whole)	12 523	12 209
Network		
Retail bank branches, KBC Bank and CBC Banque*	826	809
Private banking branches, KBC Bank and CBC Banque	26	26
Bank agencies, Centea	696	687
Insurance agencies, KBC Insurance	530	498
Assets under management		
Total assets under management (in billions of EUR)	151	146
Market share (estimates)		
Loans	22%	22%
Deposits	19%	19%
Investment funds	38%	39%
Life insurance (based on outstanding reserves)	16%	17%
Non-life insurance (based on premiums)	10%	10%
Cross-selling indicators		
Life insurance sold via the bank channel	79%	79%
Non-life insurance sold via the bank channel	17%	17%
E-payments indicators – Belgium		
Percentage of payment transactions via electronic channels	94%	94%
Number of KBC- and CBC-Matic ATMs	1 272	1 254
Number of cash withdrawals at KBC- and CBC-Matic ATMs per month (in millions)	4.0	4.7
Active subscribers to KBC Internet and PC banking facilities	790 000	884 000
Customer satisfaction		
Percentage of customers surveyed who gave their KBC Bank branch a score of 'good' or 'very good' (min. 8/10)	70%	74%
Loan portfolio		
Amount granted (in billions of EUR)	62	66
Share of the total loan portfolio	28%	33%

* Including branches catering for the social profit segment; excluding CBC's main branches (*succursales*), which offer services to both retail and corporate customers and which are covered in the Merchant Banking Business Unit section.

Successful bancassurance co-operation: a significant contributory factor to the robust return generated by this business unit

Despite the more difficult market conditions, KBC's retail bancassurance activities in Belgium generated a fine return once again in 2009 (the underlying return on the capital allocated to this business unit came to 32%). This marked the continuation of the series of good returns recorded in the last few years. The influence of KBC's unique bancassurance concept was a significant factor in this achievement. Intensive collaboration between KBC Bank branches and KBC Insurance agencies in so-called 'micro markets' enables the group to switch rapidly between banking, insurance and asset management products, account taken of changing customer preferences and market opportunities. KBC's bancassurance concept also stimulates intensive cross-selling. In 2009, for instance, almost 80% of mortgages were accompanied by the sale of a KBC home insurance policy. What's more, almost 80% of life insurance policies have been sold consistently by bank branches in recent years. Two-thirds of non-life insurance is sold by insurance agents and a growing proportion (over 17% in 2009) through bank branches. It goes without saying, therefore, that this unique concept of co-operation will remain at the centre of the group's new strategy (see below).

Lower rate of interest paid on deposit products in response to ECB rate cuts

The European Central Bank continued to trim its short-term interest rate in 2009, reducing it from 2.50% to 1% in a series of cuts. Since economic logic requires a commercial bank to reflect such changes in its own rates, KBC followed suit and reduced the interest rate payable on a number of deposit products, together with the rates applying to such products as mortgages. For instance, the base rate paid on traditional savings accounts held by private customers was reduced from 2.25% at the beginning of the year (and from as much as 4% in the summer of 2008) to 1% at the end of the year. Nevertheless, the volume of deposits in these savings accounts grew by no less than 33% to 39 billion euros at year-end 2009, due to a number of factors including what was still an uncertain financial and economic climate. Total deposits at the business unit fell by roughly 6% in 2009, with growth on savings accounts offset by a decline in time deposits.

Customer satisfaction still high

Customer satisfaction is crucial to successful cross-selling. KBC has regularly researched its customers' satisfaction with its bank branches and insurance agencies for some years now. The most recent survey relating to the bank branches (2009) confirms that customers generally remain highly satisfied (95% of customers are 'satisfied', with as many as 74% describing themselves as 'very satisfied', i.e. they gave the branch a score of eight or more out of ten). The figure for the insurance agencies is even higher (86%, although the most recent survey dates from the end of 2007). Panel discussions with customers indicate, moreover, that KBC's reputation among its customers has come through the financial crisis relatively unscathed, even though their confidence in the financial sector in general has declined. The majority of customers continue to view KBC as a 'warm and friendly bank', thanks chiefly to the personal approach adopted by branch staff. This privileged position was confirmed by KBC's second place in the 'Bank of the Year' contest organised by bankshopper.be and comparebanque.be, which asked respondents to indicate which bank they were generally most satisfied with.

KBC scores well not only with its customers, but with its staff too. In the most recent survey, the number of employees rating themselves as 'satisfied' or 'very satisfied' came to no less than 95%, a level that has remained largely constant in recent years. Moreover, KBC was nominated once again in 2009 as one of the 'Best Employers in Belgium' (by the Great Place To Work® Institute), and was also recognised as one of the ten most attractive companies in Flanders in a survey carried out by Vlerick Management School and the recruitment publication *Vacature*.

Market shares hold up

On a consolidated basis (i.e. including CBC Banque and Centea), KBC had a share of roughly 22% of the Belgian loan market and 19% of the deposit market at year-end 2009 (not including Centea – see below – the respective figures were 20% and 17%). The estimated share of the life insurance market was 17% (calculated on the basis of outstanding life reserves) and the non-life insurance market 10% (calculated on the basis of premium income). When Fidea is excluded, the figures were just under 16% for life insurance and 8% for non-life insurance. Overall, these figures are roughly comparable with the year-earlier ones. What's more, the group captured an even bigger share of the market in investment funds. By increasing its share from 38% to 39% by the end of 2009, KBC remains the undisputed leader of this market in Belgium.

Most sustainable bank in Belgium

In December, KBC won *The New Economy*'s prize for 'Most Sustainable Bank in Belgium', honouring its achievements in the area of corporate social responsibility (see box). The prize came at a crucial moment in the move towards embracing more environmentally friendly technology and creating a more sustainable financial sector. Sustainable banking is increasingly recognised as an attitude that offers financial institutions an essential advantage and that helps banks and investment companies set themselves apart from their competitors.

New developments on the electronic bancassurance front

The KBC website and KBC-Online were both given an entirely new look and feel in 2009, as part of the ongoing improvement of the group's electronic service offering. The 'www.kbc.be' website now receives over 20 million visits from around two million unique visitors every month. Thousands of share and fund transactions are performed on it and hundreds of requests made in relation to loans, accounts, cards and insurance. The corporate website (www.kbc.com), which was completely upgraded in 2008, has also been improved further. The site was ranked number one in 2009 in Hallvarsson & Halvarsson's comparison of corporate websites in Belgium, and was also recognised as 'Best Corporate Website in Belgium' by the Belgian Association of Financial Analysts.

BELGIUM BUSINESS UNIT

Another series of new applications was added to KBC-Online, including the facility to display transactions going back up to ten years, which renders redundant the need for statements printed on paper. Together with Zoomit, which allows users to receive bills in electronic form and to pay them with a few clicks of the mouse, the facility promotes a more paper-free environment. The popularity of KBC's online bancassurance offering is reflected in the continuously rising number of users. At the end of 2009, KBC-Online, CBC-Online and Centea-Online had more than 884 000 active subscribers in total, 12% more than in the previous year.

The Belgium Business Unit and the group's renewed strategy

Given the success of KBC's bancassurance concept in the past, it will remain the cornerstone of our presence in Belgium. Under its renewed strategy, therefore, the group will continue to focus on offering a complete range of banking, insurance and asset management services, primarily through a close-knit and exclusive network of bank branches and insurance agencies. Moreover, the customer-centricity of these sales networks in Belgium will be further improved in a number of ways, including the introduction of extended opening hours and the more flexible deployment of employees at cluster branch level.

KBC has also used a number of complementary distribution channels up to now in Belgium, alongside its bancassurance platform. Differentiated products and services are offered to customers under a different brand name via networks of independent resellers, specifically Centea bank agents and independent brokers who sell Fidea insurance products. The group has decided to seek a buyer for these complementary sales networks in order to further strengthen its capital position and to facilitate repayment within the foreseeable future of the government aid it has received. The planned sale of the businesses in question will not undermine the strength of KBC's primary bancassurance distribution. Even after the sale of these companies, which is planned for 2010, KBC will still possess an extremely close-knit network in Flanders. Centea and Fidea represent a market share of around 1–2% for total loans, deposits and insurance in Belgium. Together, the two companies held roughly 5.6 billion euros' worth of risk-weighted assets at year-end 2009.

"We have had to make choices to ensure the strength of our group in the future. In the case of the Belgium Business Unit, this means that, regrettably, we will be divesting Centea and Fidea in due course. Our future focus in Belgium will be on continuing to build our unique bancassurance concept through an exclusive and close-knit network of bank branches and insurance agencies."

Johan Thijs, CEO of the Belgium Business Unit

CENTRAL & EASTERN EUROPE AND RUSSIA BUSINESS UNIT

Contribution to group results

CEER Business Unit (in millions of EUR)	2008	IFRS 2009	2008	Underlying result* 2009
Net interest income	1 745	1 780	1 782	1 839
Gross earned premiums, insurance	1 285	1 094	1 285	1 094
Gross technical charges, insurance	-786	-757	-786	-757
Ceded reinsurance result	-38	-25	-38	-25
Dividend income	13	9	13	9
Net (un)realised gains from financial instruments at fair value through profit or loss	-239	177	315	77
Net realised gains from available-for-sale assets	-7	18	-8	18
Net fee and commission income	301	308	301	308
Banking	535	476	535	476
Insurance	-234	-168	-234	-168
Other net income	195	109	136	109
Total income	**2 469**	**2 713**	**3 002**	**2 671**
Operating expenses	-1 878	-1 670	-1 878	-1 611
Impairment	-413	-1 280	-322	-866
on loans and receivables	-313	-854	-313	-854
on available-for-sale assets	-80	-16	0	0
on goodwill	0	-399	0	0
Share in results of associated companies	10	-25	23	-25
Profit before tax	**187**	**-262**	**824**	**170**
Income tax expense	23	-33	-115	-44
Net post-tax income from discontinued operations	0	0	0	0
Profit after tax	**210**	**-295**	**710**	**125**
attributable to minority interests	22	-53	23	-15
attributable to equity holders of the parent	**188**	**-242**	**687**	**140**
Banking	190	-217	641	74
Insurance	-1	-25	46	66
Risk-weighted assets, group (period-end) (Basel II)	41 340	36 595	41 340	36 595
Allocated capital (period-end)	2 922	2 604	2 922	2 604
Return on allocated capital	3%	–	22%	–
Cost/income ratio, banking	75%	60%	60%	59%
Combined ratio, non-life insurance	95%	104%	95%	104%

* For information on how the underlying figures are calculated, see 'Our results in 2009' and the reconciliation table in this section.

Profit after tax, attributable to equity holders of the parent (reconciliation between IFRS and the underlying figures)

(in millions of EUR)	2008	2009
Profit after tax, attributable to equity holders of the parent (IFRS)	188	-242
Less		
valuation losses on CDOs (after tax)	-337	-21
valuation losses on shares (after tax)	-72	-16
valuation losses related to Lehman Brothers, Washington Mutual and the Icelandic banks (after tax)	-39	15
valuation losses on goodwill paid on companies from this business unit (after tax)	0	-399
redemption of hybrid tier-1 securities (after tax)	0	36
other exceptional items* (after tax)	-51	4
Profit after tax, attributable to equity holders of the parent (underlying)	687	140

* Including changes in the fair value of certain ALM hedging instruments.

CENTRAL & EASTERN EUROPE AND RUSSIA BUSINESS UNIT

In 2009, the CEER Business Unit generated a net loss of 242 million euros, as opposed to a net profit of 188 million euros a year earlier. Underlying net profit (see table) amounted to 140 million euros, compared with 687 million euros in 2008. In the following analysis, the influence of exchange rate fluctuations has been omitted when calculating organic growth (on a weighted average basis, Central and Eastern European currencies depreciated by around 9% against the euro over the period under review). No significant changes were made to the scope of consolidation in 2009.

Net interest income totalled 1 780 million euros in 2009. On an underlying basis, the figure was 1 839 million euros, reflecting organic growth of 14% compared with 2008, despite shrinking credit volumes. This reflected the fact that the loan portfolio for the region as a whole had contracted by 6%, due primarily to the reduction in size of the portfolios in Russia (-32%) and Hungary (-10%). The total volume of deposits in the region increased by 4% in 2009, while the average interest margin rose by 3 basis points year-on-year, reaching 3.19%.

Gross earned insurance premiums amounted to 1 094 million euros. For the non-life insurance business, the figure was 767 million euros, approximately 5% lower than the year-earlier figure (on an organic basis). The bulk of the premium income from this unit's non-life insurance business continued to be generated in Poland (440 million euros) and in the Czech Republic (153 million euros). The combined ratio for the non-life activities in the region deteriorated from 95% in 2008 to 104% in 2009, due chiefly to the higher level of claims in Poland (resulting from storm damage and the increased number of large claims, etc.). As a result, the combined ratio for that country was a high 113% in 2009. At 104%, the combined ratio for Slovakia was likewise high, whereas the ratio for all the other countries remained below 100% (90% in the Czech Republic, 83% in Hungary and 96% in Bulgaria).

Gross earned life insurance premiums came to 327 million euros, but, as required under IFRS, this figure does not reflect unit-linked life insurance policies. If the premium income from such products is included, total premium income for the life insurance activities came to about 1 billion euros, 6% less than a year earlier (on an organic basis). Once again, most of the premium income from life insurance was earned in Poland (599 million euros) and in the Czech Republic (210 million euros). At the end of 2009, outstanding life reserves stood at 1.6 billion euros, roughly 10% less than the figure for 2008 (on an organic basis).

Dividend income amounted to 9 million euros, compared with 13 million euros a year earlier. Net (un)realised gains from financial instruments at fair value through profit or loss (trading and fair value income) came to 177 million euros, as opposed to a negative 239 million euros in 2008. The latter figure was due mainly to valuation markdowns on CDOs in that year (approximately 0.4 billion euros, before tax). On an underlying basis – i.e. not including these markdowns and other exceptional items – trading and fair value income amounted to 77 million euros, a much lower level than in 2008 (315 million euros). Net realised gains from available-for-sale assets came to 18 million euros, 26 million euros more than the year-earlier figure.

Net fee and commission income amounted to 308 million euros in 2009, or up some 9% on its 2008 level (on an organic basis). The 3% decline in fee and commission *income* generated by the banking business was more than offset by a sharper fall (-17%) in fees and commission *paid* to agents in the insurance business (on an organic basis in both cases). Assets under management in the business unit reached around 12 billion euros by the end of 2009. Other net income (109 million euros) was down 86 million euros on the 2008 figure, which had been favourably affected by *inter alia* a 40-million-euro revaluation gain on the participating interest in Nova Ljubljanska banka in Slovenia (classified as an exceptional item and therefore excluded from the underlying figures).

Operating expenses came to 1 670 million euros. On an underlying basis (i.e. disregarding provisions set aside in 2009 for CDO claims, among other exceptional items), that was 5% lower than a year earlier (on an organic basis), reflecting a number of factors, including a reduction in the workforce (-9% in the space of a year), lower variable pay, and the effect of various cost-saving measures at the companies belonging to this business unit. As a consequence, the underlying cost/income ratio for the banking activities of this business unit improved slightly from 60% in 2008 to 59% in 2009.

Impairment recorded on *loans and receivables* amounted to 854 million euros, up 541 million euros on the 2008 figure. The increase was spread across virtually every country, but – comparatively speaking – the biggest increase was in Poland (relating in part to consumer credit) and in Russia. Impairment on *securities* came to just 16 million euros, 64 million euros less than in 2008, thanks to the gradual recovery in share prices and the fact that 2008 had been adversely affected by substantial impairment charges on bonds issued by troubled banks in the US and Iceland (see table). On balance, the credit cost ratio (which includes impairment on both loans and bonds) rose from 83 basis points in 2008 to 212 basis points in 2009, within the targeted range of 200–230 basis points. This ratio varied sharply from one country to another, ranging from 112 basis points in the Czech Republic and 156 basis points in Slovakia, through 201 basis points in Hungary and 259 basis points in Poland, to 615 basis points in Russia. In 2009, impairment of 399 million euros was also recorded on the value of goodwill outstanding related to the companies from this business unit (primarily the subsidiaries in Bulgaria, Russia and Slovakia). Impairment on goodwill is not included in the underlying figures.

The underlying results for each country are provided at the end of this section. The 'Other' heading comprises the results of the group companies in Slovenia, Bulgaria, Serbia and Romania, the funding for the goodwill on acquisitions, allocated overheads and minority interests in the group companies that come under the CEER Business Unit.

Facts and figures

CEER Business Unit, 31-12-2009	Czech Republic	Slovakia	Hungary	Poland	Bulgaria	Serbia	Russia
Network							
Principal group companies	ČSOB, ČSOB Pojišťovna	ČSOB, ČSOB Poisťovňa	K&H Bank, K&H Insurance	Kredyt Bank, WARTA	CIBANK, DZI Insurance	KBC Banka	Absolut Bank
Bank branches[1]	300	145	243	419	133	70	71
Insurance agents	1 089	366	567	2 522	6 728	–	–
Customers							
Bank customers (estimates, in millions)	3.1[2]	0.4	0.9	1.0	0.3	0.1	0.2
Insurance customers (estimates, in millions)	0.9	0.2	0.5	2.6[3]	1.0	–	–
Assets under management							
Total (in billions of EUR)	5.6	1.0	2.4	2.7	–	–	–
Market share (estimate)							
Traditional bank products (loans and deposits)	23%	10%	9%	4%	3%	0.9%	0.5%
Investment funds	34%	13%	20%	5%	–	–	–
Life insurance	9%	5%	4%	7%	16%	–	–
Non-life insurance	5%	2%	4%	9%	14%	–	–
E-payment indicators							
Number of proprietary ATMs	734	240	454	415	147	63	171
Active subscribers to Internet and PC banking facilities	511 000	100 000	128 000	356 000	4 000	7 000	9 000
Loan portfolio							
Amount granted (in billions of EUR)	21.4	4.7	7.8	8.3	0.8	0.2	2.6
Share of the total loan portfolio	11%	2%	4%	4%	0.4%	0.1%	1%

1 Corporate branches are counted separately, even if located in a retail branch.
2 Excluding the approximate 2 million customers of CMSS (joint venture).
3 New method of calculation.

Central and Eastern Europe and the financial crisis

2009 was a year of recession in Central and Eastern Europe (Poland excepted), as it was in Western Europe. Relatively large differences were, however, apparent within the region. If we look specifically at the countries in which KBC is present, real gross domestic product contracted by about 3.6% (weighted by the share of the respective countries in the group's risk-weighted assets), which is comparable with the European Union average and hence considerably better than the catastrophic levels predicted by some commentators.

Obviously, the KBC subsidiaries in the region were affected by the crisis, as illustrated primarily by a significant increase in loan losses (the credit cost ratio rose from 0.83% in 2008 to 2.12% in 2009), but once again there were sharp differences from one country to another (ranging from 1.12% for the Czech Republic to 6.15% for Russia). If we disregard these loan losses, the underlying result (before tax and loan loss provisioning) declined by less than 10%.

Furthermore, KBC expects that Central and Eastern Europe will continue to function in the future as a growth engine for the group, as the region's economies progressively converge towards the Western European level. That makes a catch-up process likely in terms of not only gross domestic product per capita, but also the penetration of financial products. In view of these factors, combined with the influence of the revised strategy (see below), our group is still convinced that Central and Eastern Europe will make a very substantial contribution to profit in the future and that the region will remain crucially important to our new strategy (more details provided below).

Roughly stable share of loans and deposits market and strong position maintained in investment fund market

The recent difficult period had little impact on the market share of KBC's companies in the region. Overall, KBC's share of the loans and deposits market remained unchanged. What's more, for the second year running, the group was the largest fund manager in the region comprising the Czech Republic, Slovakia, Hungary and Poland. As in Belgium, the share of the market in investment funds is greater than that of the market in traditional deposit products. At year-end 2009, the share of the market in investment funds was estimated at more than 34% in the Czech Republic, at 13% in Slovakia, at 20% in Hungary, and at 5% in Poland. Assets under management in the region now total roughly 12 billion euros.

CENTRAL & EASTERN EUROPE AND RUSSIA BUSINESS UNIT

More prestigious international prizes for the group

As in 2008, various group companies won a range of prestigious international prizes. For instance, our Czech and Slovakian banking subsidiaries were named 'Best Foreign Exchange Provider' in their respective countries by *Global Finance*. The same magazine also awarded our companies the title of 'Best Trade Finance Provider' in Hungary and the Czech Republic. In Hungary, K&H Bank received third prize from the Hungarian Business Leaders Forum at the Business for Environment Awards, courtesy of its Green Branch initiative (see the 'Corporate Social Responsibility' section). The group's insurance companies also picked up a number of awards. For example, ČSOB Pojišt'ovna received the 'World Finance Global Insurance Award 2009' for the Czech Republic.

Only limited changes to network in Central and Eastern Europe

Unlike previous years, 2009 saw only a limited number of changes to KBC's presence in the region. On 1 July 2009, the legal merger between Istrobanka (acquired in mid-2008) and ČSOB in Slovakia was finalised, with the new entity retaining the name ČSOB. In mid-December 2009, KBC Bank acquired the participating interest that ČSOB in the Czech Republic still held in its Slovakian sister bank. As a result, KBC Bank is now the sole owner of ČSOB in Slovakia.

Sofina exercised its right under the shareholder agreement with KBC to sell its stake of around 5% in Kredyt Bank in Poland to KBC group companies, KBC Securities and KBL EPB (which sold it on to KBC Insurance). KBC Securities and KBL EPB will hold on to the new shares with a view to selling them to interested investors when the market is ready. KBC Bank will retain its direct interest of 80% in Kredyt Bank. In Bulgaria, KBC increased its shareholding in CIBANK from 77% to almost 82%.

At the end of 2009, the group had around 1 400 bank branches in all the countries where it is present – on balance, more or less the same number as in 2008 – and about 11 000 insurance agencies.

Focus on five countries in the region and divestment of the complementary sales channel in Poland

As part of its renewed strategy, KBC decided in November to concentrate its longer-term regional presence in the Czech Republic, Slovakia, Hungary, Poland and Bulgaria. In each of these markets (all of which are located in the European Union), KBC owns significant banking, insurance and asset management operations, giving it a platform for further sustainable organic growth.

The group's presence in other markets (Serbia and Russia) will be sold over time. With a market share of less than 1%, KBC's presence in Russia and Serbia is limited and strategic synergies are still in their infancy. Divestment will only begin in earnest, however, when the market conditions for it have improved. Until then, the companies in question will remain an integral part of the group and KBC will provide them with every possible support so that they can continue to grow. In 2009, KBC Banka and Absolut Bank held a total of roughly 2.4 billion euros in risk-weighted assets. Lastly, the group also intends, as previously announced, to sell its non-strategic minority interest of 31% in Nova Ljubljanska banka (NLB) in Slovenia.

In various core geographic areas, KBC also employs complementary distribution channels in tandem with its core bancassurance platform. To further strengthen its capital base, the group has decided to discontinue sales of consumer finance in Poland via Żagiel's specialist model and hence to sell that company. The intention is for consumer finance activities in Poland to be grafted onto the existing bancassurance distribution model.

Public offering of a minority stake in ČSOB

KBC intends to make a public offering of a minority interest in its Czech banking subsidiary ČSOB. Once again, the objective here is to release capital to facilitate repayment within a reasonable period of the government support provided to the group. If necessary, similar transactions might be set up in the future for some of our other Central and Eastern European subsidiaries.

'Our future success in Central and Eastern Europe will be determined not only by what we do, but also by what we don't do. We will bring strict discipline to bear in both cases. We are convinced that this more focused presence in the region will once again prime it to become a strong profit driver for the entire group.'

John Hollows, CEO of the CEER Business Unit

Breakdown by country of the underlying results of the CEER Business Unit

Underlying results of the CEER Business Unit by country	**Czech Republic**		**Slovakia**		**Hungary**		**Poland**		**Russia**		**Other**	
(in millions of EUR)	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**
Profit after tax, attributable to the equity holders of the parent	**525**	**426**	**38**	**13**	**126**	**72**	**129**	**-12**	**10**	**-107**	**-142**	**-251**
Banking	494	373	33	7	113	58	76	-36	10	-107	-85	-221
Insurance	31	53	6	6	13	14	53	23	0	0	-57	-30
Risk-weighted assets, group (period-end) (Basel II)	15 326	14 689	5 294	4 125	6 933	6 042	8 898	8 222	3 454	2 227	–	–
Allocated capital (period-end)	1 050	1 008	350	276	464	406	706	649	220	142	–	–
Return on allocated capital	41%	34%	8%	–	17%	8%	17%	–	–	–	–	–
Cost/income ratio, banking	47%	45%	67%	69%	62%	55%	63%	65%	61%	57%	–	–
Combined ratio, non-life insurance	92%	90%	104%	104%	88%	83%	95%	113%	–	–	–	–

MERCHANT BANKING BUSINESS UNIT

Contribution to group results

Merchant Banking Business Unit (in millions of EUR)	IFRS 2008	IFRS 2009	Underlying result* 2008	Underlying result* 2009
Net interest income	1 121	1 411	1 002	1 060
Gross earned premiums, insurance	373	268	373	268
Gross technical charges, insurance	-263	-197	-263	-177
Ceded reinsurance result	-24	-28	-24	-28
Dividend income	82	60	19	16
Net (un)realised gains from financial instruments at fair value through profit or loss	-2 329	-3 741	582	731
Net realised gains from available-for-sale assets	-19	79	-9	64
Net fee and commission income	259	195	301	271
Banking	315	231	356	307
Insurance	-56	-36	-56	-36
Other net income	321	223	165	137
Total income	**-480**	**-1 730**	**2 145**	**2 342**
Operating expenses	-1 199	-1 061	-1 191	-920
Impairment	-877	-1 066	-330	-933
on loans and receivables	-407	-950	-279	-929
on available-for-sale assets	-421	-41	-6	0
Share in results of associated companies	-12	0	-12	0
Profit before tax	**-2 568**	**-3 857**	**613**	**489**
Income tax expense	489	576	-109	-8
Net post-tax income from discontinued operations	0	0	0	0
Profit after tax	**-2 079**	**-3 281**	**503**	**481**
attributable to minority interests	85	-10	86	70
attributable to equity holders of the parent	**-2 164**	**-3 272**	**418**	**411**
Banking	-1 796	-2 921	349	337
Insurance	-367	-351	68	74
Risk-weighted assets, group (period-end) (Basel II)	74 194	67 566	74 194	67 566
Allocated capital (period-end)	4 777	4 353	4 777	4 353
Return on allocated capital	–	–	9%	9%
Cost/income ratio, banking	–	–	57%	40%
Combined ratio, non-life insurance	87%	97%	87%	97%

* For information on how the underlying figures are calculated, see 'Our results in 2009' and the reconciliation table in this section.

Profit after tax, attributable to equity holders of the parent (reconciliation between IFRS and the underlying figures) (in millions of EUR)	2008	2009
Profit after tax, attributable to equity holders of the parent (IFRS)	-2 164	-3 272
Less		
valuation losses on CDOs[1] (after tax)	-2 038	-1 747
fee for government guarantee scheme to cover CDO-related risks (after tax)	0	-930
valuation losses on shares (after tax)	-108	-35
valuation losses related to Lehman Brothers, Washington Mutual and the Icelandic banks (after tax)	-250	30
losses related to the discontinuation of activities at KBC Financial Products (after tax)	-245	-1 000
redemption of hybrid tier-1 securities (after tax)	0	69
other exceptional items[2] (after tax)	61	-71
Profit after tax, attributable to equity holders of the parent (underlying)	418	411

1 Including limited valuation losses on other Asset Backed Securities (ABS) recognised in the income statement.

2 Including changes in the fair value of certain ALM hedging instruments.

In 2009, the Merchant Banking Business Unit generated a net loss of 3 272 million euros, compared with a net loss of 2 164 million euros a year earlier. Underlying net profit (see table) amounted to 411 million euros, more or less the same level as in 2008.

Net interest income totalled 1 411 million euros. On an underlying basis, it came to 1 060 million euros (whereby trading-related net interest income, among other income items, was moved to the heading 'Net (un) realised gains from financial instruments at fair value'). Despite the loan portfolio of this business unit being reduced by roughly 7% in 2009, underlying net interest income went up by 6% year-on-year, due chiefly to the more favourable margin environment. The contraction of the loan portfolio is consequent on the deliberate run-down of a number of international loan portfolios as per the group's new strategy (of focusing on the home markets in Belgium and Central and Eastern Europe).

Premium income from (re)insurance activities came to 268 million euros. The combined ratio for non-life reinsurance ended the year at 97%. Dividend income amounted to 60 million euros, compared with 82 million euros a year earlier.

Net (un)realised gains from financial instruments at fair value through profit or loss (trading and fair value income) came to a negative 3 741 million euros, compared with a negative 2 329 million euros in 2008. In both years, this was the result primarily of CDO events, including the impact of value adjustments to CDO notes, the heightened counterparty exposure to monoline insurer MBIA, and the costs associated with the CDO guarantee agreement with the Belgian Federal Government. Moreover, trading and fair value income in 2009 included a negative 1.1 billion euros (before tax) related to the discontinuation and run-down of certain derivatives activities at KBC Financial Products. On an underlying basis – i.e. not including the impact of CDOs, the aforementioned loss on the discontinuation of activities or certain other exceptional items – trading and fair value income rose from 582 million euros in 2008 to 731 million euros in 2009, thanks in part to a strong performance on the currency and bond markets, primarily at the dealing room in Brussels.

Net realised gains from available-for-sale assets (gains and losses on the sale of shares and bonds from the investment portfolios) came to 79 million euros (compared with a negative 19 million euros in 2008), partly on account of the sale of a bond portfolio. Net fee and commission income amounted to 195 million euros in 2009, or 271 million euros on an underlying basis. Although the exceptionally weak performance in the first three months was followed by a gradual recovery in fee and commission income in subsequent quarters (partly consequent on growth in income from corporate finance), underlying net fee and commission income still fell by 10% year-on-year. Other net income came to 223 million euros, or 137 million euros on an underlying basis, some 17% less than the year-earlier figure, which had been influenced to a degree by a capital gain on the sale of a building (16 million euros).

Operating expenses totalled 1 061 million euros, or 920 million euros on an underlying basis (i.e. excluding the provisions set aside for CDO claims and the cost of running down certain investment banking activities). This figure is down 23% year-on-year, mainly on account of the lower number of employees (1 039 or 20% less FTEs) due to the run-down of investment banking activities, in particular at KBC Financial Products. The underlying cost/income ratio ended the year at 40%, compared with 57% in 2008.

Impairment came to 1 066 million euros, compared with 877 million euros a year earlier. Impairment on securities (*available-for-sale assets*) amounted to just 41 million euros, compared with 421 million euros in 2008. It includes the lower level of valuation markdowns on both shares (thanks to the stock-market recovery) and bonds (2008 was adversely impacted by markdowns on securities issued by troubled banks in Iceland and the US). Impairment on *loans and receivables* rose from 407 to 950 million euros, due chiefly to the international loan portfolios and to impairment losses on US mortgage-backed securities (which are treated as loans in the accounts). Consequently, the credit cost ratio (which includes impairment on both loans and bonds) went up from 90 basis points in 2008 to 132 basis points in 2009. At year-end, around 4% of the business unit's loan portfolio was non-performing, a sharp increase on the 1.6% recorded a year earlier.

The Merchant Banking Business Unit encompasses corporate banking (the services provided to SMEs and larger companies), which accounted for 319 million euros of the business unit's underlying net result in 2009, and market activities (e.g., currency dealing, securities trading and corporate finance), which generated an underlying net result of 92 million euros. More information in this regard is provided at the end of this section.

MERCHANT BANKING BUSINESS UNIT

Facts and figures

Merchant Banking Business Unit	2008	2009
Customers and staff		
Corporate banking customers in Belgium (estimate)	20 000	20 000
Staff (in FTEs, not including staff of departments providing support to other business units or the group as a whole)	5 110	4 071
Network		
Corporate branches in Belgium, including CBC Banque *succursales*	27	26
Bank branches in the rest of the world*, including representative offices	33	32
Assets under management		
Total (in billions of EUR)	0.04	0.02
Market share (estimate)		
Corporate lending (Belgium)	22%	22%
Loan portfolio		
Amount granted (in billions of EUR)	100	87
Share of the total portfolio	46%	43%

* Excluding Central and Eastern Europe, solely corporate branches of KBC Bank NV, KBC Bank Deutschland and KBC Bank Ireland.

Net profit strongly influenced by fluctuations in the value of structured products and by unwinding losses related to the scaling down of structured derivatives

As in 2008, profit at this business unit was considerably influenced by value adjustments relating to the structured products portfolio – attributable in part to the sharp increase in counterparty exposure to monoline insurer MBIA (following the announcement of its restructuring plans) – and resulted in the group having to recognise a sizeable loss for the first quarter. At the same time, the potential for the portfolio of structured products to have any further negative impact was substantially mitigated by the guarantee agreement concluded with the Belgian Federal Government (see 'Overview of capital transactions with the government' in the 'Our strategy and management' section), for which a fee also had to be recognised. Additionally, more than 1 billion euros in unwinding losses was also reported in 2009 as a result of the structured derivatives position at KBC Financial Products being scaled down. Since both the unwinding losses and most of the CDO impact – including the fee paid to the government – related to the Merchant Banking Business Unit, it recorded a net loss of 3.3 billion euros for the year. As stated already, these exceptional items are excluded from the underlying results.

Strong position on Belgian market for business credit, reduction in international loan portfolios and robust performance by dealing rooms

Despite the ongoing run-down of the group's international loan portfolios (see below), the corporate banking business generated strong net interest income, attributable mainly to the favourable trend in interest margins. Moreover, loan losses in Belgium were again generally limited, while market share remained more or less the same as in 2008. However, significant provisions had to be set aside for international corporate banking operations and for such niche activities as finance for the diamond trade and leasing. Provisions were particularly high for Ireland, where the severe effect of the economic crisis on the local housing market was reflected in mounting loan losses in the mortgage portfolio.

In terms of market activities, both the Belgian and international dealing rooms, and the securities activities continued at KBC Financial Products, posted strong trading results. However – as already stated – significant unwinding losses had to be recorded for running down the structured derivatives portfolio held by KBC Financial Products.

Despite the general crisis and uncertainty on the financial markets, the commission-generating broker and corporate finance activities performed in line with expectations. KBC Securities picked up two awards from Euronext Brussels, viz. '1st Trading House Small & Mid Caps' (awarded to the brokerage trading the largest volume in this segment) and '1st IPO House Euronext' (for the most active player in the IPO market).

Merchant banking activities refocused on home market customers

As part of its new strategy, KBC has decided to focus its merchant banking operations on activities related to customers from its home markets in Belgium and Central and Eastern Europe.

These customers will receive a comprehensive service offering, ranging from corporate banking (loans, cash management, payments, trade finance, leasing, etc.) to treasury and capital market activities, securities broking, corporate finance and so on. Obviously, the refocusing exercise also implies a substantial scaling down of activities not linked to the home markets. This will affect primarily the business credit portfolio outside Belgium and Central and Eastern Europe, and the specialised capital market activities (primarily at KBC Financial Products).

The group's international business credit portfolio is invested mainly in Western Europe (excluding Belgium), the US and Southeast Asia. A high proportion of this lending is to purely local foreign corporate customers or to specific areas of activity, such as global project finance, for which there is no natural link with KBC's customer base in its core markets. Loans of this kind will be terminated when they mature or, if possible, sold before then. The international portfolio also includes an Irish loan book worth 18 billion euros, including 13 billion euros in local home loans. Although Ireland does not belong to the group's core geographic territory, no strategic decision has yet been taken regarding the activities of KBC Bank Ireland, given the current difficult economic climate in that country.

As far as specialised capital market activities are concerned, the scaling down of derivatives-based structured products at KBC Financial Products (structured credit, credit derivatives, fund derivatives, equity derivatives, life insurance settlement, US reverse mortgages and alternative investment management) had already begun by the end of 2009. All these activities will be run down gradually over a number of years. Several other international capital market activities that do not fit in with the strategy (such as corporate finance and stockbroking outside the home markets) will also be considered for divestment in the years ahead. Through KBC Securities, KBC will, at any rate, retain its important position in the securities markets in Belgium and Central and Eastern Europe, with a complete set of capabilities to give domestic corporate customers access to the capital markets and capital market products.

Running down these activities will, in due course, considerably reduce the risk-weighted assets at this business unit. The corporate and market activities to be discontinued represent some 23 billion euros' worth of risk-weighted assets (position at the beginning of 2009). Around 16 billion euros of this relates to the scaling down of the international loan portfolio and 6 billion euros to the run-down of investment banking activities (including those at KBC Financial Products).

'Our Merchant Banking Business Unit will focus in future on customers in Belgium and the five Central European home markets. Our aim is to deliver as comprehensive a merchant banking service offering as possible, ranging from traditional corporate banking to cash management, trade finance, leasing, treasury, capital market products and corporate finance. We will run down, or – where possible – disinvest the non-core activities in a controlled manner and have no intention whatsoever of selling them off at knock-down prices.'

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

MERCHANT BANKING BUSINESS UNIT

Breakdown by activity of the underlying results of the Merchant Banking Business Unit

Underlying results of the Merchant Banking Business Unit, by activity (in millions of EUR)	Corporate banking		Market activities	
	2008	**2009**	**2008**	**2009**
Profit after tax, attributable to the equity holders of the parent	**368**	**319**	**49**	**92**
Banking	300	244	49	92
Insurance	68	74	0	0
Risk-weighted assets, group (period-end) (Basel II)	52 400	47 171	21 794	20 395
Allocated capital (period-end)	3 388	3 053	1 389	1 300
Return on allocated capital	11%	9%	5%	9%
Cost/income ratio, banking	45%	31%	76%	56%
Combined ratio, non-life insurance	87%	97%	–	–

EUROPEAN PRIVATE BANKING BUSINESS UNIT

Contribution to group results

European Private Banking Business Unit (in millions of EUR)	**2008**	**IFRS** **2009**	**Underlying result*** **2008**	**2009**
Net interest income	236	260	248	234
Gross earned premiums, insurance	29	8	29	8
Gross technical charges, insurance	-43	-24	-43	-24
Ceded reinsurance result	0	0	0	0
Dividend income	9	7	9	7
Net (un)realised gains from financial instruments at fair value through profit or loss	-258	34	-11	51
Net realised gains from available-for-sale assets	2	49	5	53
Net fee and commission income	422	367	422	367
Banking	418	359	418	359
Insurance	4	7	4	7
Other net income	13	1	13	1
Total income	**411**	**702**	**674**	**697**
Operating expenses	-487	-519	-487	-514
Impairment	-223	-52	-43	-15
on loans and receivables	-56	-2	-2	-2
on available-for-sale assets	-166	-24	-39	-13
Share in results of associated companies	2	3	2	3
Profit before tax	**-297**	**134**	**147**	**170**
Income tax expense	144	-25	14	-30
Net post-tax income from discontinued operations	0	0	0	0
Profit after tax	**-153**	**109**	**161**	**140**
attributable to minority interests	0	0	0	0
attributable to equity holders of the parent	**-153**	**109**	**161**	**140**
Banking	-149	105	152	133
Insurance	-4	4	9	7
Risk-weighted assets, group (period-end) (Basel II)	5 994	5 512	5 994	5 512
Allocated capital (period-end)	410	379	410	379
Return on allocated capital	–	21%	31%	29%
Cost/income ratio, banking	121%	75%	73%	75%

* For information on how the underlying figures are calculated, see 'Our results in 2009' and the reconciliation table in this section.

Profit after tax, attributable to equity holders of the parent (reconciliation between IFRS and the underlying figures) (in millions of EUR)	**2008**	**2009**
Profit after tax, attributable to equity holders of the parent (IFRS)	-153	109
Less		
valuation losses on CDOs (after tax)	-181	2
valuation losses on shares (after tax)	-53	-13
valuation losses related to Lehman Brothers, Washington Mutual and the Icelandic banks (after tax)	-37	4
redemption of hybrid tier-1 securities (after tax)	0	0
other exceptional items* (after tax)	-43	-25
Profit after tax, attributable to equity holders of the parent (underlying)	161	140

* Including changes in the fair value of certain ALM hedging instruments.

EUROPEAN PRIVATE BANKING BUSINESS UNIT

In 2009, the European Private Banking Business Unit generated a net profit of 109 million euros, compared with a net loss of 153 million euros a year earlier. Underlying net profit (see table) amounted to 140 million euros, down 13% on the figure for 2008.

Net interest income came to 260 million euros. The underlying figure was 234 million euros, which – although relatively high (on account of the positive liquidity position of KBL EPB) – was somewhat lower (6%) than in 2008, due to the decline in the second half of the year in what had previously been rather high interbank interest rates.

Gross earned life insurance premiums (Vitis Life) fell from 29 million euros to 8 million euros. As required under IFRS, this item does not reflect unit-linked life insurance. For these products, neither premium income nor technical charges are shown, only the realised margin (under 'Net fee and commission income'). If the premium income from such products is included, total premium income for the life insurance activities came to roughly 567 million euros (compared with 175 million euros a year earlier), thanks to the sharp rise in sales of unit-linked products towards the end of the year. At year-end, outstanding life reserves stood at approximately 1.6 billion euros.

Dividend income amounted to 7 million euros, slightly less than the year-earlier figure. Net (un)realised gains from financial instruments at fair value through profit or loss (trading and fair value income) rose from a negative 258 million euros in 2008 to a positive 34 million euros in 2009. These figures include, *inter alia*, the value adjustments to CDO notes (before tax, -251 million euros in 2008, insignificant in 2009). Excluding this and other exceptional items, underlying trading and fair value income came to +51 million euros, compared with -11 million euros a year earlier. Net realised gains from available-for-sale assets (realised gains on securities) rose from 2 million euros to 49 million euros, due mainly to the sale of bonds in 2009. Other net income totalled 1 million euros.

Net fee and commission income amounted to 367 million euros. There was a marked decline in the first half of the year, due to the fall in assets under management and a shift in investment preferences (towards products that are less profitable for the group). Although there was a turn for the better in the second half, thanks to the improved investment climate, net fee and commission income was still down 13% year-on-year. The total amount of assets managed by the business unit went up from 44 billion euros at the end of 2008 to 47 billion euros at year-end 2009. Consequently, the decline in the first quarter was more than offset by an increase in the remainder of the year. The main component of the assets under management, namely onshore private banking assets (24 billion euros at year-end 2009), grew by almost 10% on account of the increase in the price of the assets themselves.

At 519 million euros, underlying operating expenses were up by 6% on 2008, which had been favourably affected by – among other things – a 30-million-euro reversal of provisions for legal disputes and early retirement schemes. The underlying cost/income ratio for the banking activities of this business unit amounted to 75%, a slight deterioration on the 73% recorded in 2008.

Impairment came to 52 million euros, a sharp decline (-223 million euros) on the figure for 2008, which had been heavily impacted by impairment on shares, on capital notes and on securities issued by troubled banks in the US and Iceland. The figure for 2009 also reflected the 25-million-euro impairment on goodwill related to group companies (excluded from the underlying figures).

Facts and figures

European Private Banking Business Unit	2008	2009
Network		
Number of countries in which the group is present	8	9
Staff		
In FTEs, not including staff of departments providing support to other business units or the group as a whole	2 790	2 611
Assets under management (in billions of EUR)		
Onshore private banking	22	24
Offshore private banking	13	13
Other (institutional and other assets and Vitis Life)	10	11
Total	44	47
Loan portfolio		
Amount granted (in billions of EUR)	4	3
Share of the total loan portfolio	2%	2%

Geographic focus and specific character of the European private banking network

KBL European Private Bankers is a network of affiliated local banks in Europe, whose core business is private banking. Geographically, the group focuses on the Benelux and certain other Western European countries (Germany, France, the United Kingdom, Switzerland and Monaco). The group has also been present in Poland since April 2009 through the greenfield venture, KBL European Private Bankers Polska. In each of the countries in which it is based, the group operates via a local brand, respecting the specific culture and name of each group company. The underlying philosophy reflects the assumption that local staff are much better placed to identify the specific needs of each of their markets. Being locally rooted in this way sets KBL EPB apart from the major private banking players in the respective countries. Moreover, the various group companies can call on the services of the hub centre, which provides operational and ICT support to the entire group. This relieves each entity of a number of non-commercial tasks, enabling it to concentrate fully on its core business and its goal of delivering a first-class service to its clients.

Assets under management up again from the second quarter on

Having fallen by almost 20% in 2008, assets under management at KBL EPB grew once again, rising by almost 7% to 47.1 billion euros in 2009. The annual growth figure was the net result of a further decline in the first quarter (-4%), followed by a recovery in the subsequent nine months (+11%). Needless to say, both the fall in the value of assets under management in 2008 and the increase in 2009 were largely accounted for by fluctuations in the prices of the assets themselves. Excluding this price effect, assets under management remained relatively stable in 2008, but experienced a net outflow of 4% in 2009. Since the group's policy is to focus on onshore private banking assets, they account for the largest portion (23.7 billion euros in 2009) of assets under management. They also grew more rapidly (+10%) than total assets under management in 2009. The remainder of the assets under management are offshore private banking assets (12.7 billion euros at year-end) and institutional and other assets (10.7 billion euros).

Corporate social responsibility

As a responsible enterprise, KBL EPB's network of European private banks attaches considerable value to its social role. When developing its business, KBL EPB is committed to taking full account of the social, ecological and cultural impact of its economic activities in both the short and the long term. It endorses the key international agreements in this area, including the United Nations Global Compact and its Ten Universal Principles for good corporate conduct. The group observes a code of conduct regarding its working relationship with clients and suppliers, the treatment of employees and how its development will impact society. On the investment front, KBL EPB offers its clients a variety of country-specific options that take account of ethical management and give preference to socially responsible investment. In social and cultural issues, KBL EPB pursues a policy of patronage and partnership with a number of music and art institutions in the cities and countries in which it is present. Group employees also make an active contribution in this regard. For instance, a new initiative was launched in 2009, enabling members of staff to support microfinance projects in Vietnam on a voluntary basis.

New partner sought for the activities of this business unit as part of the new group strategy

Given its lower-than-average synergy with the bancassurance strategy, it has been decided to seek a new strategic partner for the activities of this business unit. A solid partner is being sought that appreciates KBL EPB's unique model and is willing to facilitate the further development of these activities. In the meantime, KBC will ensure that it continues to grow the value of the business and to offer superior customer service. In Belgium and Central and Eastern Europe, the private banking activities carried out under the brand names of the group's respective banking subsidiaries (in the Belgium and CEER business units) will continue unchanged.

> The new strategic plan meant making difficult choices regarding the sale of businesses. And this was something we didn't rush into. It was ultimately decided that we should seek a new strategic partner for KBL European Private Bankers, one which can help this valued group to grow further. As with the other entities to be sold, we will ensure that clients continue to receive a top-quality service during the transition period.
>
> ***Etienne Verwilghen, CEO of the European Private Banking Business Unit***

SHARED SERVICES & OPERATIONS BUSINESS UNIT

Facts and figures

Shared Services & Operations Business Unit	2008	2009
Staff		
In FTEs	9 688	8 729
Asset management		
Assets managed in Belgium (in billions of EUR)	151	146
Assets managed in Central and Eastern Europe (in billions of EUR)	12	12
Assets managed in the rest of the world (primarily the KBL EPB network, in billions of EUR)	44	47
Estimated share of the investment fund market in Belgium	38%	39%
Estimated share of the investment fund market in Central and Eastern Europe (Czech Republic, Slovakia, Hungary and Poland)	34%, 13%, 22%, 5%	34%, 13%, 20%, 5%
Payments (in millions)		
Number of payment transactions* in Belgium	539	537
Number of payment transactions* in Central and Eastern Europe (Czech Republic, Slovakia, Hungary and Poland)	473	478
Leasing		
Capital outstanding under leasing contracts in Belgium (in billions of EUR)	2.7	2.9
Capital outstanding under leasing contracts in Central and Eastern Europe (Czech Republic, Slovakia, Hungary, Poland and Romania; in billions of EUR)	3.2	2.3
Capital outstanding under leasing contracts in the rest of the world (Western Europe excluding Belgium; in billions of EUR)	1.7	1.3
Estimated share of the leasing market in Belgium (general leasing, car leasing)	21%, 12%	22%, 12%
Estimated share of the leasing market in Central and Eastern Europe (Czech Republic, Slovakia, Hungary, Poland and Romania)	15%, 16%, 4%, 1%, 4%	10%, 13%, 3%, 1%, 1%

* Card and cash transactions, domestic and cross-border transfers, and international cash management.

Trade Finance: gradual introduction of processing platform for entire group and increasing importance of documentary credit

Trade finance will remain a core business under the new group strategy. The economic recession, particularly the dip in company imports and exports, obviously had a negative impact on the volume of trade finance transactions. On the other hand, many companies resorted to traditional documentary credit as a payment instrument and to transaction-related financing products like forfaiting – a trend that is likely to continue in the years ahead.

The first modules of a new group-wide processing platform were successfully rolled out in 2009. The aim is for all the group's trade finance activities to be processed on a common platform by 2012.

The magazine *Global Finance* awards an annual prize to the best trade finance banks in a number of countries. The jury is made up of the *Global Finance* editorial team and a number of trade finance experts. At the beginning of 2010, the following banks were named 'Best Trade Finance Bank' in their respective countries: KBC Bank (Belgium), ČSOB (Czech Republic) and K&H Bank (Hungary).

Payments: introduction of European legislation and roll-out of best practices throughout the group

The introduction of the European Payment Services Directive was one of the developments that marked 2009 in the field of payments. The new directive sets out the legal framework for the implementation of the Single Euro Payments Area (SEPA). As a result of its introduction, a number of adjustments which had to be made to systems and procedures were executed seamlessly in all the group's home markets. The integrated and group-oriented way in which the Payments Division works was again instrumental in ensuring that best practices from certain home markets were rolled out in other countries in 2009. For instance, the facility was created to receive PIN codes by text message in Poland, deposit ATMs were introduced in the Czech Republic, and the process of connecting the group companies to the group platform for cross-border payments started in the Czech Republic and Slovakia. The priority for the Payments Division in the years ahead will be the continued exchange of best practices throughout the group and the further consolidation of all SEPA payment products (transfers, direct debits and cards) on group platforms.

Asset Management: strong market share in investment funds and redefinition of strategy

In spite of the crisis, KBC remained the clear market leader for fund sales in Belgium, further increasing its share of the market to 39%, thanks in part to the unique collaboration between KBC Asset Management and the distributors (including the KBC Bank branches) and to an adapted

product offering, in which a great deal of attention is focused on products offering capital protection and formulas which monitor the floor. The latter has formed the core of a great many customer portfolios in the recent past. By investing almost exclusively in cash instruments in certain periods, these products held up well when financial market prices collapsed and kept pace very successfully with the subsequent recovery in stock market prices. The launch of numerous corporate bond sub-funds also proved a success.

KBC is strongly positioned in asset management in Central and Eastern Europe, too. For example, the group had an estimated 34% of the investment fund market in the Czech Republic, 13% in Slovakia, 20% in Hungary and 5% in Poland. In addition, know-how in asset management was strengthened further in these home markets, through, for instance, the opening of a new competence centre in Prague to develop expertise in Central European shares.

The recent crisis has fundamentally altered the financial landscape, prompting KBC Asset Management to review its strategy for the coming years. In Belgium, it will provide even more support to its distributors through account managers. On the international front, efforts will be concentrated on the five home markets in Central Europe and on China and India.

Leasing and consumer finance: new strategy entails refocusing of activities

Leasing activities will be scaled down somewhat, with a clear focus on transactions with the group's core customers. This means, for instance, that vendor finance activities in Western Europe will be run down or sold. Certain business lines were also discontinued in Central and Eastern Europe, where the group suffered losses on its leasing activities, and where substantial investment is being made in receivables management.

The economic and financial crisis made 2009 a difficult year for consumer finance, too. Whereas results in Belgium and the Czech Republic were good thanks to reasonable volume growth and cost control, there were problems elsewhere, particularly on the Polish market. As part of the group's new strategy, it has therefore been decided to sell the Polish consumer finance company, Żagiel, and to discontinue sales of consumer finance through the greenfield venture in Romania. Consumer finance products will be sold exclusively through bank channels in the future.

Organisation: identification of potential synergies and management of future divestments

Organisation, in collaboration with the other group divisions involved, concentrated in 2009 on a number of projects which were geared towards tangible, short-term results, and with a focus on the future and on change management. Examples include the development of a new risk and capital management model and the definition of a new branch model. The division also played a leading role once again in identifying potential synergies and encouraging their exploitation, and in the ongoing management of the Operational Excellence programme. A key task in the future will be to provide guidance to all the business units as they implement the group's new strategy, including the divestment process.

ICT: various projects deliver further optimisation

ICT again devoted considerable attention to promoting integration within the group and to optimising the ICT organisation, especially in Central and Eastern Europe. The construction of a single data centre outside Budapest is one example in this regard. The aim is to centralise ICT processing for all the group's Central and Eastern European companies there, rather than in various centres in each country. Other examples include the development of a new ICT system for processing insurance, the switch to a standardised work station, the ICT-related merger of ČSOB and Istrobanka and transition to the euro in Slovakia, and the integration of the ICT organisation of the banking and insurance institutions in various Central and Eastern European countries. ICT planning and budgets were naturally adjusted to take account of the changed economic conditions. It had already been decided, for instance, not to roll-out the Enterprise Systems Program (ESP) – a large-scale investment programme intended to construct shared applications for the group. The decision had likewise already been taken that KBC can sell its ICT services to third parties with a view to spreading its overheads over as great a volume as possible. An outsourcing contract of this kind was signed with a Belgian electricity and gas supplier in 2009.

'The Shared Services & Operations Business Unit is a collection of product factories and services that fulfil a mission on behalf of the group as a whole. For that reason, our business unit focuses on promoting cross-border collaboration between group companies, on seeking out synergies and implementing best practices throughout the group, while always respecting local characteristics and conditions.'

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

VALUE AND RISK MANAGEMENT IN 2009

Start of **programme for a group-wide review of risk management**

Credit portfolio scaled down, due to reduction in non-home-market loan books

Tier-1 ratio of 10.8% at group level

Future impact of **CDO-related risks mitigated** by **guarantee agreement** with Belgian State

More information on value and risk management at KBC can be found in the comprehensive **Risk Report for 2009** at www.kbc.com

The information in this section has been audited by the statutory auditor only where required under IFRS, viz.:

- the entire 'Risk governance' section;
- parts of the 'Credit risk' section, namely the introduction, 'Managing credit risk' (excluding the pie chart), the 'Loan and investment portfolio, banking' table (audited parts are indicated in the footnote to the table), the 'Other credit exposure' table, the 'Investment portfolio of KBC group insurance entities' table and the table entitled 'Credit exposure to (re)insurance companies by risk class';
- parts of the 'Market risk in non-trading activities' section, namely the introduction, 'Managing market risk in non-trading activities', 'Interest rate risk' (except for the 'Impact of a parallel 1% increase in the yield curve for the KBC group' table and the 'Breakdown of the reserves for non-linked life insurance by guaranteed interest rate, insurance activities' table) and 'Foreign exchange risk';
- the entire 'Liquidity risk' section;
- the entire 'Market risk in trading activities' section;
- the entire 'Technical insurance risk' section;
- parts of the 'Solvency, economic capital and embedded value' section, namely the introduction, 'Managing solvency' (except for the graph), the table in 'Solvency at group level' (audited parts are indicated in the footnote to the table), 'Economic capital' (except for the table) and 'Embedded value in the life insurance business'.

Risk governance

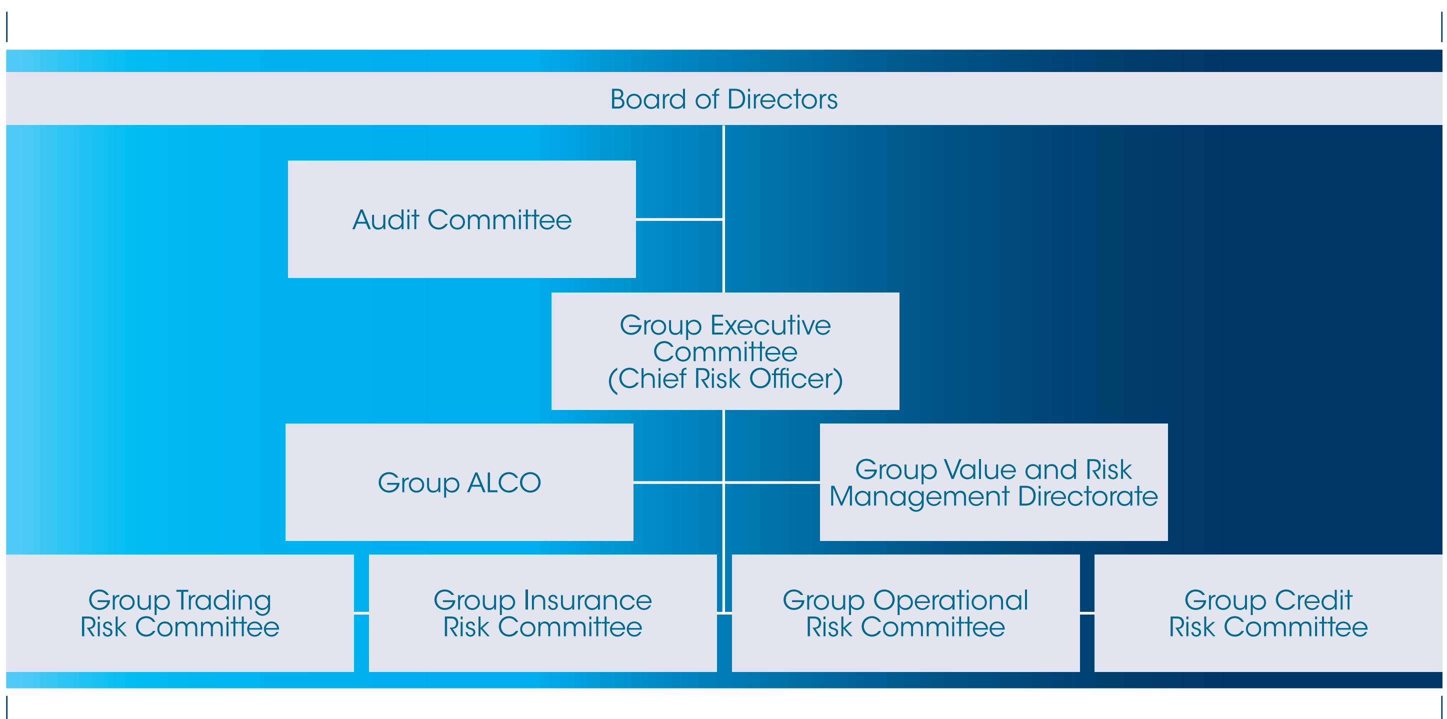
At KBC, the essential characteristics of value and risk management are as follows:

- Value, risk and capital management are inextricably linked to one another. Every company's aim is to create value. To achieve this aim, decisions are taken and activities developed, even though there is no certainty as to where they will lead. To ensure its own continuity, a company must have adequate capital to be able to deal with any unforeseen consequences of adverse developments.
- Risk management is approached from a comprehensive, group-wide angle, taking into account all the risks a company is exposed to and all the activities it engages in.
- Primary responsibility for value and risk management lies with line management, while a separate Group Value and Risk Management Directorate, operating independently of line management, performs an advisory, supporting and supervisory role.
- The group's risk governance model is also, where relevant, duplicated at the level of the business units and subsidiaries.

KBC's risk governance model defines the responsibilities and tasks required to manage value creation and all the associated risks.
The governance model is organised in different tiers:

- *The Board of Directors (assisted by the Audit Committee), the Group Executive Committee* and *the Group Asset/Liability Management Committee (ALCO).* These committees concentrate on global risk management and on monitoring value creation and capital adequacy for the entire group. Regular reporting to the Audit Committee ensures that there is an ample flow of information to the relevant members of the Board of Directors. Each year, the full board sets the risk tolerance limits. The Group Executive Committee is responsible for the implementation of the value, risk and capital management strategy defined by the Board of Directors and outlines the structure of such management. The Chief Risk Officer (CRO), a member of the Group Executive Committee, supervises risk management (in 2009, KBC split the position of Chief Finance and Risk Officer (CFRO) into two separate positions, viz. Chief Risk Officer and Chief Finance Officer). The Group ALCO defines the strategic investment and funding mixes and also monitors the relevant risk exposure. Tactical investment decisions are entrusted to an investment committee.
- *Specialised group risk committees.* These committees concentrate on developing a group-wide framework for one particular type of risk or cluster of activities and monitor the associated risk management process. Chaired by the CRO, the risk committees are composed of representatives from line management and the Group Value and Risk Management Directorate. The various group committees are shown in the schematic. Depending on the materiality of specific risk types, local risk committees and local value and risk management units have been put in place at a lower level (e.g., business unit, country and subsidiary), to roll out the risk management framework.
- The Group Model Committee (GMC) uses reports drawn up by independent validation units to decide on the validity of quantitative and

operational risk aspects (such as model usage, monitoring activities, etc.) of all the risk models developed and/or used within the group.
- The Group Internal Audit division is responsible for audit planning and thus audits the compliance of the risk management framework with legal and regulatory requirements, the efficiency and the effectiveness of the risk management system and its compliance with the risk management framework, as well as the way in which line management handles risks outside this formal framework.
- Line management has primary responsibility for value and risk management. It ensures that the risk management framework relating to the business is embedded in the business through policies and procedures. It is also entrusted with the task of developing transactional models.
- The Group Value and Risk Management Directorate measures risks, economic capital and value creation for all business entities and reports its findings to line management. It is also responsible for developing portfolio models, as well as for validating all models (both transactional and portfolio models). In this respect, there is a clear segregation of responsibilities within this directorate, as *validating staff* is different from *modelling staff.*



In the wake of the major financial crisis, the KBC group set up a programme to analyse and further improve the readiness of the group to deal with major economic events in the future. This resulted in the launch of a full-scale programme aimed at creating a new comprehensive, integrated model that aligns all dimensions of risk, capital and value management. This model is characterised primarily by:

- risk-oriented business people, who have the awareness and skill to make the right risk-return trade-offs and who act as the first line of defence for conducting sound risk management in the group;
- an integrated, Executive-Committee-centred architecture that links risk appetite, strategy and performance goal setting via capital allocation to limits and targets. Along with a consequential monitoring process, this creates the parameters for the business to take risks autonomously within the overall strategic choices of the group;
- a single, independent, group-wide risk function that comprises the group CRO, local CROs, group and local risk functions and the risk committees.

The programme is organised around 12 action points, most of which were or will be dealt with in 2009 and 2010. The implementation of organisational changes to the risk function and the risk committees is expected to be finalised by the end of 2010. The full roll-out of the principles and philosophy of the new risk, capital and value management model throughout the KBC group will most likely take until the end of 2012.

VALUE AND RISK MANAGEMENT IN 2009

Credit risk

Credit risk is the potential negative deviation from the expected value of a financial instrument consequent on non-payment or non-performance by a borrower (of a loan), an issuer (of a debt instrument), a guarantor or re-insurer, or a counterparty (to a professional transaction), due to that party's insolvency or lack of willingness to pay or perform, or to events or measures taken by the political or monetary authorities of a particular country.

Managing credit risk

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

Credit risk management at transactional level

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

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

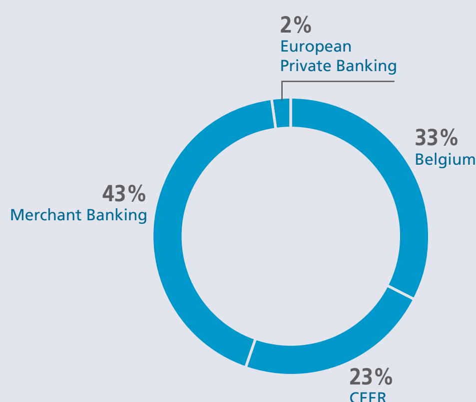
Lending to individuals (e.g., mortgages) is subject to a standardised process, during which the output of scoring models plays an important role in the acceptance procedure. Credit to individuals is generally granted in the local currency, except in some Central and Eastern European countries and Russia,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

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

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

The output generated by these models is used to split the normal loan portfolio into internal rating classes ranging from 1 (lowest risk) to 9 (highest risk) for the PD. A defaulted obligor is assigned an internal rating

Loan portfolio per business unit (outstanding amounts, 31-12-2009)



ranging from PD 10 to PD 12. PD class 12 is assigned when either one of the obligor's credit facilities is terminated by the bank, or when a court order is passed instructing repossession of the collateral. Class 11 groups obligors that are more than 90 days past due (in arrears or overdrawn), but that do not meet PD 12 criteria. PD class 10 is assigned to obligors for which there is reason to believe that they are unlikely to pay (on time), yet are still performing and do not meet the criteria for classification as PD 11 or PD 12. For the larger loans, an overview of all obligors in default is submitted to the Group Executive Committee every quarter.

Loans to large corporations are reviewed at least once a year, with the internal rating being updated, as a minimum. Failure to update the rating in good time is penalised by a temporary increase in the rating class, which in turn raises the amount of regulatory capital required. Reviews of loans to small and medium-sized enterprises are based primarily on risk signals (such as a significant change in the risk class). Loans to individuals are screened periodically at aggregate level for review purposes.

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

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

In order to avoid a situation where an obligor facing financial difficulties ends up defaulting, a decision can be taken to renegotiate its loans. Renegotiation may involve changing the contractual repayment schedule, lowering or postponing interest or fee payments, or some other appropriate measure. In early 2009, KBC adopted a new policy for such renegotiations and its method for evaluating the risk and hence the classification of the obligor. If a renegotiation stems from a deterioration in the obligor's financial situation and the payment terms are altered, a PD class 9 or higher will be assigned. In cases where renegotiation includes a (full or partial) charge-off of the financial asset, a PD class of at least 10 will be assigned. For the retail portfolio, the assigned PD class is determined on the basis of the behavioural score. In such cases, the resulting PD may be lower than 9. After renegotiation, the obligor's situation will be re-assessed one year later (in principle) and the obligor can return to a better class than PD 9 if the assessment turns out to be positive. In this case, the obligor is no longer considered as being in 'renegotiated status'.

In 2008, when account was taken of a materiality threshold of 1% of the entity's outstanding portfolio, renegotiations occurred mostly at Absolut Bank, where an estimated 176 million euros was restructured. In 2009, KBC resorted much more frequently to this solution, with some 2.2% of the total loan portfolio, or 3.7 billion euros, being renegotiated to avoid impairment. The table below shows the share of the total renegotiated exposure outstanding in each business unit. As regards the Merchant Banking Business Unit, most of the renegotiated exposure is accounted for by KBC Bank Ireland, where 5.8% of its total portfolio of approximately 18 billion euros was renegotiated.

Credit risk management at portfolio level

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

As part of the credit function, the portfolio management desk actively manages and monitors the loan portfolio. Using a model, this unit pinpoints risk concentrations and enhances the diversification of the loan portfolio.

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

Renegotiated loans avoiding impairment (as a % of the total portfolio of renegotiated loans)	**31-12-2009**
Belgium Business Unit	16.0%
CEER Business Unit	30.6%
Czech Republic	2.7%
Slovakia	2.7%
Hungary	9.6%
Poland	1.0%
Russia	7.3%
Bulgaria	7.2%
Serbia	0.0%
Merchant Banking Business Unit	53.4%
European Private Banking Business Unit	0.1%
Total	**100.0%**

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

Overview of credit risk exposure in the banking activities

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

Loan and investment portfolio, banking	**31-12-2008**	**31-12-2009**
Total loan portfolio (in billions of EUR)		
Amount granted	217.2	201.6
Amount outstanding	178.0	166.5
Loan portfolio breakdown by business unit (as a % of the portfolio of credit granted)		
Belgium	28%	33%
CEER	24%	23%
Merchant Banking	46%	43%
European Private Banking	2%	2%
Total	100%	100%
Loan portfolio breakdown by credit type (as a % of the portfolio of credit granted)		
Loans and guarantee credit	93%	94%
Corporate and bank bonds	7%	6%
Total	100%	100%
Loan portfolio breakdown by counterparty sector (as a % of the portfolio of credit granted)[1]		
Private individuals	30%	34%
Financial and insurance services	12%	9%
Governments	4%	3%
Corporates	54%	54%
Non-financial services	9%	10%
Retail and wholesale trade	8%	8%
Real estate	7%	7%
Construction	4%	4%
Electricity	2%	3%
Food industry	3%	2%
Other[2]	20%	20%
Total	100%	100%
Loan portfolio breakdown by risk class (part of the portfolio[3], as a % of the portfolio of credit granted)[1, 4]		
PD 1 (lowest risk, default probability ranging from 0.00% to 0.10%)	25%	23%
PD 2 (0.10% – 0.20%)	16%	12%
PD 3 (0.20% – 0.40%)	14%	16%
PD 4 (0.40% – 0.80%)	18%	16%
PD 5 (0.80% – 1.60%)	13%	14%
PD 6 (1.60% – 3.20%)	7%	9%
PD 7 (3.20% – 6.40%)	4%	4%
PD 8 (6.40% – 12.80%)	2%	2%
PD 9 (highest risk, 12.80% – 100.00%)	1%	3%
Total	100%	100%

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

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

Loan and investment portfolio, banking (continued)	**31-12-2008**	**31-12-2009**
Impaired loans[5] (PD 10 + 11 + 12; in millions of EUR or %)		
Impaired loans	5 118	8 982
Specific impairment	2 790	3 884
Portfolio-based impairment	266	328
Credit cost ratio		
Belgium Business Unit	0.09%	0.17%
CEER Business Unit	0.83%	2.12%
Czech Republic	0.57%	1.12%
Slovakia	0.82%	1.56%
Hungary	0.41%	2.01%
Poland	0.95%	2.59%
Russia	2.40%	6.15%
Merchant Banking Business Unit	0.90%	1.32%
European Private Banking Business Unit	4.02%	0.37%
Total	0.70%	1.11%
Non-performing (NP) loans (PD 11 + 12; in millions of EUR or %)		
Amount outstanding	3 239	5 595
Specific impairment for non-performing loans	1 949	2 790
Non-performing ratio		
Belgium Business Unit	1.7%	1.7%
CEER Business Unit	2.1%	4.8%
Merchant Banking Business Unit	1.6%	4.0%
European Private Banking Business Unit	4.9%	4.8%
Total	1.8%	3.4%
Cover ratio		
[Specific impairment for non-performing loans]/[outstanding non-performing loans]		
Total	60%	50%
Total excluding mortgage loans	–	60%
[Specific and portfolio-based impairment for performing and non-performing loans]/[outstanding non-performing loans]		
Total	94%	75%
Total excluding mortgage loans	–	90%

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

1 Figures reviewed by the statutory auditor.

2 Individual sector shares not exceeding 2%.

3 Since some parts of the portfolio have not yet been broken down by risk class (in particular, the loan portfolio of Absolut Bank), they have been excluded.

4 Internal rating scale.

5 Figures differ from the figures appearing in the 'Consolidated annual accounts' section, Note 20, due to differences in scope.

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

Short-term commercial transactions. This activity involves export or import finance and only entails exposure to financial institutions. It includes documentary credit, pre-export and post-import finance and related transactions with a term to maturity of no more than two years. Despite the relatively high proportion of non-investment-grade banks in this exposure (roughly 27%), losses are very low in historical terms, particularly for documentary credit. Risks associated with this activity are managed by setting limits per financial institution and per country or group of countries.

Trading book securities. These securities carry an issuer risk (potential loss on default by the issuer). At KBC Financial Products (KBC FP), issuer risk is measured on the basis of the estimated loss given default by the issuer, based on the prevailing market value less the amount expected to be recovered depending on the type of issue (guaranteed or not). Only issuer risk arising with net long positions is taken into account at KBC FP, meaning that issuers in respect of which a short position exists on balance are not accounted for in credit risk reporting. The issuer risk exposure of other entities (aside from KBC FP) is measured on the basis of the market value of the securities. Issuer risk is curtailed through the use of limits both per issuer and per rating category. The exposure to asset-backed securities and collateralised debt obligations in the trading book is not included in the figures shown in the table (see the 'Overview of structured credit exposure' section).

Interprofessional transactions (deposits with professional counterparties and derivatives trading). These transactions result in counterparty risk. The amounts shown in the table are the group's pre-settlement risks, measured as the sum of the (positive) current replacement value ('mark-to-market' value) of a transaction and the applicable add-on, determined according to the current exposure method under Basel II. Deposits account for slightly less than 15% of the total amount. The bulk of the deposits are due from banks with an investment-grade rating. Risks are curtailed by setting limits (separate limits for both pre-settlement and settlement risk) per counterparty. Close-out netting and collateral techniques are also used. Financial collateral is only taken into account if the assets concerned are considered eligible risk-mitigants for regulatory capital calculations (Basel II). This implies, among other things, that legal comfort must have been obtained regarding the ownership of the collateral for all relevant jurisdictions.

Government securities in the investment portfolio. Exposure to governments is measured in terms of book value and is accounted for mainly by EU states (particularly Belgium), which pose a relatively minimal credit risk. Limits are also set by the Group ALCO for this type of credit exposure, especially for governments with a lower than 'AA' internal rating.

Other credit exposure (in billions of EUR)	**31-12-2008**	**31-12-2009**
Short-term commercial transactions	2.3	2.0
Issuer risk[1]	3.0	0.8
KBC Financial Products	0.2	0.1
Other entities	2.8	0.7
Counterparty risk in interprofessional transactions[2]	22.7	18.6
Government bonds in the investment portfolio	39.9	46.2

1 Excluding OECD government bonds.
2 After deduction of collateral received and netting benefits.

Overview of credit risk exposure in the insurance activities

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

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

Per balance sheet item	31-12-2008	31-12-2009
Securities	18 249	22 242
Bonds and other fixed-income securities	15 709	20 746
Held to maturity	2 721	3 517
Available for sale	12 768	17 019
At fair value through profit or loss (FIFV & HFT)	220	149
As loans and receivables	0	62
Shares and other variable-yield securities	2 385	1 463
Available for sale	2 202	1 461
At fair value through profit or loss (FIFV & HFT)	183	2
Other	155	33
Loans and advances to customers	203	203
Loans and advances to banks	3 204	2 898
Property and equipment and investment property	472	523
Investments in associated companies	18	23
Other	97	103
Investment contracts, unit-linked[2]	6 948	7 957
Total	29 192	33 949
Details for bonds and other fixed-income securities		
By rating[3, 4]		
AA- and higher	66%	68%
A- and higher	97%	94%
BBB- and higher	100%	100%
By sector[3]		
Governments	65%	62%
Financial	24%	20%
Other	11%	18%
Total	100%	100%
By remaining tenor[3]		
Not more than 1 year	6%	4%
Between 1 and 3 years	15%	19%
Between 3 and 5 years	26%	24%
Between 5 and 10 years	31%	34%
More than 10 years	22%	18%
Total	100%	100%

1 The total carrying value amounts to 28 904 million euros at December 2008 and 33 598 million euros at December 2009.
2 Representing the assets side of unit-linked (class 23) products and completely balanced on the liabilities side. No credit risk involved for KBC Insurance.
3 Excluding investments for unit-linked life insurance. In certain cases, based on extrapolations and estimates.
4 External rating scale.

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

Credit exposure to (re)insurance companies by risk class, Exposure at Default (EAD) and Expected Loss (EL)* (in millions of EUR)	**EAD 2008**	**EAD 2009**	**EL 2008**	**EL 2009**
AAA up to and including A-	**311.5**	**352.7**	**0.05**	**0.07**
BBB+ up to and including BB-	164.2	111.2	0.08	0.16
Below BB-	1.4	0.0	0.05	0.00
Unrated	13.9	15.5	0.28	0.35
Total	**491.1**	**479.3**	**0.46**	**0.59**

* EAD: audited figures; EL: unaudited figures.

Overview of structured credit exposure

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

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

Structured credit exposure (CDOs and other ABS), 31-12-2009

(in billions of EUR, pre-tax)	**Hedged CDO-linked exposure (insured by credit insurers)**	**Unhedged CDO exposure**	**Other ABS**
Total nominal amount	14.8	9.8	5.2
Initial write-downs on equity and junior CDO pieces	–	-0.8	–
Subsequent cumulative value adjustments	-1.4	-4.1	-1.3

Further explanations are provided in the following paragraphs. More detailed information on KBC's investments in structured credit products and on KBC's involvement in securitisation activities can be found in KBC's *Risk Report*, which is available at www.kbc.com.

Hedged CDO exposure

As stated above, KBC bought credit protection for a large part of the (super senior) CDOs it originated. A relatively limited portion of this insurance was bought from Channel and Lloyds TSB (the UK bank), and the bulk from MBIA, a US monoline insurer, which initially had an 'AAA' rating, but whose creditworthiness declined gradually over time (leading to negative value adjustments being recorded at KBC on the credit protection received).

In February 2009, MBIA announced a restructuring plan, which included a spin-off of valuable assets, provoking a steep decline in its creditworthiness. The increase in the market value of the underlying swap, combined with the higher counterparty risk, resulted in significant additional negative value adjustments at KBC. The remaining risk related to MBIA's insurance coverage is to a large extent mitigated as it is included in the scope of the Guarantee Agreement that was agreed with the Belgian State on 14 May 2009 (see below).

In December 2009, KBC wound down the CDO exposure hedged by the swap contract with Lloyds TSB (notional amount of 1.58 billion euros), and the hedge contract was duly cancelled.

Hedged CDO-linked exposure (insurance for CDO-linked risks received from credit insurers), 31-12-2009

(in billions of EUR)	
Total insured amount (notional amount of super senior swaps)	
MBIA	14.4
Channel	0.4
Details for MBIA insurance coverage	
Total insured amount (notional amount of the super senior swap)	14.4
Fair value of insurance coverage received (modelled replacement value, after taking the Guarantee Agreement[1] into account)	1.9
Credit value adjustment for counterparty risk, MBIA	-1.4
(as a % of fair value of insurance coverage received[2])	70%

1 The amount insured by MBIA is included in the Guarantee Agreement with the Belgian State (14 May 2009).
2 Taking into account translation differences accrued over time.

Unhedged CDO exposure and other ABS

This heading relates to CDOs which KBC bought as investments and which are not 'insured' by credit protection from MBIA or other external credit insurers ('Unhedged CDO exposure' in the table) and other ABS in portfolio ('Other ABS' in the table).

As regards the CDOs, KBC has already made significant negative value adjustments to date. It should be noted that their remaining risk is mitigated, as the unhedged super senior CDO tranches are fully included under the Guarantee Agreement concluded with the Belgian State (see further).

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

Until 2008, value adjustments to other ABS were largely accounted for via shareholders' equity. At the end of 2008, KBC reduced the sensitivity of shareholders' equity towards value adjustments to ABS by reclassifying most of the ABS portfolio as 'loans and receivables'. Since then, they have been included in the scope of the impairment procedure for the loan portfolio – see the 'of which: cumulative impairments on other ABS' heading in the table below (such impairments clearly have an impact on P/L).

Unhedged CDO exposure and other ABS, 31-12-2009

(in billions of EUR)	Unhedged CDO exposure	Other ABS
Total nominal amount	9.8	5.2
Initial write-downs on equity and junior CDO pieces	-0.8	–
Total nominal amount, net of provisions for equity and junior pieces	9.0	5.2
super senior tranches (included under Guarantee Agreement with Belgian State)	5.5	–
non-super senior tranches	3.5	–
Cumulative value adjustments	-4.1	-1.3
of which: cumulative impairments on other ABS	–	-0.5

Details of the underlying assets of the CDOs and ABS

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

Guarantee agreement relating to CDO and MBIA-related risk

On 14 May 2009, KBC Group signed an agreement with the Belgian State to protect a large part of KBC's structured credit exposure. The plan relates to a notional amount of 20 billion euros, comprising the notional value of 5.5 billion euros for unhedged super senior CDO investments and 14.4 billion euros for counterparty risk on MBIA.

Against payment of a fee, KBC has bought a guarantee from the State covering 90% of the default risk beyond a set first loss. The transaction is basically structured as follows:

- a first tranche of 3.2 billion euros: all credit losses actually incurred to be borne by KBC;
- a second tranche of 2 billion euros: credit losses to be borne by KBC. KBC has an option to ask the Belgian State to subscribe to new KBC shares at market value, for an amount equalling 90% of the loss in this tranche (10% risk retained by KBC);
- a third tranche of 14.8 billion euros: 90% of any credit losses to be compensated by the State in cash (10% loss retained by KBC).

For more details, see 'Overview of capital transactions with the government' in the 'Our strategy and management' section.

Market risk in non-trading activities

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

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

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

Managing market risk in non-trading activities

The main purpose of ALM is to optimise the risk/return profile of the group, subject to the risk tolerance limits set by the Board of Directors. The Group ALCO is responsible for establishing a group-wide framework for identifying, measuring and overseeing ALM activities and for taking strategic investment decisions for the entire group. At the subsidiaries outside the euro area, local ALCOs have been set up.

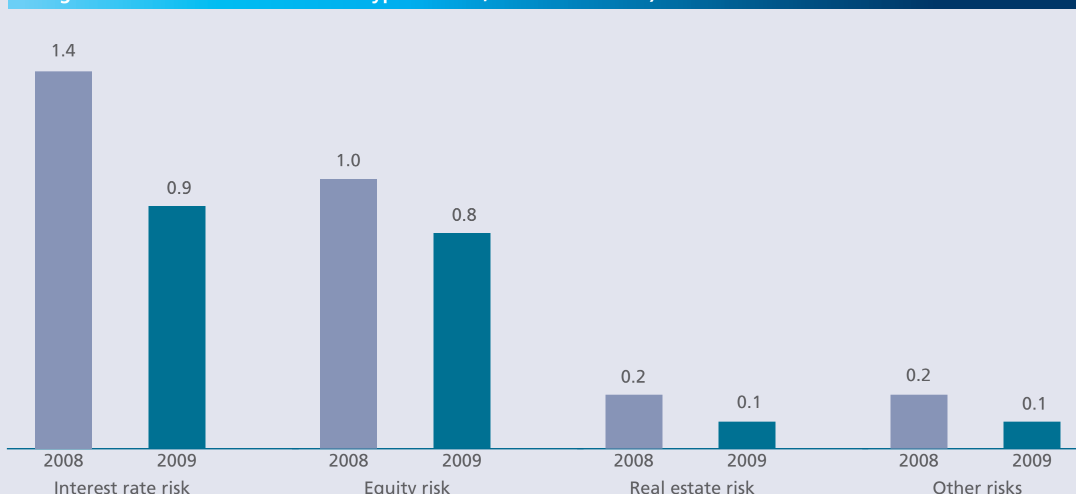
A team in the Group Value and Risk Management Directorate provides support to the Group ALCO and helps to develop ALM. Similar teams exist at the subsidiaries outside the euro area. Risk management responsibilities for the life insurance business (including the tasks of the certifying actuary for the life insurance business and embedded value modelling) are also included in the scope of ALM.

The ALM strategy is co-ordinated by a central investment function and implemented locally by front-office units.

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

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

Market risk for non-trading activities (VAR 99%, 1-year time horizon, marginal contribution of various risk types to VAR, in billions of EUR)



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]	31-12-2008	31-12-2009
Interest rate risk	1.41	0.85
Equity risk	1.03	0.84
Real estate risk	0.15	0.14
Other risks[2]	0.17	0.08
Total diversified VAR (group)	2.76	1.91

1 Excluding a number of small group companies.
2 Foreign exchange risk, inflation risk, etc.

Interest rate risk

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

The group-wide sensitivity to interest rate movements is reported on a regular basis and at the same time for both the banking and the insurance activities. The table illustrates the impact of a 1% increase in the yield curve, given the positions at the reporting date.

Impact of a parallel 1% increase in the yield curve for the KBC group[1]	**Impact on net profit (IFRS)**		**Impact on value**[2]	
(in millions of EUR)	**2008**	**2009**	**2008**	**2009**
Insurance	-8	-8	-98	-130
Banking	-37	-110	-874	-506
Total	-45	-118	-972	-635

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

Banking activities

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

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

The table shows how the bank's exposure to interest rate risk developed over the course of 2008 and 2009.

BPV of the ALM book, banking activities*

(in millions of EUR)	
Average, 1Q 2008	59
Average, 2Q 2008	74
Average, 3Q 2008	76
Average, 4Q 2008	76
31-12-2008	84
Maximum in 2008	84
Minimum in 2008	48
Average, 1Q 2009	89
Average, 2Q 2009	94
Average, 3Q 2009	85
Average, 4Q 2009	67
31-12-2009	62
Maximum in 2009	98
Minimum in 2009	62

* Excluding a number of small group companies.

In line with the Basel II guidelines, a 2% stress test is carried out at regular intervals. It sets off the total interest rate risk in the banking book (given a 2% parallel shift in interest rates) against capital and reserves. At the level of the banking book of the KBC group, this risk came to 5% at year-end 2009 (well below the 20% threshold, where a bank is considered an 'outlier bank' and which can lead to a higher regulatory capital charge).

The following table shows the interest sensitivity gap of the ALM banking book. In order to determine the sensitivity gap, the carrying value of assets (positive amount) and liabilities (negative amount) is broken down according to either the contractual repricing date or the maturity date, whichever is earlier, so as to obtain an indication of 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
31-12-2008	-4	2 581	-2 822	-3 828	8 507	5 220	-9 654	0
31-12-2009	1 363	7 884	-3 629	1 590	5 874	3 275	-16 358	0

* Excluding a number of small group companies.

Insurance activities

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

The non-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. For the single premium life savings products (which constitute the major part of the existing reserves and new production), this cashflow matching is combined with derivative strategies. The lapse risk (risk of changing policy surrender distributions) and the expected profit-sharing policies are managed with a mixed investment portfolio of fixed-income investments and equities.

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

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

Expected cashflows (not discounted), life insurance activities*

(in millions of EUR)	0–5 years	5–10 years	10–15 years	15–20 years	> 20 years	Total
31-12-2008						
Fixed-income assets backing liabilities, guaranteed component	9 401	6 102	1 952	1 399	979	19 833
Liabilities, guaranteed component	7 114	4 947	1 817	1 621	2 521	18 020
Difference in expected cashflows	2 287	1 155	134	-222	-1 542	1 813
Mean duration of assets						6.58 years
Mean duration of liabilities						7.70 years
31-12-2009						
Fixed-income assets backing liabilities, guaranteed component	11 447	7 154	2 313	1 605	1 243	23 763
Liabilities, guaranteed component	9 229	4 982	1 876	1 549	2 306	19 942
Difference in expected cashflows	2 218	2 172	437	57	-1 063	3 821
Mean duration of assets						5.38 years
Mean duration of liabilities						5.94 years

* Excluding a number of small group companies.

As mentioned above, the main interest rate risk for the insurer is a downside one. KBC adheres to a policy that takes into account the possible negative consequences of a sustained decline in interest rates, and has built up sizeable supplementary reserves, primarily for products that are most susceptible to interest rate risk. For instance, in Belgium (which accounts for the bulk of the life insurance reserves), technical provisions for products with a guaranteed rate of interest of 4.75% are calculated at a discount rate of 4%. In addition, supplementary provisions have been accumulated under a 'flashing lights' system since 2000. This system requires KBC Insurance and Fidea to set aside extra provisions if the guaranteed interest rate on a contract exceeds the 'flashing light' threshold by more than 0.1% (this threshold is equal to 80% of the average interest rate over the past five years on ten-year government bonds). By the end of 2009, KBC had obtained an exemption of 60% for the further build-up of this reserve after having proven that the current available reserves are sufficient to cover the potential loss of economic value due to a decrease in interest rates.

Breakdown of the reserves for non-linked life insurance by guaranteed interest rate, insurance activities[1]	**31-12-2008**	**31-12-2009**
5.00% and higher[2]	3%	3%
More than 4.25% up to and including 4.99%	14%	12%
More than 3.50% up to and including 4.25%	10%	17%
More than 3.00% up to and including 3.50%	41%	31%
More than 2.50% up to and including 3.00%	12%	25%
2.50% and lower	15%	9%
0.00%	4%	4%
Total	100%	100%

1 Excluding a number of small group companies.

2 Contracts in Central and Eastern Europe.

The various group companies conduct 'Liability Adequacy Tests' (LAT) that meet local and IFRS requirements. Calculations are made using prospective methods (cashflow projections that take account of lapse rates and a discount rate that is set for each insurance entity based on local macroeconomic conditions and regulations), and extra market-value margins are built in to deal with the factor of uncertainty in a number of parameters. Since no deficiencies were recorded by year-end 2009, there was no need for a deficiency reserve to be set aside within the KBC group.

Equity risk

Equity portfolios within the group are held by KBC Bank, KBC Insurance, KBL EPB, KBC Asset Management and KBC Private Equity. During 2009, the equity portfolio was further reduced.

Equity risk is monitored using a VAR technique (99% one-sided confidence interval, one-year time horizon), with a limit being set for the total equity exposure of the group's ALM activities. The table provides an overview of the sensitivity of income and economic value to fluctuations in the equity markets. This exposure includes the sensitivity of unlisted equity in the different portfolios.

Impact of a 12.5% drop in the equity prices*	**Impact on net profit (IFRS)**		**Impact on value**	
(in millions of EUR)	**2008**	**2009**	**2008**	**2009**
Insurance activities	-243	-3	-246	-120
Banking activities	-44	-29	-222	-165
Total	-287	-33	-468	-285

* Excluding a number of small group companies.

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

Equity portfolio of the KBC group*	**Banking activities**		**Insurance activities**		**Group**	
(breakdown by sector, market value)	**31-12-2008**	**31-12-2009**	**31-12-2008**	**31-12-2009**	**31-12-2008**	**31-12-2009**
Financial	19%	17%	16%	26%	17%	23%
Consumer non-cyclical	15%	22%	16%	17%	16%	19%
Communication	9%	4%	11%	6%	11%	5%
Energy	6%	8%	9%	9%	8%	9%
Industrial	9%	8%	12%	8%	11%	8%
Utilities	4%	4%	11%	5%	9%	5%
Consumer cyclical	11%	8%	8%	8%	9%	8%
Basic materials	4%	5%	7%	8%	6%	7%
Other	23%	24%	9%	12%	13%	17%
Total	100%	100%	100%	100%	100%	100%

* Excluding a number of small group companies.

Real estate risk

A limited real estate investment portfolio is held by the group's real estate businesses with a view to realising capital gains over the long term. KBC Insurance also holds a diversified real estate portfolio, which is held as a long-term investment for the non-life and life reserves. 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*	**Impact on value**	
(in millions of EUR)	**2008**	**2009**
Bank portfolios	-106	-93
Insurance portfolios	-45	-21
Total	-151	-114

* Excluding a number of small group companies.

Foreign exchange risk

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

Liquidity risk

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

The principal objective of KBC's liquidity management is to be able to fund the group and to enable the core business activities of the group to continue to generate revenue, even under adverse circumstances.

Managing liquidity risk

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

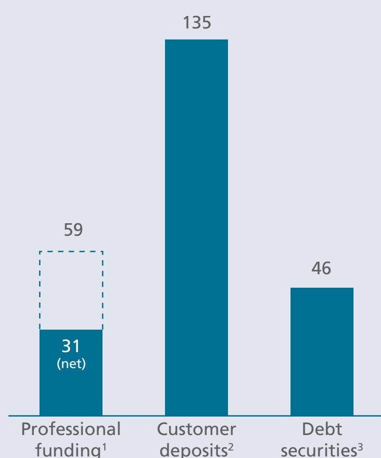
KBC's liquidity framework is based on the following pillars:

- *Contingency liquidity risk*. This risk is assessed on the basis of liquidity stress tests, which measure how the liquidity buffer of the group's bank entities changes under extreme stressed scenarios. This buffer is based on assumptions regarding liquidity outflows (retail customer behaviour, professional client behaviour, drawing of committed credit lines, etc.) and liquidity inflows resulting from actions to increase liquidity ('repoing' the bond portfolio, reducing unsecured interbank lending, etc.).

  The liquidity buffer has to be sufficient to cover liquidity needs (net cash and collateral outflows) over (i) a period that is required to restore market confidence in the group following a KBC-specific event, (ii) a period that is required for markets to stabilise after a general market event and (iii) a combined scenario, which takes a KBC-specific event and a general market event into account. The overall aim of the liquidity framework is to remain sufficiently liquid in stress situations, without resorting to liquidity-enhancing actions which would entail significant costs or which would interfere with the core banking business of the group.
- *Structural liquidity risk*. The group's funding structure is managed so as to maintain substantial diversification, to minimise funding concentrations in time buckets, and to limit the level of reliance on wholesale funding. Therefore, the forecast structure of the balance sheet is reviewed regularly and the appropriate funding strategies and options developed and implemented.

  The table below illustrates structural liquidity risk by grouping the assets and liabilities according to the remaining term to maturity (contractual maturity date). The difference between the cash inflows and outflows is referred to as the 'net liquidity gap'. At year-end 2009, KBC had attracted 59 billion euros' worth of funding from the professional market. When interbank lending is also taken into account, net funding attracted through the professional market fell to 31 billion euros.
- *Operational liquidity risk*. Operational liquidity management is conducted in the treasury departments, based on estimated funding requirements. The most volatile components of the balance sheet are monitored on a daily basis by the Group Treasury unit, ensuring that a sufficient buffer is available at all times to deal with extreme liquidity events in which no wholesale funding can be rolled over.

Breakdown of funding sources (31-12-2009, in billions of EUR)



1 Deposits from credit institutions and investment firms, including repos with other customers (net: after deduction of deposits with credit institutions and investment firms and reverse repos with customers).
2 Deposits from customers, including savings certificates but not repos.
3 Debt securities (retail and professional customers), excluding savings certificates and repos.

Structural liquidity risk data

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

(in billions of EUR)	<= 1 month	1–3 months	3–12 months	1–5 years	5–10 years	> 10 years	not defined	Total
31-12-2008								
Total inflows	66	23	26	69	40	45	55	323
Total outflows[2]	88	32	25	27	7	10	135	323
Professional funding	49	12	4	1	–	1	0	68
Customer funding	26	12	15	6	1	6	76	142
Debt certificates	5	7	6	20	6	3	0	47
Other[3]	7	–	–	–	–	–	59	66
Liquidity gap (excl. undrawn commitments)	-21	-9	0	42	33	35	-80	0
Undrawn commitments	–	–	–	–	–	–	-43	–
Financial guarantees	–	–	–	–	–	–	-18	–
Net liquidity gap (incl. undrawn commitments)	-21	-9	0	42	33	35	-141	-61
31-12-2009								
Total inflows	55	13	23	70	42	40	45	288
Total outflows[2]	69	22	23	29	7	3	136	288
Professional funding	34	9	13	1	0	1	0	59
Customer funding	22	7	7	6	1	1	91	135
Debt certificates	9	6	3	21	6	1	0	46
Other[3]	4	0	0	0	0	0	45	49
Liquidity gap (excl. undrawn commitments)	-14	-8	-1	41	35	37	-91	0
Undrawn commitments	–	–	–	–	–	–	-34	–
Financial guarantees	–	–	–	–	–	–	-17	–
Net liquidity gap (incl. undrawn commitments)	-14	-8	-1	41	35	37	-142	-51

1 The 2008 figures have been restated to include the outflow of financial guarantees.

2 Professional funding includes all deposits from credit institutions and investment firms, as well as all repos with other customers. Savings certificates are included in the 'Customer funding' category, whereas they are included under 'Debt certificates' in Note 18.

3 MtM derivatives are reported in the 'not defined' bucket. The 2008 figures have been restated to shift MtM on derivatives from the '<= 1 month' bucket to the 'not defined' bucket.

Market risk in trading activities

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

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

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

Through its specialised subsidiaries KBC Financial Products (KBC FP) and KBC Securities Group (including KBC Peel Hunt since 1 April 2009), the group also engages in trading in equities and their derivatives. At KBC FP, the proprietary trading and Alternative Investment Management business lines have been closed down and most of the risks eliminated. The remaining business lines are being wound down, i.e. primarily the management of the credit derivatives business, the business of providing secured advances to hedge funds, the life insurance business, involvement in the US reverse mortgage market (portfolio sold in February 2010) and trading activity in exotic equity derivatives.

Managing market risk

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

The VAR model is supplemented by extensive stress tests. Whereas the VAR 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.

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

VALUE AND RISK MANAGEMENT IN 2009

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

In addition to the parameter review, periodic risk controls are performed, including all checks that do not entail parameter or P&L testing as carried out in the parameter review, but that are necessary for sound risk management. Moreover, a business case is set up for every new product or activity in order to analyse the risks and the way in which they will be managed (measured, mitigated, monitored and reported). Every new product business case must be accompanied by written advice from the group or local value and risk management function before being submitted to the New and Active Product Committee (NAPC). The Group Executive Committee approved the governance framework for the approval and review of financial instruments in the fourth quarter of 2009.

Risk analysis and quantification

An overall VAR is calculated for each specialised subsidiary and for all trading entities. The VAR for the latter (see 'KBC Bank' in the table) includes both the linear and non-linear exposure of the traditional dealing rooms, including those at KBL EPB. KBC Financial Products' VAR is also shown in the table. At the end of 2009, the VAR for KBC Securities amounted to 0.3 million euros (not shown in the table). The calculation is based on a one-day holding period.

The HVAR for KBC FP comprises all trading business lines. Business lines that are of a more illiquid character and that have more of a credit nature, such as the fund derivatives and insurance derivatives businesses, fall outside the scope of HVAR.

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 trading activities. ČSOB (Czech Republic) has received approval from the local regulator to use its VAR model for capital requirement purposes.

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

An overview of the derivative products is given in the 'Consolidated annual accounts' section, Note 25.

Market risk (VAR, 1-day holding period)

(in millions of EUR)	**KBC Bank[1, 2]**	**KBC Financial Products[3]**
Average, 1Q 2008	5	15
Average, 2Q 2008	7	11
Average, 3Q 2008	7	15
Average, 4Q 2008	13	24
31-12-2008	10	15
Maximum in 2008	17	30
Minimum in 2008	3	9
Average, 1Q 2009	10	14
Average, 2Q 2009	8	15
Average, 3Q 2009	6	9
Average, 4Q 2009	6	10
31-12-2009	5	11
Maximum in 2009	13	21
Minimum in 2009	5	6

1 Excluding 'specific interest rate risk' measured using other techniques.
2 Integrated HVAR, including KBL EPB.
3 Including the impact of the Guarantee Agreement with the Belgian State.

Technical insurance risk

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

Managing technical insurance risk

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

Risk modelling

KBC develops models gradually, from the bottom up, for all material group-wide insurance liabilities, i.e. (i) future claims that will occur over a predefined time horizon, as well as the claims settlement pattern, (ii) the future settlement of claims (whether already reported to the insurer or not) that have occurred in the past but have not yet been fully settled, and (iii) the impact of the reinsurance programme on these claims.

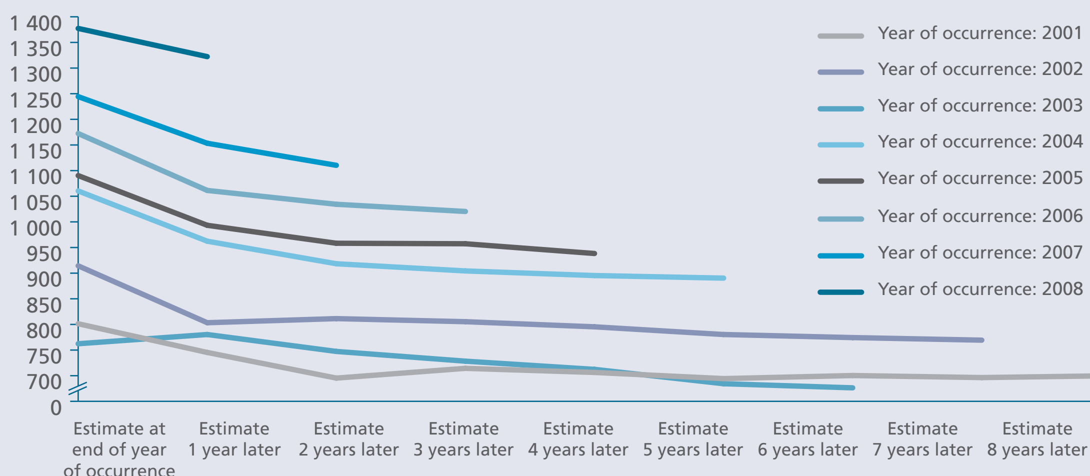
These models are used to steer the group's insurance entities towards creating more shareholder value, by means of applications to calculate economic capital, support decisions on reinsurance, calculate the *ex post* profitability of specific sub-portfolios and set off economic capital requirements against the relevant return in pricing insurance policies.

Stress testing

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

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

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



For claims in a particular year of occurrence, each line shows the estimates of the total claims burden [claims paid plus provisions] in the year of occurrence and each subsequent year. The graph is affected by changes in the scope of consolidation (see table below).

Reinsurance

The insurance portfolios are protected against the impact of serious claims by means of reinsurance. These reinsurance programmes are divided up into three main groups: property insurance, liability insurance and personal insurance, which are re-evaluated and re-negotiated every year.

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

Technical provisions and loss triangles, non-life

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

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

The first row in the table shows the total claims burden (claims paid plus provisions) for the claims that occurred during a particular year, as estimated at the end of the year of occurrence. The following rows indicate the situation at the end of the subsequent calendar years. The amounts were restated to reflect exchange rates at year-end 2009.

Loss triangles, KBC Insurance

(in millions of EUR)	Year of occurrence 2001	Year of occurrence 2002	Year of occurrence 2003	Year of occurrence 2004[1]	Year of occurrence 2005[2]	Year of occurrence 2006	Year of occurrence 2007	Year of occurrence 2008[3]	Year of occurrence 2009
Estimate at the end of the year of occurrence	811	924	772	1 070	1 100	1 182	1 254	1 387	1 464
1 year later	755	813	790	972	1 003	1 071	1 163	1 332	–
2 years later	705	821	757	928	968	1 044	1 120	–	–
3 years later	724	815	738	914	967	1 030	–	–	–
4 years later	716	805	722	905	948	–	–	–	–
5 years later	704	790	694	900	–	–	–	–	–
6 years later	710	784	686	–	–	–	–	–	–
7 years later	706	779	–	–	–	–	–	–	–
8 years later	709	–	–	–	–	–	–	–	–
Current estimate	709	779	686	900	948	1 030	1 120	1 332	1 464
Cumulative payments	-578	-653	-554	-712	-706	-718	-755	-759	-555
Current provisions	131	126	132	188	243	312	366	572	909

1 From the 2004 financial year, WARTA's figures have been included. If this company had not been taken into account, the following amounts would have been arrived at for financial year 2004 (amount and year of occurrence): 691 for 2001; 773 for 2002; and 688 for 2003.

2 From the 2005 financial year, Assurisk's figures have been included. If these figures had not been taken into account, the following amounts would have been arrived at for financial year 2005 (amount and year of occurrence): 710 for 2001; 807 for 2002; 755 for 2003; and 943 for 2004.

3 From the 2008 financial year, the figures for ČSOB Poist'ovňa (Slovak Republic) and DZI Insurance (Bulgaria) have been included. If these figures had not been taken into account, the following amounts would have been arrived at for financial year 2008 (amount and year of occurrence): 705 for 2001; 783 for 2002; 692 for 2003; 903 for 2004; 950 for 2005; 1 027 for 2006 and 1 120 for 2007.

Operational and other non-financial risks

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

Managing operational risk

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

The development and implementation of this framework is supported by an extensive operational risk governance model. The framework covers all banking and insurance entities of the group, as well as all supporting activities and services offered by group entities. The framework is gradually being implemented in all the new entities of the KBC group.

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

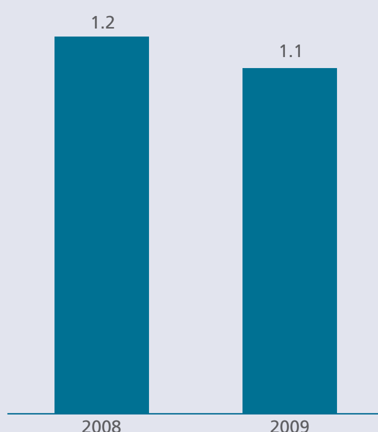
A Group Operational Risk Committee (GORC) advises the Group Executive Committee on the group-wide framework for managing operational risks, monitors the implementation of this framework and oversees the main operational risks.

Besides the GORC, there are a variety of operational risk committees at business-unit level and at various group companies. They keep close track of the practical implementation of the operational risk management framework and also take concrete measures either directly or via line management. All departments that are involved in one way or another in managing operational risks can gain access to the risk committees whenever they feel it is necessary. In addition, representatives from the internal audit, legal and compliance divisions sit on the operational risk committees as observers.

The Group Value and Risk Management Directorate is primarily responsible for defining the operational risk management framework for the entire group. This framework is submitted to the GORC and the Executive Committee for approval. The directorate is also responsible for overseeing the practical implementation by line management of this framework. In addition, it supervises the quality of the risk management process, analyses the main risk data and reports to the GORC.

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

Capital to cover operational risks (Basel II, standardised approach, in billions of EUR)



The building blocks for managing operational risks

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

- *The Loss Event Database.* All operational losses of 1 000 euros or more have been recorded in a central database since 2004. This database includes all legal claims filed against group companies. Twice a year, a consolidated loss report is submitted to the GORC, the Executive Committee and the Audit Committee.
- *Risk Self-Assessments (bottom-up and top-down).* These focus on actual (= residual) key operational risks at critical points in the process/organisation that are not properly mitigated and on new or emerging operational risks that are relevant at (sub)group level
- *Group Standards.* Around 40 Group Standards have been defined to ensure that important operational risks are managed uniformly throughout the group. Each group entity has to translate these group standards into specific procedures that are adapted to the local situation. The various operational risk committees monitor the proper implementation of group standards and may allow exceptions to be made (subject to the observance of a strict waiver procedure). Adherence to group standards is subject to reviews by the Group Value and Risk Mangement Directorate and Internal Audit.
- *Recommended Practices.* These help sharpen the internal controls against key risks that (i) were identified during Risk Self-Assessments, (ii) are inherent in new activities started by a group entity, (iii) have manifested themselves through a significant loss event, or (iv) were identified by Internal Audit during an audit assignment.
- *Case-Study Assessments.* These are used to test the effectiveness of the protection afforded by existing controls against major operational risks that have actually occurred elsewhere in the financial sector. One such assessment was used to test the internal controls for preventing and identifying rogue trading practices.
- *Key Risk Indicators.* These help monitor the exposure to certain operational risks and track the existence and effectiveness of the internal controls.

Operational risk and Basel II

KBC uses the Standard Approach to calculate operational risk capital under Basel II. Operational risk capital for the KBC group totalled 1 120 million euros at the end of 2009, 956 million euros of which concerned banking entities and was calculated pursuant to pillar 1 of Basel II, and 164 million euros related to insurance entities and was calculated according to QIS4 for Solvency II.

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 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 always connected to and will only materialise together with another risk.

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

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

Business Risk

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

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

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

Solvency, economic capital and embedded value

Solvency risk is the risk that the capital base of the group, the bank or the insurer might fall below an acceptable level. In practice, this entails checking solvency against the minimum regulatory and in-house solvency ratios.

Managing solvency

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

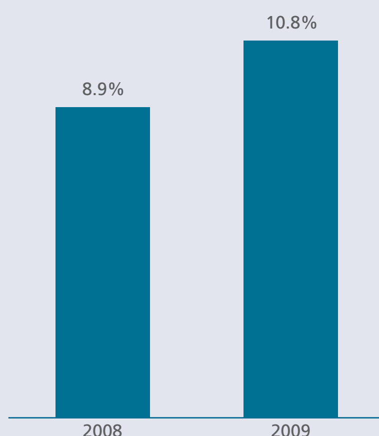
For group solvency, the so-called 'building block' method is used. This entails comparing group regulatory capital (i.e. parent shareholders' equity less intangible assets and a portion of the revaluation reserve for available-for-sale assets, plus subordinated debt, etc.) with the sum of the separate minimum regulatory solvency requirements for KBC Bank, KBL EPB and the holding company (after deduction of intercompany transactions between these entities) and KBC Insurance. The total risk-weighted volume of insurance companies is calculated as the required solvency margin under Solvency I divided by 8%. The internal target for the tier-1 capital ratio at group level has been set at 10%.

Regulatory minimum solvency targets were amply exceeded, not only at year-end, but also throughout the entire year, except for the insurance solvency ratio which amounted to less than 100% in a certain period during the first half of 2009 and for which appropriate measures were taken.

In the second half of 2008 and the first half of 2009, a number of capital-strengthening measures were taken, including the issuance of non-voting core-capital securities to the Belgian State and the Flemish Region, as well as a Guarantee Agreement with the Belgian State relating to the remaining CDO risks (more information in this regard is provided under 'Overview of capital transactions with the government' in the 'Our strategy and management' section).

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

Group tier-1 ratio



Solvency at group level

Solvency at group level (in millions of EUR)	**31-12-2008**	**31-12-2009**
Total regulatory capital, after profit appropriation	**19 370**	**20 414**
Tier-1 capital[1]	**13 810**	**15 426**
Parent shareholders' equity	10 710	9 662
Non-voting core-capital securities	3 500	7 000
Intangible fixed assets (-)	-387	-398
Goodwill on consolidation (-)	-3 479	-2 918
Innovative hybrid tier-1 instruments	1 420	554
Non-innovative hybrid tier-1 instruments	1 262	1 642
Minority interests	154	159
Equity guarantee (Belgian State)	0	601
Revaluation reserve, available-for-sale assets (-)	1 068	-457
Hedging reserve, cashflow hedges (-)	351	374
Valuation differences in financial liabilities at fair value – own credit risk (-)	-245	-151
Minority interests in available-for-sale reserve and hedging reserve, cashflow hedges (-)	-4	-1
Equalisation reserves (-)	-123	-131
Dividend payout (-)	0	0
IRB provision shortfall (50%) (-)	0	-77
Items to be deducted (-)[2]	-417	-433
Tier-2 and tier-3 capital	**5 560**	**4 988**
Perpetuals (including hybrid tier-1 instruments not used in tier-1 capital)	1 039	321
Revaluation reserve, available-for-sale shares (at 90%)	0	348
Minority interests in revaluation reserve, available-for-sale shares (at 90%)	0	0
IRB provision excess (+)	209	0
Subordinated liabilities	4 586	4 685
Tier-3 capital	144	145
Items to be deducted (-)[2]	-417	-510
Total weighted risks	**155 291**	**143 359**
Banking	141 370	128 303
Insurance	14 084	15 022
Holding-company activities	35	86
Elimination of intercompany transactions between banking and holding-company activities	-197	-52
Solvency ratios		
Tier-1 ratio	8.9%	10.8%
Core tier-1 ratio	7.2%	9.2%
CAD ratio	12.5%	14.2%

1 Figures audited by the statutory auditor (except for the IRB provision shortfall).
2 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% to 50% share (predominantly NLB).

Solvency, banking and insurance activities separately

The tables below show the tier-1 and CAD ratios calculated under Basel II for the banking activities of the group (KBC Bank and KBL EPB combined) and the solvency ratio of the insurance activities of the group (KBC Insurance). More information on the solvency of KBC Bank, KBL EPB and KBC Insurance can be found in their consolidated annual report 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, banking activities (in millions of EUR)	**31-12-2008**	**31-12-2009**
Total regulatory capital, after profit appropriation	**19 028**	**18 939**
Tier-1 capital	13 643	14 144
Tier-2 and tier-3 capital	5 385	4 794
Total weighted risks	**141 370**	**128 303**
Credit risk	108 038	104 472
Market risk	20 333	11 995
Operational risk	12 999	11 835
Solvency ratios		
Tier-1 ratio	9.7%	11.0%
of which core tier-1 ratio	7.2%	9.1%
CAD ratio	13.5%	14.8%

Solvency, insurance activities (in millions of EUR)	**31-12-2008**	**31-12-2009**
Available capital	**2 117**	**3 130**
Required solvency margin	1 127	1 202
Solvency ratio and surplus		
Solvency ratio (%)	188%	260%
Solvency surplus (in millions of EUR)	990	1 928

Economic capital

An economic capital model is used to measure the overall risk KBC is exposed to through its various activities, taking the different risk factors into consideration. The estimates generated by this model are reported regularly at meetings of the Executive Committee, the Audit Committee and once a year to the Board of Directors.

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

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

The breakdown of KBC's economic capital per risk type is provided in the table. The noticeable movement in the distribution of economic capital across the different risk types is only partly related to changes in risk exposures. For the most part, the differences arise from changes being made to the economic capital model. Indeed, the model – which is the result of an internal assessment – is reviewed on a regular basis. Over 2009, one additional risk type was identified, viz. the funding cost. For the other risk types, reviews were carried out of the underlying models, which is the primary reason for the larger share of economic capital being allocated to credit risk. The change in relation to non-trading market risk is, however, caused mainly by a change in risk exposures.

Economic capital distribution, KBC group*	**2008**	**2009**
Credit risk	45%	64%
Non-trading market risk	27%	14%
Trading market risk	4%	3%
Business risk	11%	8%
Operational risk	8%	6%
Insurance risk	5%	3%
Funding cost risk	–	2%
Total	**100%**	**100%**

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

Embedded value in the life insurance business

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

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

Detailed embedded value information can be found in the 'Embedded value report for 2009' at www.kbc.com.

CORPORATE SOCIAL RESPONSIBILITY

The New Economy names KBC **Most Sustainable Bank in Belgium**

Important new company collective labour agreements concluded in Belgium on job security, variable pay, purchasing power, labour flexibility and the distribution network

KBC again voted one of Belgium's **Best Employers**

Extensive information on Corporate Social Responsibility available in our **CSR Report for 2009**

Corporate social responsibility in our group

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

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

As a member of local CSR organisations and signatory to national and international CSR principles (including the United Nations *Global Compact* and the Luxembourg *Charte d'entreprise pour la responsabilité sociale et le développement durable*), KBC intends to enter into a pro-active commitment vis-à-vis its stakeholders.

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

Fully aware of the increasing demands for accountability placed on it by many social players, KBC is also committed to continuing the ongoing process of improving the way its business is conducted. Its business model is geared to direct and service-oriented relationships with its cus-tomer base, whereby employee professionalism and close links with local markets are key elements.

Examples of initiatives on the CSR front in 2009

As in previous years, various new initiatives were taken in the field of CSR in 2009, more details of which appear in our CSR Report. A few examples of the initiatives taken and awards received for environmental and community involvement, are listed below.

- In November, Jan Vanhevel (KBC Group CEO) signed the *Copenhagen Communiqué on Climate Change* to demonstrate KBC's resolve to tackle climate change. This communiqué is a statement from the business community setting out the case for an ambitious and robust framework for discussing climate change. It was also signed by hundreds of other business leaders from all over the world.
- In Poland, some 60 staff members from WARTA and Kredyt Bank joined forces to assist in urgent renovation work at the Krasne orphanage as part of the 'Yes from the heart' campaign, which encourages employees at KBC's Polish subsidiaries to volunteer their services.
- In Hungary, K&H Bank was rewarded for its Green Branch initiative when it received third prize from the Hungarian Business Leaders Forum at the Business for Environment Awards. A green branch of this kind runs exclusively on renewable energy.
- October saw the launch of the Global Compact Network Belgium. The Global Compact Network is a United Nations programme that encourages companies to engage in more socially responsible and sustainable business practices. Companies – such as KBC – that enlist in this programme ensure that greater transparency in their business activities is provided in relation to human rights, social standards, anti-corruption measures and the environment.
- For many years, KBC has pursued a restrictive policy with regard to companies manufacturing controversial weapons. In 2009, two companies involved in the production of cluster bombs were excluded from the group's investment funds and also from receiving credit. The full list of excluded companies is published on the KBC Asset Management website (www.kbcam.be).
- KBL EPB launched a new initiative on microfinance, enabling employees to support microfinance projects in Vietnam.
- As from 2012, KBC will bring together all the support services currently spread throughout the Ghent region (Belgium) and house them in a single building on the Flanders Expo site in Ghent. In addition to meeting all of KBC's demanding accessibility criteria, the building itself is highly sustainable, with extensive insulation of walls and windows, a balance between glass and non-glass façade elements, environmentally-friendly technical installations, and intelligent office lighting systems.
- KBC was awarded the prestigious Solidaritest® Champions label. Solidaritest® is an annual survey into the efforts that Belgian companies actually make in the field of social solidarity. During its annual awards ceremony, the organisation highlights these efforts to ensure they receive greater publicity and visibility.
- KBC achieved ISO 14001 Environmental Certification for its support services in Belgium. This certificate is an internationally recognised standard that specifies the requirements for companies' environmental management systems. The ISO standard consists of some 20 requirements covering environmental policy, planning, implementation, audit and reporting. KBC also constantly assesses its environmental policy and, based on voluntary audits, has already received the Ecodynamic Enterprise label for its Havenlaan building in Brussels and was awarded the West Flanders Environmental Charter for its branches in that region.
- *The New Economy* magazine named KBC 'Most Sustainable Bank in Belgium'.

Environmental efficiency data for the KBC group in Belgium (per FTE*)	**2009**
Energy consumption (in GJ)	
Electricity	24.8
Provided by renewable energy sources	100%
Fossil fuels (gas and heating oil)	14.5
Distances travelled (in km)	
Commuter travel	10 427
Business travel	7 202
Paper and water consumption, waste	
Paper (in tonnes)	0.17
Water (in m^3)	12.9
Waste (in tonnes)	0.23
Greenhouse gas emissions (in tonnes)	2.25

* Based on available data for Belgium (roughly 16 000 FTEs in 2009); methodological information is given in the group's CSR Report.

CORPORATE SOCIAL RESPONSIBILITY

Our employees

KBC's employees are one of the group's most important stakeholders. The following table provides an overview of the total workforce and a breakdown into various categories. More information on the group's employees can also be found in the CSR Report for 2009.

In 2009, the total number of employees in the group fell by almost 9%, to 54 185 FTEs, due to cost-saving measures rolled out across the entire group. The reduction in the workforce was mainly felt in the CEER Business Unit (-2 537 FTEs), in the Merchant Banking Business Unit (-1 039 FTEs) and in support services at group level (-1 017 FTEs).

Number of staff, KBC group	31-12-2008	31-12-2009
In FTEs*	**59 279**	**54 185**
In %		
Belgium	31%	33%
Central & Eastern Europe and Russia	60%	58%
Rest of the world	9%	9%
Senior management	3%	3%
Junior and middle management	33%	37%
Administrative staff	63%	60%
Men	41%	43%
Women	59%	57%
Full-time	85%	85%
Part-time	15%	15%

* The figures do not include the distribution network of the insurance companies.

In September 2009, KBC and the social partners signed three new company collective labour agreements for employees at KBC Belgium, providing a clear framework in the areas of job security, variable pay, purchasing power, labour flexibility and the distribution network for the next few years. In this way, KBC aims to safeguard its competitive position in the labour market, to enhance its customer focus and, after the concessions made by employees in 2008 and 2009, to gradually improve the conditions of employment.

KBC was again recognised as one of the 'Best Employers in Belgium' in a survey carried out by the Vlerick Management School and the Great Place to Work® Institute. It also received the 'Talent Development' award.
In order to align remuneration principles with the long-term interests of stakeholders, KBC approved a new group-wide remuneration policy, including high-level principles, internal guidelines and a governance framework, in accordance with most recent international standards. Moreover, KBC Group Executive Committee members decided to forego their bonus for the 2009 financial year, just like they did in 2008.

'In the coming years, we will be selling some of our group companies, which unfortunately means that we will be bidding farewell to the people working there. These decisions have not been taken lightly and should not be regarded as a lack of appreciation for the employees concerned. On the contrary, their efforts are highly valued and we wish them every success in the future with their new owner.'

Jan Vanhevel, KBC Group CEO

CORPORATE GOVERNANCE

New **Corporate Governance Charter** approved at beginning of 2010

Executive Committee rejuvenated in 2009

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

Corporate governance at our group and the applicable code

On the initiative of the Corporate Governance Committee, an updated version of the 2004 Belgian Code on Corporate Governance entered into effect in 2009. KBC Group NV has adopted this new code (the 'Code') as its benchmark.

The Code seeks to ensure transparency in corporate governance by requiring every listed company to disclose information in two separate documents: the *Corporate Governance Charter* (the 'Charter') and the *Corporate Governance Statement* (the 'Statement').

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

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

All points that must be disclosed under the Code are covered below, as are a number of other disclosures required by law. Unless otherwise indicated, the period dealt with in this Statement runs from 1 January 2009 to 31 December 2009.

Composition of the Board of Directors and its committees

The table below shows the members of the Board of Directors (the Board) and its committees on 31 December 2009, as well as the number of meetings held in 2009 and the attendance record. A list of the external offices held by all members of the Board of Directors is provided, as stipulated by the Belgian supervisory authority, at www.kbc.com.

Composition of the Board of Directors on 31 December 2009

Name	Primary responsibility	Period served on the Board in 2009	End, current term of office	Board meetings attended	Non-executive directors	Core shareholders' representatives	Independent directors	Members of the Executive Committee	Audit Committee	Nomination Committee	Remuneration Committee
Number of meetings in 2009:				14					9	4	4
Jan Huyghebaert	Chairman of the Board of Directors	Full year	2012	14	■					4*	4
Philippe Vlerick	Deputy Chairman of the Board of Directors CEO Vlerick Group	Full year	2013	13	■	■				3	
Jan Vanhevel	President of the Executive Committee and Executive Director	4 months	2010	4				■*		3	
Etienne Verwilghen	Executive Director	Full year	2013	13				■			
Paul Borghgraef	Director of various companies	Full year	2013	14	■	■					
Paul Bostoen	Managing Director, Christeyns NV and Algimo NV	Full year	2010	14	■	■					
Jo Cornu	CEO, Agfa-Gevaert NV	Full year	2012	14	■		■			3	4*
Luc Debaillie	Chairman and Managing Director, Voeders Debaillie NV	Full year	2010	14	■	■					
Chris Defrancq	Executive Director	Full year	2011	13				■			
Franky Depickere	Managing Director, Cera Beheersmaatschappij NV and Almancora Beheersmaatschappij NV, Chairman of the Day-to-Day Management Committee, Cera CVBA	Full year	2011	14	■	■			9*	4	
Noël Devisch	Director, MRBB CVBA	Full year	2013	14	■	■				4	
Frank Donck	Managing Director, 3D NV	Full year	2011	14	■	■					
Dirk Heremans	Professor Emeritus at the Faculty of Business and Economics, Katholieke Universiteit Leuven (KUL)	Full year	2013	14	■		■		9		
Lode Morlion	Mayor of Lo-Reninge and Chairman of the Board of Directors of Cera Beheersmaatschappij NV	Full year	2012	14	■	■					
Philippe Naert	Director of various companies	Full year	2013	13	■		■		8		3
Theodoros Roussis	CEO, Ravago Plastics NV	Full year	2012	9	■	■			6		
Hendrik Soete	Chairman, Aveve Group, and Director, MRBB CVBA	Full year	2013	14	■	■					
Alain Tytgadt	Managing Director, Metalunion CVBA	Full year	2013	14	■	■					
Ghislaine Van Kerckhove	Lawyer and Deputy Chairperson of the Board of Directors of Cera Beheersmaatschappij NV	Full year	2012	13	■	■					
Charles Van Wymeersch	Full professor at the Facultés Universitaires Notre-Dame de la Paix (Namur) and the Louvain School of Management	8 months	2013	10	■	■					
Germain Vantieghem	Managing Director, Cera Beheersmaatschappij NV and Almancora Beheersmaatschappij NV, member of the Day-to-Day Management Committee, Cera CVBA	Full year	2010	14	■	■					
Marc Wittemans	Managing Director, MRBB CVBA	Full year	2010	14	■	■			9		

Under the terms of the agreements signed between KBC and the Belgian Federal and Flemish Regional Governments, meetings of the Board of Directors are attended by Pierre Wunsch and Eric Stroobants, as observers for the Belgian Federal Government, and by Professor Marc De Ceuster, as observer for the Flemish Regional Government. Marc De Ceuster, Pierre Wunsch and Eric Stroobants also sit as observers on the Audit Committee, Nomination Committee and Remuneration Committee, respectively.

Auditor: Ernst & Young Bedrijfsrevisoren BCVBA, represented by Jean-Pierre Romont and/or Pierre Vanderbeek.
Secretary to the Board of Directors: Tom Debacker.
* Chairman of the committee on 31 December 2009.

In 2009, the following changes occurred in the composition of the Board:

- At the General Meeting of 30 April 2009, Jean-Marie Géradin, Christian Leysen and Jozef Van Waeyenberge relinquished their seats on the Board due to the fact that their terms of office ended at this meeting. Charles Van Wymeersch was appointed to succeed Jean-Marie Géradin for a period of four years. A brief CV for Mr Van Wymeersch appeared in the 2008 annual report.
- Luc Philips also stepped down as director on the same date, given that he joined the Executive Committee of KBC immediately after the General Meeting and took up the position of Chief Financial and Risk Officer, replacing Herman Agneessens who retired. A brief CV for Mr Philips also appeared in the 2008 annual report.
- On 1 September 2009, André Bergen stepped down as President of the Executive Committee and as director of KBC for health reasons. He was succeeded by Jan Vanhevel, member of the Executive Committee, who was appointed director by co-option.
- Under the terms of the agreements that KBC reached with the Belgian Federal Government and with the Flemish Regional Government to issue non-dilutive securities that qualify as core capital, two representatives from each government will take a seat on the Board of Directors of KBC Group NV, with one representative from each government sitting on the Audit Committee, the Remuneration Committee and the Nomination Committee. Pending the nomination of the government-appointed directors at the General Meeting of 29 April 2010, Pierre Wunsch and Erik Stroobants have been sitting on the Board of Directors as observers for the Belgian Federal Government since 19 December 2008 and 5 August 2009, respectively, and Professor Marc De Ceuster as an observer for the Flemish Regional Government since 5 August 2009.

Having reached the age limit, Paul Bostoen and Luc Debaillie will relinquish their seats on the Board when their terms of office come to an end at the General Meeting of 29 April 2010. On the same date, Noël Devisch will also be stepping down from the Board for personal reasons, while Chris Defrancq will retire as Executive Director.

On the advice of the Nomination Committee, the Board of Directors will propose to the General Meeting that:

- Jean-Pierre Hansen and Eric Stroobants (representatives of the Belgian Federal Government) and Professor Marc De Ceuster (representative of the Flemish Regional Government) be appointed as directors of KBC Group NV in their aforementioned representative capacity;
- Jan Vanhevel, who was co-opted to succeed André Bergen in September 2009 as President of the Executive Committee and Executive Director, be appointed for a period of four years;
- Germain Vantieghem and Marc Wittemans, whose terms of office end at the General Meeting, be re-appointed as directors for a further period of four years;
- Piet Vanthemsche be appointed to succeed Noël Devisch as director for a period of four years;
- Alain Bostoen be appointed as director for a period of four years;
- Luc Philips, CFO, be appointed as Executive Director for a period of four years, to succeed Chris Defrancq;
- Jo Cornu be confirmed as independent director within the meaning of and in line with the criteria set out in Article 526*ter* of the Belgian Companies Code and in the Corporate Governance Code.

Brief CVs for the new executive directors are given below (unless already published in a previous annual report):

Eric Stroobants

- Born in Mechelen, in 1943.
- Master's Degree in Civil Engineering, Katholieke Universiteit Leuven (KU Leuven, 1966).
- After working in a number of different cabinet posts, including as head of cabinet for various ministers (R. De Backer (1979), J. Chabert (1980) and G. Geens (1981–1991)), Eric Stroobants took up a number of high-level government positions (Special Commissioner for reorganising the Flemish civil service (2000–2004), Secretary-General of the General Government Policy Department (1991–2009), Chairman of the *College van Ambtenaren-Generaal* (a permanent forum for civil servants) (1991–2009), member of the Internal Audit Committee of the Flemish Community (2004–2009), and Secretary to the Flemish Government (1979–1980 and 1981–2009)). He was also a member of the Board of Directors of the Flanders Technology International Foundation (since 1994), co-founder and member of the Board of Directors and member of the General Assembly of the Flemish Public Management Institute (since 1996), and a member of the Board of Directors of KU Leuven (since 2004). He retired in 2009.

Marc De Ceuster

- Born in Brecht, in 1962.
- Master's Degree in Applied Economic Sciences, UFSIA, Antwerp (1984); Master's Degree in Law, UIA, Antwerp (1987) and Ph.D in Applied Economic Sciences, UFSIA, Antwerp (1992).
- Currently a Professor of Finance at the Universiteit Antwerpen (since 2002), Marc De Ceuster has also held the posts of Director of Risk Management at Deloitte (2001–2005) and Director of the Universiteit Antwerpen Management School (2005–2008). In addition to his normal teaching duties, he has worked on various research projects covering such areas as the cost of capital, risk management, modelling credit spreads, modelling high yield bonds, the long-term financing policies of Belgian listed companies, and modelling banks' CDS premiums.

Jean-Pierre Hansen

- Born in Athus, in 1948.
- Master's Degree in Civil Electromechanical Engineering, Master's Degree in Economics and Ph.D in Engineering.
- An Energy Policy Adviser to the Ministry of Economic Affairs (since 1975), Jean-Pierre Hansen has held the posts of Vice-Chairman and Executive Director of Electrabel (1992-1999 and again since 2005) and is Chairman of the Strategic Committee of Electrabel (since 1999). He is Chairman of the Board of Fluxys and has held various positions and offices in SUEZ (until 2008) and in GDF SUEZ, including member of the Executive Committee of GDF SUEZ and Chairman of the group's Energy Policy Committee, Executive Director of SUEZ-TRACTEBEL and a number of other companies belonging to the GDF SUEZ Group. He is an independent director of ArcelorMittal and of CNP, a director at the Université de Liège and holds a chair at the Université catholique de Louvain and the École Polytechnique (Paris).

Piet Vanthemsche

- Born in Kortrijk, in 1955.
- Ph.D in Veterinary Science (Universiteit Gent).
- Between 1986 and 2000, Piet Vanthemsche worked for the Veterinary Services of the Belgian Ministry of Agriculture, filling senior management positions – from 1992 on – in that Ministry and in the Cabinet of the Minister of Agriculture. Between 2000 and 2002, he ran his own consultancy firm, before taking up various management posts for the Federal Government (2002–2007), including Managing Director of the Belgian Food Agency and Managing Director of the Belgian Medicines Agency. In 2007, he became Vice-Chairman of the Boerenbond (Belgian Farmers' Union) and, in 2008, its Chairman and Chairman of MRBB. He is also a regent of the National Bank of Belgium.

Alain Bostoen

- Born in Ghent, in 1970.
- Master's Degree in Law (1993, Universiteit Gent), MBA (1994, Vlerick Management School).
- Between 1997 and 2002, Alain Bostoen was Managing Director of Krefima NV. He is Director of KBC Lease Holding NV (since 2003) and of Algimo NV, and is Managing Director at Christeyns NV.

Composition of the Executive Committee

The table shows the members of the Executive Committee on 31 December 2009. For more information on the members of the Executive Committee, see the 'Our strategy and management' section or click 'Corporate Governance' at www.kbc.com.

Name	Period on the Executive Committee in 2009
Jan Vanhevel (President)	Full year
Chris Defrancq	Full year
Danny De Raymaeker	Full year
John Hollows	As from September
Luc Philips	As from May
Luc Popelier	As from September
Johan Thijs	As from September
Etienne Verwilghen	Full year

In early September 2009, the Executive Committee of KBC Group NV was radically reshuffled and rejuvenated. Jan Vanhevel was appointed President, succeeding André Bergen who left the group for health reasons. John Hollows succeeded Jan Vanhevel as CEO of the CEER Business Unit, while Luc Popelier replaced Guido Segers as CEO of the Merchant Banking Business Unit. Johan Thijs was appointed CEO of the Belgium Business Unit to replace Danny De Raymaeker, who took over the post of Chief Operating Officer from Chris Defrancq. On the same date, as agreed earlier with the Belgian Banking, Finance and Insurance Commission (CBFA), the position of Chief Financial and Risk Officer (CFRO) was split up and Chris Defrancq was appointed Group Chief Risk Officer (CRO) while Luc Philips, who had joined the Executive Committee and had filled the position of interim CFRO at the beginning of May, became Chief Financial Officer (CFO). Brief CVs for the new members of the Executive Committee are given below; Luc Philips' CV appeared in the 2008 annual report.

John Hollows

- Born in Altrincham (UK), in 1956.
- Master's Degree in Law and Economics, Cambridge University.
- Joined the company in 1996.
- After starting his career in 1978 and holding various positions at Barclays Bank PLC in London and Taiwan, John Hollows joined the Kredietbank in 1996 as manager of its Shanghai branch. He went on to become Senior General Manager of KBC Bank's Southeast Asia region in 1999. In 2003, he was appointed CEO of K&H Bank in Hungary. In 2006, he took up the position of Senior General Manager for Banking in the Central & Eastern Europe Directorate.

Luc Popelier

- Born in Antwerp, in 1964.
- Master's Degree in Applied Economic Sciences, UFSIA, Antwerp.
- Joined the company in 1988.
- After holding various positions in corporate banking at the Kredietbank where he started his career in 1988, Luc Popelier moved to Warburg Dillon Read in London in 1995 to take up the post of Associate Director of Credit Risk Management. In 1996, he became Director of Corporate Finance, Leveraged Finance Group, SBC Warburg. In 1999, he moved to KBC Securities as Executive Director of Corporate Finance. In 2002, he was appointed General Manager of KBC's Strategy & Expansion Division. He became General Manager of Trade Finance at KBC Bank in 2008 and was appointed to the Executive Committee of KBC Asset Management in 2009.

Johan Thijs

- Born in Genk, in 1965.
- Master's Degrees in Applied Mathematics and in Actuarial Sciences, KU Leuven.
- Joined the company in 1988.
- Starting his career at ABB Insurance in 1988, Johan Thijs held various positions in the life and non-life business lines. In 1995, he became Head of the Policies and Claims Department at ABB Insurance's Limburg Regional Office. In 1998, he took up the post of General Manager for Limburg and East Belgium, before being appointed General Manager of Non-Life Insurance for Private Customers at KBC Insurance in 2001 and then Senior General Manager of the Retail Non-Life Directorate.

CORPORATE GOVERNANCE

At the General Meeting of 29 April 2010, Chris Defrancq will relinquish his seat on the Board and step down from the Executive Committee. On the proposal of the Nomination Committee, the Board of Directors will appoint Luc Philips (CFO) to replace Chris Defrancq as executive director.

On 25 March 2010, the Board of Directors decided to appoint Marko Voljč to the Executive Committee in succession to John Hollows, who will become CRO on 29 April 2010.

Marko Voljč

- Born in Jesenice (Slovenia), in 1949.
- Master's Degree in Economics (Universities of Ljubljana and Belgrade).
- Between 1976 and 1979, Marko Voljč worked for the National Bank of Slovenia, before joining the World Bank and working in Washington DC and Mexico City (1979 to 1992). In 1992, he became President-CEO of Nova Ljubljanska banka in Slovenia, before being appointed to the post of General Manager of the Central Europe Directorate at KBC's Brussels head office. In May 2006, he was appointed CEO of K&H Bank in Hungary and became Country Manager for Hungary.

Meetings of the Board of Directors

The Board of Directors met fourteen times in 2009. The meetings were always attended by virtually all members (see table). Besides carrying out the activities required under the Companies Code, reviewing the quarterly results and the activities of the Audit, Nomination and Remuneration Committees, the Board also dealt with the following matters in 2009:

- the support provided by the Federal and Flemish Governments;
- KBC's restructuring plan for the European Commission;
- developments concerning the CDO portfolio;
- running down operations at KBC Financial Products;
- the stress tests imposed by the CBFA/National Bank of Belgium;
- the repurchase of hybrid instruments;
- remuneration policy;
- Internal Capital Adequacy Assessment Process (ICAAP);
- risk management;
- internal control;
- compliance;
- corporate social responsibility;
- business continuity management;
- the KBC *Code of Conduct*;
- incompatibility rules;
- appointments to/resignations from the Executive Committee and the Board of Directors and its committees.

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

Meetings of the committees of the Board of Directors

Audit Committee

The Audit Committee met nine times in the presence of the President or a member of the Executive Committee and the internal auditor. The meetings were also attended by the statutory auditors.

The report of the internal auditor, the report of the compliance officer and the report of the Group Value and Risk Management Directorate (WRB) were fixed agenda items.

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

The internal auditor's report provided an overview of recent audit reports, including the most important audit reports for the underlying group entities. The Audit Committee also reviewed the implementation of the 2009 audit plan, and approved the 2010 audit plan. Furthermore, it was regularly informed of the progress made with regard to the implementation of audit recommendations.

On 11 February 2010, the Audit Committee reviewed the consolidated and non-consolidated annual accounts for the year ended 31 December 2009, and approved the press release. The auditor explained the key audit findings. On 11 May, 5 August and 12 November 2009, the auditors explained their key findings following their limited review of the accounts as at 31 March, 30 June and 30 September, respectively. The Audit Committee also approved the respective press releases.

During the course of the year, the Audit Committee reviewed several special reports concerning the statement of effective management with regard to the assessment of internal control systems, the annual report on value and risk management, the IRB Advanced approach, the SPV structures at KBC Asset Management, IBNR provisioning methodology, the economic capital programme, the stress-testing framework, the programme for establishing a new risk and capital management model, the annual report on business continuity management, and the programme for running down operations at KBC Financial Products. Senior managers were regularly invited to provide explanations on specific subjects within their remit that were under discussion.

At the start of 2010, the name of the Audit Committee was changed to the Audit, Compliance and Risk Committee.

Nomination Committee

The Nomination Committee met four times in 2009 and dealt with the following matters:

- the appointment and re-appointment of certain members of the Board of Directors;
- the composition of and succession within the Executive Committee;
- the appointment to the Board committees of the observers representing the Federal and Flemish governments;
- the appointment of independent directors to the Board of Directors of KBC Bank;
- the position of Chief Risk Officer in the Executive Committee.

Remuneration Committee

The Remuneration Committee met four times in 2009 to discuss the following matters:

- the payment of shares in profit as set by the Articles of Association;
- the remuneration package of the President and members of the Executive Committee;
- the remuneration package of new members of the Executive Committee;
- the remuneration paid to the Chairman of the Board of Directors;
- the additional defined-contribution pension plan for members of the Executive Committee.

Agenda Committee

Due to the fact that the Chairman of the Board of Directors and the President of the Executive Committee meet regularly on an informal basis, it was decided by mutual agreement and for practical reasons to abolish the Agenda Committee, whose main task was to set the agenda for the Board of Directors.

Audit Committee: application of Article 96 9° of the Companies Code

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

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

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

At the General Meeting of 2009, both directors were re-appointed as independent directors for a further period of four years, within the meaning of and in line with the criteria set out in Article 526*ter* of the Companies Code and in the Corporate Governance Code. On the basis of the preceding information, it can be concluded that both of these directors – as members of the Audit Committee of KBC Group NV – meet the criteria set out in Article 96 9° of the Companies Code relating to independence and to expertise in the area of accounting and auditing.

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

The Board of Directors of KBC Group NV drew up regulations governing transactions and other contractual ties between the company (including its associated companies) and its directors, not covered by the conflict of interest rule set out in Articles 523 or 524*ter* of the Companies Code. These regulations have been incorporated into the Charter of KBC Group NV. No such conflicts of interest arose at KBC Group NV during the course of 2009.

Measures regarding insider dealing and market manipulation

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

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

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

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

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

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

On the initiative of the President of the Executive Committee, the full committee will discuss its objectives and assess its performance once a year, with an analysis being carried out of its strategy, effectiveness (team qualities and skills, meeting practices, interaction with the Board of Directors), secretariat, relations between the parent company and its subsidiaries, risk management and control, stakeholders, leadership, remuneration, ethical issues and corporate culture.

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

Remuneration report for the 2009 financial year

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

General

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

Board of Directors

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

Executive Committee

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

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

The Remuneration Committee declares the following:

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

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

The following applies to non-executive directors:

- The remuneration awarded to non-executive directors consists solely of an annual fixed component (non-performance-related) and a fee per meeting attended. As mentioned above, fixed remuneration is deducted from the net profit for that year, whereas attendance fees are charged as expenses to that year. On the proposal of the Board of

Directors, this fixed remuneration is approved each year by the General Meeting within the limits specified by law, the Articles of Association and the KBC group remuneration policy that has been set by the Remuneration Committee.
- In light of the considerable time he devotes to the ongoing supervision of KBC group affairs, the Chairman of the Board of Directors of KBC Group NV receives a different remuneration package. He is paid a higher fixed emolument, which is set separately each year by the Remuneration Committee and approved by the Board of Directors.
- The directors sitting on the Audit Committee of KBC Group NV received additional remuneration for the work they performed in that regard, whereas those directors sitting on either the Nomination Committee or the Remuneration Committee did not.
- KBC Group NV does not grant loans or guarantees to directors. Such loans or guarantees may, however, be granted by KBC Group NV banking subsidiaries pursuant to Article 28 of the Banking Act, meaning that loans may be granted at terms applying to customers.

The following applies to executive directors and other members of the Executive Committee:
- The Board of Directors determines the remuneration awarded to executive directors and the other members of the Executive Committee on the basis of the advice provided by both the Remuneration Committee and the President of the Executive Committee.
- Until the KBC group's new remuneration policy came into force in 2010, individual remuneration paid to Executive Committee members was made up of the following components:
  - a fixed monthly emolument;
  - a variable annual emolument (the amount of which depends on the consolidated profit of KBC Group NV);
  - an emolument for offices performed on behalf of KBC Group NV;
  - a possible bonus based on individual performance;
  - any options granted on KBC Group NV shares.
- The total amount of the remuneration calculated in this way for the President of the Executive Committee of KBC Group NV may not exceed the remuneration paid to other members of the Executive Committee by more than 25%.
- Members also benefitted from a retirement and survivor's pension scheme, which comprises a supplementary retirement pension or – if the insured dies while still in employment and leaves a spouse – a survivor's pension.

Relative importance of the different components of remuneration
Of the above components, only the fixed monthly emolument was relevant in 2009, due to the fact that no variable component was paid to members of the Executive Committee on account of the negative result recorded by KBC Group NV. Until recently, remuneration for offices performed in the name of KBC Group NV was set off against the ordinary remuneration. Recently, the KBC group decided that group companies would no longer remunerate members of the Executive Committee of KBC Group NV who hold offices at those companies. The group did not award any bonuses on the basis of individual performances. Options on KBC shares are no longer granted and, therefore, this component is also redundant.

Characteristics of performance-related bonuses in the form of shares, options, or any other rights to acquire shares
Not applicable.

Information regarding the remuneration policy for the next two financial years
The Remuneration Committee approved the new remuneration policy of the KBC group on 28 October 2009, before the Act concerning the reinforcement of corporate governance among listed companies had been approved, and before CBFA Circular 2009-34 containing recommendations for appropriate compensation practices at financial institutions had been published (26 November 2009). The new policy largely complies with the various legislative and regulatory initiatives which had already been taken in this regard or – as indicated above – which were still being drawn up at the time, and will apply to all members of staff throughout the KBC group from 2010 on. Specifically, variable remuneration is being capped at 750 000 euros and the ratio of fixed to variable remuneration components set at a maximum one to three. Only the Executive Committee may decide whether exceptions can be made to these ceilings. Variable remuneration must always comprise a profit-related component (at least 10% of which is based on the results of the KBC group) and a performance-related component. At least 50% of the profit-related variable remuneration will not be awarded straightaway, but paid out instead over a three-year period. No advance payments will be made in relation to the variable emolument. Lastly, a clawback option has been incorporated into the policy.

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

Given the negative result posted by KBC for 2008 and the fact that, as a direct consequence, no dividend was paid for that year, neither KBC Group NV nor any other KBC group company in Belgium or abroad in which certain non-executive directors of KBC Group NV held office during 2008, paid a fixed remuneration to these directors for the 2008 financial year during the course of 2009. However, the directors in question were paid attendance fees in proportion to the number of meetings they attended of the Board of Directors of KBC Group NV and, where relevant, of the other companies of the KBC group in Belgium or abroad.

Remuneration per individual director (on a consolidated basis, in EUR)	**Fixed remuneration**	**Remuneration for Audit Committee members (paid in 2009 for 2008)**	**Attendance fee (paid in 2009 for 2008)**
Jan Huyghebaert[1]	420 000	0	130 000
Paul Borghgraef	0	0	45 000
Paul Bostoen	0	0	37 500
Jo Cornu	0	0	35 000
Luc Debaillie	0	0	35 000
Franky Depickere	0	30 000	108 750
Noël Devisch	0	0	50 000
Frank Donck	0	0	35 000
Jean-Marie Géradin[2]	0	0	35 000
Dirk Heremans	0	10 000	35 000
Christian Leysen[2]	0	0	27 500
Lode Morlion	0	0	35 000
Philippe Naert	0	10 000	35 000
Luc Philips[2, 3]	183 620	30 000	107 500
Theodoros Roussis	0	8 000	27 500
Hendrik Soete	0	0	37 500
Alain Tytgadt	0	0	37 500
Ghislaine Van Kerckhove	0	0	30 000
Jozef Van Waeyenberge[2]	0	0	35 000
Charles Van Wymeersch	0	0	3 750
Germain Vantieghem	0	0	77 500
Philippe Vlerick	0	0	35 000
Marc Wittemans	0	20 000	60 000
Marc De Ceuster	0	0	0
Eric Stroobants	0	0	0
Pierre Wunsch	0	0	0

1 Chairman of the Board of Directors.
2 Non-executive director until after the AGM of 30 April 2009.
3 Together with the Chairman, entrusted with the task within the Board of monitoring the business of the KBC group on an ongoing basis and, therefore, entitled to a different remuneration package (i.e. for a non-executive director) until 30 April 2009.

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

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

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

Not applicable due to the fact that no payments of variable remuneration were made during the 2009 financial year.

Remuneration granted to the President of the Executive Committee of KBC Group NV

The Executive Committee of KBC Group NV is a collective body, whose president is the first among equals and not a Chief Executive Officer (CEO) who is the sole executive and accountable representative of the company. Nevertheless, in implementation of the provisions of the Code on Corporate Governance and pending the promulgation of the Act concerning the reinforcement of corporate governance among listed companies, the individual remuneration paid to the President of the Executive Committee is shown in the table. Account should be taken of the change within the Executive Committee in 2009, when André Bergen stepped down as president for health reasons on 1 September and was succeeded by Jan Vanhevel.

Remuneration granted to the President of the Executive Committee of KBC Group NV (in EUR)	**André Bergen (from 1 January to 31 August 2009)**	**Jan Vanhevel (from 1 September to 31 December 2009)**
Basic remuneration (fixed)	470 871	229 528
Profit-related remuneration for financial year 2009 (variable)	0	0
Supplementary pension scheme[1] (contributions paid)	915 389	0
Additional defined-contribution pension plan[2] (contribution transferred to pension fund) for 2008	0	0
Options on KBC shares for 2008, allocated in 2009 (quantity)	none	none

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

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

Aggregate remuneration paid to the other members of the Executive Committee of KBC Group NV

The remuneration paid by KBC Group NV and its direct and indirect subsidiaries to members of the Executive Committee of KBC Group NV other than the President of the committee for the 2009 financial year is shown in the table. In this regard, account needs to be taken of the fact that a number of changes were made to the composition of the Executive Committee during the course of 2009, some of which had an impact on the total amount of remuneration. Moreover, the number of members sitting on the Executive Committee increased when the position of CFRO was split up into two positions on 1 September 2009. Consequently, the following was included in the total amounts:

- the remuneration received by Jan Vanhevel as member of the Executive Committee until 1 September 2009, the date on which he was appointed as President of the Executive Committee;
- the remuneration received by Herman Agneessens until he retired on 1 May 2009;
- the remuneration received by Luc Philips from 1 May 2009, the date on which he succeeded Herman Agneessens;
- the remuneration received by Guido Segers until his term of office ended on 1 August 2009;
- the remuneration received by John Hollows, Luc Popelier and Johan Thijs from 1 September 2009, the date on which they were appointed as members of the Executive Committee;
- the remuneration received by Etienne Verwilghen, Chris Defrancq and Danny De Raymaeker for 2009 as a whole.

Aggregate remuneration paid to the other members of the Executive Committee of KBC Group NV (during 2009, in EUR)	
Basic remuneration (fixed)	3 029 461
Profit-related remuneration for financial year 2009 (variable)	0
Supplementary pension scheme[1] (contributions paid)	2 798 914
Additional defined-contribution pension plan[2] (contribution transferred to pension fund) for 2008	0
Options on KBC shares for 2008, allocated in 2009 (quantity)	none

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

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

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

No shares, stock options or other rights to acquire KBC Group NV shares were allocated or exercised in 2009, nor did any lapse.

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

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

Main features of the internal control and risk management systems

For more information, see the 'Value and Risk Management in 2009' section.

Comments

Provision 5.2./1 of the Belgian Code on Corporate Governance (the Code) stipulates that the Board of Directors should set up an audit committee composed exclusively of non-executive directors. Provision 5.2./4 additionally specifies that at least a majority of its members should be independent. Provision 5.3./1 of the Code stipulates that the Board of Directors should set up a nomination committee composed of a majority of independent non-executive directors.

At year-end 2009, the Audit Committee of KBC Group NV was composed of five non-executive directors and an observer representing the Flemish Regional Government. Two of these non-executive directors are independent and are, therefore, in the minority on this committee.

On 31 December 2009, the Nomination Committee of KBC Group NV was composed of five non-executive directors – one of whom is an independent director – one executive director and one observer representing the Belgian Federal Government. Independent directors are, therefore, also in the minority on this committee.

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

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

Towards the end of 2009, a conflict of interest procedure was observed in accordance with Article 524 of the Companies Code, further to the guarantee provided by the Belgian Federal Government to cover credit risks in the group's portfolio of structured products. As a consequence of this agreement, a number of arrangements also had to be formalised between KBC Bank NV and KBC Insurance NV, in accordance with the conflict of interest procedure set out in Article 524 of the Companies Code.

However, in observance of the full procedure set out in Article 524 of the Companies Code, the Board of Directors of KBC Group NV had already taken a 'framework decision' on 24 November 2005, authorising the committee of three independent directors to investigate *a priori* all future transactions between KBC Group NV associated companies that – at the consolidated level – are neutral (under property law) and to decide whether it is necessary to repeat the procedure described in Article 524 of the Companies Code. If the committee is of the opinion that this is not the case, a simple (*a posteriori*) notification of the transaction concerned to the Board of Directors will suffice. As the transactions between KBC Bank NV and KBC Insurance NV satisfied these conditions, the decision taken by the committee – and subsequently notified to the Board of Directors – was therefore sufficient.

The decision taken by the committee of three independent directors read as follows:

'1. After reviewing the above-mentioned documents, the Committee notes that in the present situation it is required to issue a statement on the transactions between KBC Bank and KBC Insurance, as specified in the Portfolio Protection Agreement, i.e. on transactions between two Belgian associated companies of the listed company, KBC Group NV. Consequently, according to the letter of the law, these transactions fall within the scope of Article 524 of the Companies Code (see paragraph 1, 2° and paragraph 5). However, the Committee also notes that the application of Article 524 of the Companies Code to a transaction between two wholly-owned subsidiaries of a listed company does not comply with the ratio legis *of Article 524 of this Code, i.e. preventing an unauthorised transfer of assets between associated companies which would harm the interests of the shareholders of the listed company.*

2. As regards the present transactions, the Committee is of the opinion that, firstly, the guarantee extended by the Belgian Federal Government provides an operational advantage for KBC Bank NV, KBC Insurance NV and their parent company, KBC Group NV. Secondly, the KBC companies involved have a common interest towards the Belgian Federal Government and, therefore, it can be assumed that the rights and obligations between KBC Bank and KBC Insurance are shared in a logical and correct manner.

Furthermore, the Committee endorses the position reflected in the above-mentioned internal memo that, because both KBC Bank and KBC Insurance are wholly-owned subsidiaries of KBC Group NV, the present transactions between these companies will not lead to value leakage at consolidated level. For this reason (i.e. the neutral nature of these transactions under property law at consolidated level), the Committee agrees that the transactions comply with the description set out in the decision of the Board of Directors of 24 November 2005. It therefore believes that the transactions in question do not harm the interests of KBC Group NV and do not appear to be unlawful within the meaning of Article 524 of the Companies Code.

For the aforementioned reasons, the Committee believes that the full procedure set out in Article 524 of the Companies Code does not need to be repeated and that it will be sufficient to apprise the Board of Directors of the transactions concerned between KBC Bank and KBC Insurance, as set out in the Portfolio Protection Agreement.'

On 21 January 2010, the Board of Directors was informed of this decision and the relevant transaction as follows:

'The Board of Directors has taken note of the decision made by the Committee of Independent Directors of KBC Group NV that the full procedure set out in Article 524 of the Companies Code does not have to be repeated for the transactions between KBC Bank and KBC Insurance, as specified in the Portfolio Protection Agreement.

This decision was made on the grounds of the (framework) decision of the Board of Directors of 24 November 2005, which was taken in compliance with the full procedure set out in Article 524 of the Companies Code, authorising the Committee of Independent Directors to investigate a priori *future transactions between KBC Group NV associated companies that, according to the letter of the law, fall within the scope of Article 524 of the Companies Code, but are – at the consolidated level – neutral (under property law), and to decide whether it is necessary to repeat the procedure described in Article 524. If the Committee is of the opinion that this is not the case, a simple* (a posteriori) *notification of the transaction concerned to the Board of Directors will suffice. The transactions between KBC Bank and KBC Insurance, as specified in the Portfolio Protection Agreement, are transactions between wholly-owned subsidiaries of KBC Group NV and are – at the consolidated level – neutral (under property law), implying that these transactions fall under the authorisation referred to above.*

On 22 December 2009, the Committee of Independent Directors accordingly took the above decision, based on the fact that (i) the guarantee provided by the Belgian Federal Government to KBC Bank, KBC Insurance and their parent company KBC Group NV, constitutes an operational advantage; (ii) the KBC group companies involved have a common interest towards the Belgian Federal Government and, therefore, it can be assumed that the rights and obligations between KBC Bank and KBC Insurance are shared in a logical and correct manner; (iii) the transactions between KBC Bank and KBC Insurance are neutral (under property law) at the consolidated KBC group level.

On 25 June 2009, the Board of Directors had already taken note of the draft Portfolio Protection Agreement of 8 June 2009 and approved its conditions, with authority being delegated to the Executive Committee for further negotiation, finalisation and signing. The Board of Directors has also taken note of the final version of the Portfolio Protection Agreement, whereby the transactions between KBC Bank and KBC Insurance are included in clauses 6.1, 6.2, 7 and 16.6.'

Auditor

In accordance with the proposal of the Audit Committee, it will be proposed to the Annual General Meeting of KBC Group NV of 29 April 2010 that the mandate granted to Ernst & Young Bedrijfsrevisoren BCVBA, currently represented by Jean-Pierre Romont and/or Pierre Vanderbeek, be renewed for a period of three years and that it be represented by Pierre Vanderbeek and/or Peter Telders.

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

Capital structure on 31 December 2009

The share capital was fully paid up and was represented by 357 918 125 shares of no nominal value.

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

The General Meeting authorised the Board of Directors until 21 May 2014 to increase, in one or more steps, the share capital by a total amount of 900 million euros, in cash or in kind, by issuing shares or convertible bonds (whether subordinated or otherwise) or warrants that may or may not be linked to bonds (whether subordinated or otherwise). Under this authorisation, the Board can suspend or restrict pre-emptive rights, subject to the limits laid down by law and the Articles of Association. The Board can exercise this authorisation, pursuant to the conditions and within the limits laid down in the Companies Code, even after the date of receipt of notification from the CBFA that it has been apprised of a public takeover bid for the company's shares. This special authorisation is valid until 30 April 2012. On 31 December 2009, the amount by which capital may be increased came to 899 424 745 euros. Consequently, when account is taken of the accounting par value of the share on 31 December 2009, a maximum of 258 455 386 new shares can still be issued, i.e. 72.21% of the number of shares in circulation at that time.

The authorisation granted by the General Meeting to the Boards of Directors of KBC Group NV and its direct subsidiaries to acquire and take in pledge KBC Group NV treasury shares (subject to certain conditions), lapsed on 23 October 2009 and was not renewed. However, the Boards of Directors of KBC Group NV and its direct subsidiaries have been authorised until 22 May 2012 to purchase or sell KBC Group NV shares, whenever their purchase or sale is necessary to prevent KBC Group NV from suffering serious imminent disadvantage.

Lastly, the General Meeting authorised the aforementioned Boards of Directors to sell their KBC Group NV shares on or off the exchange. In the latter case, the price may not be lower than that prevailing on the exchange at the time of sale, less 5%. On 31 December 2009, KBC Group NV and its direct subsidiaries held a total of 18 173 347 KBC Group NV shares (i.e. 5.08% of the number of shares in circulation at that time) primarily for the purpose of the buyback programme approved by the General Meeting and for hedging KBC's employee stock option plans.

Legal restriction on transferring securities and exercising voting rights

Each year, KBC Group NV carries out a capital increase reserved for KBC employees, who are free to subscribe to it. These new shares are blocked on behalf of the employees concerned by KBC for two years, starting from the payment date. At year-end 2009, a total of 213 457 shares were blocked in this way, 48 154 of which will be released before the end of 2010.

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 annual accounts' section.

The voting rights attached to the shares held by KBC Group NV and its direct and indirect subsidiaries have been suspended. At 31 December 2009, these rights were suspended for 18 189 217 shares, i.e. 5.08% of the number of shares in circulation at that time.

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

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

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

That is a total of 109 020 039 shares carrying voting rights, or 30.70% of the total number of such shares (including those suspended: see above) on 1 September 2008 (355 122 707 shares in total). That is 30.46% compared with the total number of shares carrying voting rights on 31 December 2009 (357 918 125).

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

Disclosure under Article 74 of the Belgian Act of 1 April 2007 on public takeover bids

Within the framework of the above-mentioned legislation, KBC Group NV received a number of updated disclosures in 2009, before the date required by law (i.e. 1 September). This information has been incorporated into the table of disclosures received.

Disclosures under Article 74 of the Belgian Act on public takeover bids
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]	22.98%	Cera CVBA	Algimo NV	320 816[3]	0.09%	Individual(s)
MRBB	46 289 864[3]	12.94%	HBB vzw	Rodep Comm.VA	303 000[3]	0.08%	Individual(s)
Cera CVBA	26 127 166[3]	7.30%	–	SAK Berkenstede	268 970[3]	0.08%	–
SAK AGEV	12 791 695[3]	3.58%	–	Efiga Invest sprl	233 806[3]	0.07%	Moulins de Kleinbettingen SA
Plastiche NV	2 989 482[3]	0.84%	Individual(s)	Robor NV	225 246[3]	0.06%	Individual(s)
3D NV	2 258 085[3]	0.63%	SAK Iberanfra	La Pélégrina	220 588[4]	0.06%	ING Trust
SAK Pula	2 234 250[3]	0.62%	–	Promark International NV	187 376[3]	0.05%	Individual(s)
Setas SA	1 626 401[3]	0.45%	SAK Setas	Hermes Invest NV	180 225[3]	0.05%	–
Vrij en Vrank CVBA	1 335 258[3]	0.37%	SAK Prof. Vlerick	I.B.P. Ravago Pensioenfonds	165 833[3]	0.05%	–
Basil Finance SA	1 260 000[3]	0.35%	Kingston Trust	Tradisud NV	157 774[4]	0.04%	–
De Lelie GCV	1 200 000[3]	0.34%	Individual(s)	SAK Hermes Controle en Beheers-maatschappij	148 527[3]	0.04%	–
De Berk BVBA	1 138 208[3]	0.32%	Individual(s)	Lineago Trust	148 400[3]	0.04%	–
Rainyve SA	940 000[3]	0.26%	–	SAK Iberanfra	121 273[3]	0.03%	–
Stichting Amici Almae Matris	912 731[3]	0.26%	–	Cobeton NV	109 304[3]	0.03%	SAK Hermes Controle en Beheersmaat-schappij
Van Holsbeeck nv	770 837[3]	0.22%	Individual(s)	Inkao-Invest bvba	101 179[3]	0.03%	Robor NV
Cultura Fonds NV	700 000[3]	0.20%	Individual(s)	Meralpa NV	98 577[4]	0.03%	–
Ceco c.v.a.	568 849[3]	0.16%	Individual(s)	Edilu NV	70 000[4]	0.02%	–
Nascar Finance SA	560 000[3]	0.16%	–	Kreusch en Co NV	67 823[4]	0.02%	–
Partapar SA	559 818[3]	0.16%	Individual(s)	Wilig NV	42 472[4]	0.01%	–
Cordalia SA	425 250[3]	0.12%	Individual(s)	Mercurius Invest NV	40 230[3]	0.01%	–
Mapicius SA	425 250[3]	0.12%	Individual(s)	Bevek Vlam21	39 006[4]	0.01%	ABN Amro
C.G.S. NV	400 365[3]	0.11%	–	Filax Stichting	38 529[3]	0.01%	Individual(s)
Cecan Invest NV	394 737[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 C° CVA	27 785[4]	0.01%	–
VIM CVBA	361 562[3]	0.10%	Individual(s)	Asphalia NV	14 241[3]	0.00%	Individual(s)
Plastiche Holding Sarl	345 000[3]	0.10%	–	Kristo Van Holsbeeck bvba	6 950[3]	0.00%	Individual(s)
Sereno SA	333 408[3]	0.09%	Individual(s)	Schacol NV, in liquidation	5 437[4]	0.00%	–
Colver NV	322 099[4]	0.09%	–	Christeyns NV	3 271[3]	0.00%	–

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

Shareholding (quantity)	%[2]	Shareholding (quantity)	%[2]	Shareholding (quantity)	%[2]	Shareholding (quantity)[1]	%[2]
330 803[3]	0.09%	49 600[3]	0.01%	12 956[4]	0.00%	3 375[4]	0.00%
295 000[3]	0.08%	48 300[3]	0.01%	12 500[4]	0.00%	3 375[4]	0.00%
274 839[3]	0.08%	48 141[3]	0.01%	11 003[4]	0.00%	3 240[4]	0.00%
141 466[3]	0.04%	46 441[3]	0.01%	11 000[4]	0.00%	2 800[3]	0.00%
107 500[3]	0.03%	46 200[3]	0.01%	10 953[4]	0.00%	2 628[4]	0.00%
105 500[3]	0.03%	45 441[3]	0.01%	8 850[4]	0.00%	2 613[4]	0.00%
96 903[3]	0.03%	43 200[3]	0.01%	8 556[4]	0.00%	2 295[4]	0.00%
96 903[3]	0.03%	39 264[4]	0.01%	8 484[4]	0.00%	2 025[3]	0.00%
96 903[3]	0.03%	33 069[4]	0.01%	8 316[4]	0.00%	1 350[4]	0.00%
84 078[3]	0.02%	32 994[3]	0.01%	8 212[4]	0.00%	1 269[4]	0.00%
82 263[3]	0.02%	32 994[3]	0.01%	8 212[4]	0.00%	1 000[3]	0.00%
75 000[3]	0.02%	32 978[3]	0.01%	7 884[3]	0.00%	877[4]	0.00%
68 500[3]	0.02%	32 978[3]	0.01%	6 993[4]	0.00%	774[4]	0.00%
67 500[3]	0.02%	25 500[4]	0.01%	6 733[4]	0.00%	621[4]	0.00%
67 500[3]	0.02%	24 725[4]	0.01%	6 330[4]	0.00%	513[4]	0.00%
63 599[4]	0.02%	22 611[4]	0.01%	4 590[4]	0.00%	324[4]	0.00%
57 841[3]	0.02%	21 897[3]	0.01%	4 558[4]	0.00%	270[4]	0.00%
56 513[3]	0.02%	19 546[4]	0.01%	4 549[4]	0.00%	243[4]	0.00%
56 350[3]	0.02%	16 733[4]	0.00%	4 100[4]	0.00%	189[4]	0.00%
55 406[4]	0.02%	16 000[3]	0.00%	3 759[4]	0.00%	154[4]	0.00%
54 986[4]	0.02%	14 522[3]	0.00%	3 375[4]	0.00%		
52 499[3]	0.01%	13 905[4]	0.00%	3 375[4]	0.00%		
52 000[3]	0.01%	13 905[4]	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 2009: 357 752 822.

3 Situation as at 30 June 2009.

4 Situation as at 1 September 2009.

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.

'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 2009

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 2009, 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 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cashflow statement 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 € 324.231 million and the consolidated statement of income shows a loss for the year, share of the Group, of € 2.466 million.

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

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

Responsibility of the statutory auditor

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

In accordance with these standards, we have performed procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we have considered internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. We have evaluated the appropriateness of accounting policies used, the reasonableness of significant accounting estimates made by the Group and the presentation of the consolidated financial statements, taken as a whole. Finally, we have obtained from the board of directors and the Group's officials the explanations and information necessary for executing our audit procedures. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2009 give a true and fair view of the Group's financial position as at 31 December 2009 and of the results of its operations and its cashflows in accordance with IFRS as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium.

Additional comments

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

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

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

Brussels, 25 March 2010

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

Jean-Pierre Romont
Partner

Pierre Vanderbeek
Partner

Ref: 10JPR0049'

Consolidated income statement

(in millions of EUR)	Note	2008	2009
Net interest income	3	4 992	6 065
Interest income	3	17 353	12 049
Interest expense	3	-12 360	-5 983
Gross earned premiums, insurance	9	4 585	4 856
Non-life	11	2 052	1 925
Life	10	2 533	2 931
Gross technical charges, insurance	9	-3 883	-4 436
Non-life	9	-1 205	-1 244
Life	9	-2 678	-3 192
Ceded reinsurance result	9	-72	-64
Dividend income	4	259	145
Net (un)realised gains from financial instruments at fair value through profit or loss	5	-3 481	-3 450
Net realised gains from available-for-sale assets	6	95	273
Net fee and commission income	7	1 714	1 492
Fee and commission income	7	2 848	2 517
Fee and commission expense	7	-1 134	-1 025
Other net income	8	618	428
TOTAL INCOME		**4 827**	**5 310**
Operating expenses	12	-5 600	-5 292
Staff expenses	12	-3 139	-2 912
General administrative expenses	12	-1 984	-1 937
Depreciation and amortisation of fixed assets	12	-392	-402
Provisions for risks and charges	12	-84	-42
Impairment	14	-2 234	-2 777
on loans and receivables	14	-822	-1 903
on available-for-sale assets	14	-1 333	-350
on goodwill	14	-25	-509
other	14	-54	-14
Share in results of associated companies	15	-1	-22
PROFIT BEFORE TAX		**-3 007**	**-2 781**
Income tax expense	16	629	234
Net post-tax income from discontinued operations		0	0
PROFIT AFTER TAX		**-2 379**	**-2 547**
attributable to minority interests		105	-82
attributable to equity holders of the parent		**-2 484**	**-2 466**
Earnings per share (in EUR)			
Basic	17	-7.31	-7.26
Diluted	17	-7.28	-7.26

- The Board of Directors will propose that no dividend be paid out for the 2009 financial year.
- For the calculation of basic earnings per share and diluted earnings per share, see Note 17.
- At the end of 2009, the group unveiled an updated strategic plan for the years ahead. The plan formed the basis on which the European Commission decided whether KBC would be able to repurchase the securities sold to government within a reasonable timeframe. This is the standard procedure followed by all European financial institutions taking part in the economic stimulus plans implemented by EU Member States. The plan received European Commission approval at the end of November. For more information, see the 'Our strategy and management' section (which has not been audited by the statutory auditor).

Consolidated statement of comprehensive income

(in millions of EUR)	2008	2009
PROFIT AFTER TAX	**-2 379**	**-2 547**
attributable to minority interests	105	-82
attributable to equity holders of the parent	-2 484	-2 466
OTHER COMPREHENSIVE INCOME	**-2 613**	**1 410**
Net change in revaluation reserve for shares	-1 265	450
Fair value adjustments before tax	-1 569	300
Deferred tax on fair value changes	57	-17
Transfer from reserve to net profit	247	167
Impairment	622	152
Net gains/losses on disposal	-367	17
Deferred taxes on income	-8	-2
Net change in revaluation reserve for bonds	-676	1 138
Fair value adjustments before tax	-1 046	1 337
Deferred tax on fair value changes	377	-478
Transfer from reserve to net profit	-7	279
Impairment	6	33
Net gains/losses on disposal	-10	109
Accrual revaluation reserve for available-for-sale financial assets following reclassification to 'loans and advances'	0	209
Deferred taxes on income	-2	-72
Net change in revaluation reserve for other assets	1	0
Fair value adjustments before tax	0	0
Deferred tax on fair value changes	1	0
Transfer from reserve to net profit	0	0
Impairment	0	0
Net gains/losses on disposal	0	0
Deferred taxes on income	0	0
Net change in hedging reserve (cashflow hedges)	-420	-26
Fair value adjustments before tax	-609	-59
Deferred tax on fair value changes	197	11
Transfer from reserve to net profit	-8	21
Gross amount	-10	27
Deferred taxes on income	2	-5
Net change in translation differences	-253	-155
Gross amount	-274	-167
Deferred taxes on income	21	12
Other movements	0	3
TOTAL COMPREHENSIVE INCOME	**-4 992**	**-1 137**
attributable to minority interests	89	-84
attributable to equity holders of the parent	-5 081	-1 053

Consolidated balance sheet

ASSETS

(in millions of EUR)	Note	31-12-2008	31-12-2009
Cash and cash balances with central banks		4 454	7 173
Financial assets	18–25	337 203	304 057
Held for trading	18–25	73 557	40 563
Designated at fair value through profit or loss	18–25	28 994	30 520
Available for sale	18–25	46 371	56 120
Loans and receivables	18–25	177 029	164 598
Held to maturity	18–25	10 973	12 045
Hedging derivatives	18–25	279	213
Reinsurers' share in technical provisions, insurance	31	280	284
Fair value adjustments of the hedged items in portfolio hedge of interest rate risk	–	169	259
Tax assets	27	2 453	2 214
Current tax assets	27	363	367
Deferred tax assets	27	2 090	1 847
Non-current assets held for sale and disposal groups	–	688	70
Investments in associated companies	28	27	608
Investment property	29	689	762
Property and equipment	29	2 964	2 890
Goodwill and other intangible assets	30	3 866	3 316
Other assets	26	2 525	2 597
TOTAL ASSETS		**355 317**	**324 231**

LIABILITIES AND EQUITY

(in millions of EUR)	Note	31-12-2008	31-12-2009
Financial liabilities	18, 19, 21, 25	313 931	279 450
Held for trading	18, 19, 21, 25	44 966	29 891
Designated at fair value through profit or loss	18, 19, 21, 25	42 228	31 309
Measured at amortised cost	18, 19, 21, 25	225 821	217 163
Hedging derivatives	18, 19, 21, 25	916	1 087
Gross technical provisions, insurance	31	19 523	22 012
Fair value adjustments of the hedged items in portfolio hedge of interest rate risk	–	-4	0
Tax liabilities	27	503	519
Current tax liabilities	27	384	379
Deferred tax liabilities	27	119	140
Liabilities associated with disposal groups	–	59	0
Provisions for risks and charges	32	619	651
Other liabilities	33, 34	5 309	4 422
TOTAL LIABILITIES		**339 941**	**307 054**
Total equity	**35**	**15 376**	**17 177**
Parent shareholders' equity	35	10 710	9 662
Non-voting core-capital securities	35	3 500	7 000
Minority interests	35	1 165	515
TOTAL LIABILITIES AND EQUITY		**355 317**	**324 231**

- For changes in the presentation of the balance sheet, see Note 1 a.
- At year-end 2008, 'Non-current assets held for sale and disposal groups' related primarily to Nova Ljubljanska banka (NLB), an associated company in Slovenia. In 2009, this participating interest was transferred back to 'Investments in associated companies', owing to the uncertainty surrounding the sale of this shareholding in the short term.
- In the third quarter of 2009, KBC Bank initiated a programme to buy back a number of outstanding tier-1 securities at 70% of their nominal value. KBC used its available cash to pay for this transaction. The programme – which was closed on 13 October 2009 – had the following impact on the accounts:
  - Balance sheet:
    - 'Minority interests' were reduced by 0.65 billion euros (due to the reduction in the hybrid debt issued by KBC Bank Funding Trust II, III and IV).
    - 'Financial liabilities designated at fair value through profit or loss' (recognised under 'Non-convertible subordinated liabilities') were reduced by 0.55 billion euros (due to the reduction in the sterling-denominated hybrid debt issued by KBC Bank).
    - 'Parent shareholders' equity' was bolstered, owing to the inclusion of the after-tax gain of approximately 0.12 billion euros.
  - Income statement:
    - The after-tax gain (0.12 billion euros) on the repurchase of the hybrid securities issued by KBC Bank Funding Trust was deducted from 'Profit after tax, attributable to minority interests' and included under 'Profit after tax, attributable to equity holders of the parent'.
    - The repurchase of the sterling-denominated hybrid securities did not have any additional impact on profit, as the securities in question had already been measured at fair value through profit or loss.
  - Solvency:
    - The core tier-1 ratio for the banking business and for the entire group was boosted by approximately 0.19%. This reflects the positive impact on 'Parent shareholders' equity' of 0.12 billion euros and the 0.14-billion-euro reduction in the prudential filter for calculating tier-1 capital, related to 'Valuation differences in financial liabilities at fair value – own credit risk (sterling-denominated hybrid securities)'.

Consolidated statement of changes in equity

(in millions of EUR)	Issued and paid up share capital	Share premium	Subordinated mandatorily convertible bonds	Treasury shares	Revaluation reserve (AFS assets)	Hedging reserve (cashflow hedges)	Reserves	Translation differences	Parent shareholders' equity	Non-voting core-capital securities	Minority interests	Total equity
2008												
Balance at the beginning of the period	1 235	4 161	181	-1 285	810	73	12 125	47	17 348	0	1 139	18 487
Net profit for the period	0	0	0	0	0	0	-2 484	0	- 2 484	0	105	-2 379
Other comprehensive income	0	0	0	0	-1 941	-425	1	-231	-2 597	0	-16	-2 613
Subtotal, comprehensive income	0	0	0	0	-1 941	-425	-2 483	-231	-5 081	0	89	-4 992
Dividends	0	0	0	0	0	0	-1 283	0	-1 283	0	0	-1 283
Capital increase	9	174	-181	0	0	0	0	0	1	3 500	0	3 501
Purchases of treasury shares	0	0	0	-254	0	0	0	0	-254	0	0	-254
Sales of treasury shares	0	0	0	8	0	0	0	0	8	0	0	8
Results on (derivatives on) treasury shares	0	0	0	-31	0	0	0	0	-31	0	0	-31
Change in minority interests	0	0	0	0	0	0	0	0	0	0	-63	-63
Total change	9	174	-181	-277	-1 941	-425	-3 766	-231	- 6 638	3 500	26	-3 112
Balance at the end of the period	1 244	4 335	0	-1 561	-1 131	-352	8 359	-184	10 710	3 500	1 165	15 376
of which revaluation reserve for shares	–	–	–	–	-63	–	–	–	–	–	–	–
of which revaluation reserve for bonds	–	–	–	–	-1 068	–	–	–	–	–	–	–
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	–	–	–	–	-11	0	–	-4	-15	–	0	-15
2009												
Balance at the beginning of the period	1 244	4 335	0	-1 561	-1 131	-352	8 359	-184	10 710	3 500	1 165	15 376
Net profit for the period	0	0	0	0	0	0	-2 466	0	-2 466	0	-82	-2 547
Other comprehensive income	0	0	0	0	1 588	-22	3	-156	1 413	0	-3	1 410
Subtotal, comprehensive income	0	0	0	0	1 588	-22	-2 463	-156	-1 053	0	-84	-1 137
Dividends	0	0	0	0	0	0	0	0	0	0	0	0
Capital increase	1	5	0	0	0	0	-2	0	4	3 500	0	3 504
Purchases of treasury shares	0	0	0	0	0	0	0	0	0	0	0	0
Sales of treasury shares	0	0	0	0	0	0	0	0	0	0	0	0
Results on (derivatives on) treasury shares	0	0	0	2	0	0	0	0	2	0	0	2
Change in minority interests	0	0	0	0	0	0	0	0	0	0	-566	-566
Total change	1	5	0	2	1 588	-22	-2 465	-156	-1 048	3 500	-650	1 801
Balance at the end of the period	1 245	4 339	0	-1 560	457	-374	5 894	-339	9 662	7 000	515	17 177
of which revaluation reserve for shares	–	–	–	–	387	–	–	–	–	–	–	–
of which revaluation reserve for bonds	–	–	–	–	70	–	–	–	–	–	–	–
of which revaluation reserve for other assets than bonds and shares	–	–	–	–	0	–	–	–	–	–	–	–
of which relating to non-current assets held for sale and disposal groups	–	–	–	–	0	0	–	0	0	–	0	0

- For information on the number of shares and the capital-strengthening transactions concluded with the Belgian Federal Government and the Flemish Region, see Note 35.
- For the shareholder structure at balance sheet date, see Note 4 in the 'Company annual accounts' section.

Consolidated cashflow statement

(in millions of EUR)	2008	2009
Operating activities		
Profit before tax	-3 007	-2 781
Adjustments for:		
Depreciation, impairment and amortisation of property and equipment, intangible fixed assets, investment property and securities	1 804	1 275
Profit/Loss on the disposal of investments	-129	-21
Change in impairment on loans and advances	822	1 903
Change in gross technical provisions, insurance	771	3 199
Change in the reinsurers' share in the technical provisions	-32	-38
Change in other provisions	84	42
Unrealised foreign currency gains and losses and valuation differences	-3 332	-3 940
Income from associated companies	1	22
Cashflows from operating profit before tax and before changes in operating assets and liabilities	-3 018	-339
Changes in operating assets[1] (excluding cash and cash equivalents)	-12 759	22 661
Changes in operating liabilities[2] (excluding cash and cash equivalents)	5 129	-25 347
Income taxes paid	-339	-157
Net cash from or used in operating activities	-10 987	-3 181
Investing activities		
Purchase of held-to-maturity securities	-1 228	-2 763
Proceeds from the repayment of held-to-maturity securities at maturity	2 256	1 707
Acquisition of a subsidiary or a business unit, net of cash acquired (including increases in percentage interest held)	-300	-18
Proceeds from the disposal of a subsidiary or business unit, net of cash disposed of (including decreases in percentage interest held)	-2	0
Purchase of shares in associated companies	0	0
Proceeds from the disposal of shares in associated companies	26	0
Dividends received from associated companies	4	5
Purchase of investment property	-47	-31
Proceeds from the sale of investment property	16	17
Purchase of intangible fixed assets (excluding goodwill)	-226	-168
Proceeds from the sale of intangible fixed assets (excluding goodwill)	35	25
Purchase of property and equipment	-956	-549
Proceeds from the sale of property and equipment	393	215
Net cash from or used in investing activities	-30	-1 561
Financing activities		
Purchase or sale of treasury shares	-277	2
Issue or repayment of promissory notes and other debt securities	-4 481	-1 480
Proceeds from or repayment of subordinated liabilities	2 155	-315
Principal payments under finance lease obligations	0	0
Proceeds from the issuance of share capital	1	4
Proceeds from the issuance of non-voting core-capital securities	3 500	3 500
Proceeds from the issuance of preference shares	0	-655
Dividends paid	-1 290	0
Net cash from or used in financing activities	-390	1 056
Change in cash and cash equivalents		
Net increase or decrease in cash and cash equivalents	-11 407	-3 686
Cash and cash equivalents at the beginning of the period	20 738	9 461
Effects of exchange rate changes on opening cash and cash equivalents	130	-287
Cash and cash equivalents at the end of the period	9 461	5 487
Additional information		
Interest paid	-12 360	-5 983
Interest received	17 353	12 049
Dividends received (including equity method)	274	150
Components of cash and cash equivalents		
Cash and cash balances with central banks	4 447	7 172
Loans and advances to banks repayable on demand and term loans to banks at not more than three months	20 898	10 205
Deposits from banks repayable on demand	-15 885	-11 890
Total	9 461	5 487
of which not available	0	0

1 Including current accounts with central banks, loans and receivables, available-for-sale assets, held-for-trading assets, financial assets designated at fair value through profit or loss, derivative hedging assets, non-current assets held for sale, and accrued interest income.

2 Including deposits from banks, debts represented by securities, financial liabilities held for trading, financial liabilities designated at fair value through profit or loss, derivative hedging liabilities, liabilities associated with disposal groups, and accrued interest expenses.

- KBC uses the indirect method to report on cashflows from operating activities.
- The main acquisitions and divestments of consolidated subsidiaries are commented on below. For a more detailed list, see Note 41. There were no major acquisitions and divestments in 2009. All (material) acquisitions and divestments of group companies in 2008 were paid for in cash.

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

(in millions of EUR)	2008 Istrobanka (Slovakia)	2008 Richelieu Finance (France)
Purchase or sale	Purchase	Purchase
Percentage of shares bought (+) or sold (-) in the relevant year	100.00%	100.00%
Total share percentage at the end of the relevant year	100.00%	100.00%
For business unit	Central & Eastern Europe and Russia	European Private Banking
Deal date (month and year)	07-2008	04-2008
Purchase price or sale price	350	127
Cashflow for acquiring or selling companies less cash and cash equivalents acquired or sold	-172	-129
Assets and liabilities bought or sold		
Cash and cash balances with central banks	145	0
Financial assets		
Held for trading	0	0
Designated at fair value through profit or loss	13	0
Available for sale	67	140
Loans and receivables	823	1
Held to maturity	117	0
Hedging derivatives	0	0
of which cash and cash equivalents	181	1
Financial liabilities		
Held for trading	0	0
Designated at fair value through profit or loss	0	0
Measured at amortised cost	924	3
Hedging derivatives	0	0
of which cash and cash equivalents	2	3
Gross technical provisions, insurance	0	0

Note 1 a: Statement of compliance

The consolidated annual accounts, including all the notes, were authorised for issue on 25 March 2010 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 2009 and have been applied in this report:
- IFRS 8 (Operating Segments). This standard replaces IAS 14 (Segment Reporting) and has an impact on segment reporting in Note 2. At KBC, the primary segments used to be broken down according to the nature of the activities and comprised Banking, Insurance, European Private Banking and Holding-company activities. This breakdown has now been replaced by a business unit format (see the group's management structure), i.e. the Belgium Business Unit, the CEER Business Unit, the Merchant Banking Business Unit, the European Private Banking Business Unit, and the Group Centre.
- Amendments to IAS 1: the revised version of IAS 1 changes a number of requirements regarding the presentation of financial statements and requires additional disclosure. Certain headings in the consolidated statement of changes in equity have been embedded in a separate statement of comprehensive income which is presented after the income statement.
- Amendment to IFRS 7 (Financial Instruments: Disclosures). These amendments require additional disclosure of the basis of fair value measurements and liquidity risk.

The following IFRS standards and IFRIC interpretations were issued but not yet effective for the KBC group at year-end 2009. KBC will apply these standards and interpretations when they become mandatory:
- The revised IFRS 3 (Business Combinations) and amendments to IAS 27 (Consolidated and Separate Financial Statements). These revisions and amendments are the result of a joint project between the IASB and FASB, aimed at achieving a higher degree of convergence between IFRS and US GAAP. The revised version of IFRS 3 will be applied prospectively and may have a considerable impact on the way in which business combinations and changes in shareholdings are recognised in the future. The revised version of IFRS 3 and the amendments to IAS 27 became effective for the KBC group on 1 January 2010.
- Amendment to IAS 39 (Financial Instruments: Recognition and Measurement) relating to eligible hedged items. These amendments became effective for the KBC group on 1 January 2010.
- Amendment to IFRS 5 (Non-Current Assets Held for Sale and Discontinued Operations). These amendments became effective for the KBC group on 1 January 2010.
- IFRIC 17 (Distribution of Non-Cash Assets to Owners).
- IFRIC 18 (Transfers of Assets from Customers).
- IFRIC 19 (Extinguishing Financial Liabilities with Equity Instruments).

In November 2009, the IASB issued IFRS 9 (Financial Instruments) on the classification and measurement of financial assets, as a replacement for the relevant requirements of the present IAS 39 (Financial Instruments: Recognition and Measurement). This new standard will become effective on 1 January 2013. However, the standard has still not been adopted for use in the European Union.

The following change was made in the presentation of the balance sheet in 2009 (adjustments have been made retroactively to the reference figures for 2008): whereas 'non-voting core-capital securities' were previously included under 'Parent shareholders' equity', they are now disclosed as a separate item under 'Total equity'. Consequently, the way in which the 'Consolidated statement of changes in equity' and Note 35 are presented has also changed.

The requisite information relating to the nature and amount of risk exposure (according to IFRS 4 and IFRS 7) and the information relating to capital (according to IAS 1) has been included in those parts of the 'Value and risk management' section that have been audited by the statutory auditor.

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 in associates held by venture capital organisations are classified as 'held for trading' (measured at fair value through 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.

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 assets initially recognised at fair value through profit or loss are measured in the same way as held-for-trading assets. KBC may use this fair value option when doing so results in more relevant information, because it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The fair value option may also be used for financial assets with embedded derivatives.

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

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

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

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

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

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

KBC applies the following general rules:

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

  Impairment losses are recognised for loans and advances for which there is evidence – either on an individual or portfolio basis – of impairment at balance sheet date. Whether or not evidence exists is determined on the basis of the probability of default (PD). The characteristics of the loan, such as the type of loan, the borrower's line of business, the geographical location of the borrower and other characteristics key to a borrower's risk profile, are used to determine the PD. Loans with the same PD therefore have a similar credit risk profile.
  - Loans and advances with a PD of 12 (individual problem loans with the highest probability of default) are individually tested for impairment (and written down on an individual basis if necessary). The impairment amount is calculated as the difference between the loans' carrying amount and their present value.

- Loans and advances with a PD of 10 or 11 are also considered to be individual problem loans. Significant loans (of more than 1.25 million euros) are tested individually. The impairment amount is calculated as the difference between the loans' carrying amount and their present value. Non-significant loans (of less than 1.25 million euros) are tested on a statistical basis. The impairment amount calculated according to the statistical method is based on three components: the amount outstanding of loans, a reclassification percentage reflecting the movement of loans between the various PD classes, and a loss percentage reflecting the average loss for each product.
- Loans and advances with a PD lower than 10 are considered normal loans. Incurred-but-not-reported (IBNR) losses are recognised for loans with a PD of 1 through 9. IBNR losses are based on the IRB Advanced models (PD x LGD x EAD), with all parameters being adjusted to reflect the point-in-time nature of these losses. The main adjustment relates to the PD, i.e. the time horizon of the PD is shortened on the basis of the emergence period. This is the period between the time an event occurs that will lead to an impairment and the time KBC identifies this event, and is dependent on the review frequency, the location and degree of involvement with the counterparties.

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

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

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

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

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

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

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

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

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

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

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

- *Hedge accounting*. KBC applies hedge accounting when all the requisite conditions (according to the hedge accounting requirements that have not been carved out in the IAS 39 version as approved by the EU) are fulfilled. The relevant conditions are as follows: 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.

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

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

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

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

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

d Goodwill and other intangible assets

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

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

e Property and equipment (including investment property)

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

The accounting policy outlined for property and equipment also applies to investment property.

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

f Technical provisions

Provisions for unearned premiums and unexpired risk

For primary business, the provision for unearned premiums is in principle calculated on a daily basis, based on the gross premiums, net of commission.

For inward treaties, i.e. reinsurance business received, the provision for unearned premiums is

calculated for each contract separately on the basis of the information communicated by the ceding undertaking and, where necessary, supplemented on the basis of the company's own experience regarding the evolution of the risk over time.
The provision for unearned premiums for the life insurance business is recorded under the provision for the life insurance group of activities.

Life insurance provision

Except for unit-linked life insurance products, this provision is calculated according to current actuarial principles, with account being taken of the provision for unearned premiums, the ageing reserve, provision for annuities payable but not yet due, etc.
In principle, this provision is calculated separately for every insurance contract.
For accepted business, a provision is constituted for each individual contract, based on the information supplied by the ceding undertaking and supplemented, where necessary, by the company's own past experience.
Besides the rules set out below, an additional provision is set aside as required by law.

The following rules apply:

- *Valuation according to the prospective method.* This method is applied for the provisions for conventional non-unit-linked life insurance, modern non-unit-linked universal life insurance policies offering a guaranteed rate of interest on future premium payments and for the provision for extra-legal benefits for employees in respect of current annuities. Calculations according to prospective actuarial formulas are based on the technical assumptions made in the contracts.
- *Valuation according to the retrospective method.* This method is applied for the provision for modern non-unit-linked universal life insurance policies and for the provision for extra-legal benefits for employees in respect of new supplementary premium payments. Calculations according to retrospective actuarial formulas are based on the technical assumptions made in the contracts, though no account is taken of future payments.

Provision for claims outstanding

For claims reported, the provision is in principle measured separately in each case, taking into account the known facts in the claims file, on the basis of the amounts still due to the injured parties or beneficiaries, plus external costs of settling claims. Where benefits have to be paid in the form of an annuity, the amounts to be set aside for that purpose are calculated using recognised actuarial methods.
For 'claims incurred but not reported' at balance sheet date, an IBNR (Incurred But Not Reported) provision is set aside. In the primary business, this IBNR provision is based on a lump sum per class of insurance depending upon past experience and the trend in the insured portfolio. For extraordinary events, additional amounts are added to the IBNR provision.
For 'claims incurred but not enough reserved' at balance sheet date, an IBNER (Incurred But Not Enough Reserved) provision is set aside if the adequacy procedures demonstrate that the other claims provisions are insufficient to meet future liabilities. This provision contains amounts for claims which have already been reported but which, for technical reasons, could not yet be recorded in the claims file. Where appropriate, a provision is set aside on a prudent basis for possible liabilities arising for claims files already closed.
A provision for the internal cost of settling claims is calculated at a percentage that is based on past experience.
Additional provisions are also constituted as required by law, such as supplementary workmen's compensation provisions.

Provision for profit sharing and rebates

This heading includes the provision for the profit share that has been allocated but not yet awarded at the end of the financial year for both the group of life insurance activities and the group of non-life insurance activities.

Liability adequacy test

A liability adequacy test is performed to evaluate current liabilities, detect possible deficiencies and recognise them in profit or loss.

Ceded reinsurance and retrocession

The effect of reinsurance business ceded and retrocession is entered as an asset and calculated for each contract separately, supplemented where necessary by the company's own past experience regarding the evolution of the risk over time.

g Insurance contracts measured in accordance with IFRS 4 – phase 1

Deposit accounting rules apply to financial instruments that do not include a discretionary participation feature (DPF), and to the deposit component of unit-linked insurance contracts. This means that the deposit component and insurance component are measured separately. In deposit accounting, the portion of the premiums relating to the deposit component is not taken to the income statement, nor is the resulting increase in the carrying amount of the liability. Management fees and commissions are recognised immediately in the income statement. When the value of unit-linked investments fluctuates subsequently, both the change on the asset side and the resulting change on the liabilities side are taken to the income statement immediately. Therefore, after initial recognition, the deposit component is measured at fair value through profit or loss. This fair value is determined by multiplying the number of units by the value of the unit, which is based upon the fair value of the underlying financial instruments. Settlements relating to the deposit component are not recorded in the income statement, but will result in a decrease in the carrying amount of the liability.
Financial instruments with a discretionary participation feature and the insurance component of unit-linked contracts are treated as non-unit-linked insurance contracts (see f Technical provisions), and are not unbundled into a deposit component and an insurance component. On the balance sheet date, the liabilities resulting from these financial instruments or insurance contracts are tested to see if they are adequate, according to the liability adequacy test. If the carrying amount of these liabilities is lower than their estimated future discounted cashflows, the deficiency will be recognised in the income statement against an increase in the liability.

h Pension liabilities

Pension liabilities are included under the 'Other liabilities' item and relate to obligations for retirement and survivor's pensions, early retirement benefits and similar pensions or annuities.
Defined benefit plans are those under which KBC has a legal or constructive obligation to pay extra contributions to the pension fund if this last has insufficient assets to settle all the obligations to employees resulting from employee service in current and prior periods.
The pension obligations under these plans for employees are calculated according to IAS 19, based on the projected-unit-credit method, with each period of service granting additional entitlement to pension benefits.
Actuarial gains and losses are recognised according to the 'corridor approach'. The portion of actuarial gains and losses exceeding 10% of the greater of the fair value of plan assets or the gross pension obligation will be recognised as income or expense, spread over a period of five years.

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 and Flemish governments are considered an equity instrument, with the coupon being accounted for directly in equity. Since payment of the coupon on the YES is conditional upon payment of a dividend on ordinary shares, coupons are recognised at the same time as dividends on ordinary shares (i.e. the coupon is not accrued in equity).
- The acquisition cost of KBC Group NV treasury shares is deducted from equity. On the sale, issuance or cancellation of treasury shares, gains or losses are reported directly in equity.
- Transactions in derivative financial instruments on KBC treasury shares are likewise reported in equity, save in the event of net cash settlement.
- Written stock options on treasury shares subject to IFRS 2 are measured at fair value on the grant date. This fair value is recognised in the income statement as a staff expense over the period of service, against a separate entry under equity. The 2000–2002 stock option plans are not covered by the scope of IFRS 2.
- The revaluation reserve for available-for-sale assets is included in equity until disposal or impairment of the assets. At that time, the cumulative gain or loss is transferred to profit or loss for the period.

Put options on minority interests (and, where applicable, combinations of put and call options resulting in forward contracts) are recognised as financial liabilities at the present value of the exercise prices. The corresponding minority interests are deducted from equity. The difference is recognised either as an asset (goodwill) or in the income statement (negative goodwill).

l Exchange rates used

	Exchange rate at 31-12-2009		Exchange rate average in 2009	
	1 EUR = … currency	Change from 31-12-2008 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)	1 EUR = … currency	Change relative to average in 2008 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)
CZK	26.47	+2%	26.51	-6%
GBP	0.888	+7%	0.893	-11%
HUF	270.4	-1%	281.3	-11%
PLN	4.105	+1%	4.349	-19%
USD	1.441	-3%	1.394	+6%

m Changes made to accounting policies in 2009

No material changes were made to the accounting policies compared with 2008.

Note 2 a: Segment reporting based on the management structure

The KBC group's management structure has been built around the following segments or business units:

- Belgium (retail bancassurance, asset management, private banking);
- Central & Eastern Europe and Russia – CEER – (retail bancassurance, asset management, private banking, corporate banking);
- Merchant Banking (corporate banking in Belgium and in a selection of countries in Europe, North America and Southeast Asia (primarily midcap SMEs), investment banking);
- European Private Banking (onshore private banking (the Benelux and neighbouring countries), offshore private banking (chiefly Luxembourg)).

The basic principle underlying this reporting format is that a group company is assigned in its entirety to one specific segment (see Note 40). The only exception made here is for:

- Charges that cannot clearly be allocated to a specific segment. Such charges are grouped together and presented under 'Group Centre'.
- KBC Bank NV, which is assigned to various segments and to the Group Centre using a set of allocation rules.

The funding cost of goodwill related to participating interests held by KBC Bank and KBC Insurance is allocated to the segment to which the relevant participating interest belongs. The funding cost in respect of leveraging at KBC Group NV level is not allocated to a segment.

The Group Centre comprises KBC Group NV, KBC Global Services, Fin-Force and certain allocated charges. The results of KBC Bank (Belgium) and KBC Insurance that are allocated to the Group Centre are only those results that cannot reliably be allocated to the segments.

Transactions are conducted among the different segments at arm's length.

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). However, a number of changes have been made to this methodology in order to provide a better insight into the underlying business activities:

- To arrive at the figure for underlying group profit, exceptional items that do not regularly occur during the normal course of business are eliminated. These items also include exceptional losses triggered by the financial crisis, such as those incurred on investments in structured credit, on amounts receivable from troubled banks (Lehman Brothers, Washington Mutual, the Icelandic banks), on equity investments and on trading positions that were unwound due to the discontinuation of activities at KBC Financial Products. 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 (for the impact on net profit, see table below).
- In the IFRS figures, many of the ALM hedging derivatives (i.e. those that do not qualify for fair value hedge accounting for a portfolio hedge of interest rate risk) are regarded as trading instruments and, consequently, interest relating to these instruments appears under 'Net (un)realised gains from financial instruments at fair value', whereas interest relating to the underlying assets appears under 'Net interest income'. In the underlying figures, interest on these derivatives has therefore been moved to 'Net interest income' (the heading under which interest income generated by the underlying assets is recognised), without this having any impact on net profit.
- Moreover, the fair value changes (due to marking-to-market) of the above ALM hedging instruments appear under 'Net (un)realised gains from financial instruments at fair value', whereas most underlying assets are not recognised at fair value (i.e. not marked-to-market). Hence, the fair value changes of these instruments are excluded from the underlying figures (for the impact on net profit, see table below).
- In the IFRS figures, income from market activities is divided up among different components. While trading profit is recognised under 'Net (un)realised gains from financial instruments at fair value', the funding costs and the fees and commission paid to realise this trading profit are recognised under 'Net interest income' and 'Net fee and commission income', respectively. Moreover, some 'Dividend income', 'Net realised gains from available-for-sale assets' and 'Other net income' also relates to market activities. In the underlying figures, all market-activity-related components have been grouped together under 'Net (un)realised gains from financial instruments at fair value', without this having any impact on net profit.
- Lastly, the IFRS figures take into account the effect of changes in own credit spreads when measuring the fair value of financial liabilities designated at fair value through profit or loss. Since this is a non-operating item, its impact is excluded from the underlying figures (for the impact on net profit, see table below).

Reconciliation of profit according to IFRS and underlying profit

(in millions of EUR)	**Business Unit**	**Main heading(s) in the income statement**	**2008**	**2009**
Profit after tax, attributable to equity holders of the parent (IFRS)			-2 484	- 2 466
Less				
Amounts before tax and minority interests				
Fair value changes in ALM hedging instruments	Various	Net (un)realised gains from financial instruments at fair value	-454	79
Changes in fair value of own debt instruments	Group Centre	Net (un)realised gains from financial instruments at fair value	371	44
Losses relating to CDOs/monoline insurers	Various	Net (un)realised gains from financial instruments at fair value	-4 004	-1 849
Fee for guarantee provided by government to cover CDO-related exposures	Merchant Banking	Net (un)realised gains from financial instruments at fair value	–	-1 409
Valuation losses on equity portfolio	Various	Impairment, Net realised gains from available-for-sale assets	-1 101	-367
Impairment charges relating to US and Icelandic banks	Various	Impairment	-439	65
Loss from unwinding derivative positions at KBC Financial Products	Merchant Banking	Net (un)realised gains from financial instruments at fair value	-245	-1 078
Impairment charges on the value of goodwill outstanding related to subsidiaries	Various	Impairment on goodwill	-10	-493
Repurchase of outstanding hybrid tier-1 securities	Various	*	–	128
Other	Various	–	26	141
Taxes and minority interests relating to the above items	–	Income tax expense and Profit after tax, attributable to minority interests	1 104	549
Underlying profit after tax, attributable to equity holders of the parent			2 270	1 724

* The after-tax gain realised on the repurchase of the hybrid securities issued by KBC Bank Funding Trust was deducted from 'Profit after tax, attributable to minority interests' and included under 'Profit after tax, attributable to equity holders of the parent'.

(in millions of EUR)	Belgium Business Unit	CEER Business Unit	Merchant Banking Business Unit	European Private Banking Business Unit	Group Centre	Inter-segment eliminations	KBC group
INCOME STATEMENT, 2008							
Net interest income	1 983	1 782	1 002	248	-110	5	4 910
Gross earned premiums, insurance	3 053	1 285	373	29	0	-155	4 585
Gross technical charges, insurance	-2 918	-786	-263	-43	0	128	-3 883
Ceded reinsurance result	-21	-38	-24	0	0	11	-72
Dividend income	148	13	19	9	6	0	196
Net (un)realised gains from financial instruments at fair value through profit or loss	47	315	582	-11	0	0	933
Net realised gains from available-for-sale assets	355	-8	-9	5	0	0	343
Net fee and commission income	724	301	301	422	3	4	1 755
Other net income	177	136	165	13	816	-903	404
TOTAL INCOME	**3 548**	**3 002**	**2 145**	**674**	**715**	**-911**	**9 172**
Operating expenses[a]	-2 029	-1 878	-1 191	-487	-917	911	-5 591
Impairment	-46	-322	-330	-43	-2	0	-743
on loans and receivables	-46	-313	-279	-2	0	0	-641
on available-for-sale assets	0	0	-6	-39	1	0	-44
Share in results of associated companies	0	23	-12	2	-1	0	13
PROFIT BEFORE TAX	**1 473**	**824**	**613**	**147**	**-206**	**0**	**2 850**
Income tax expense	-326	-115	-109	14	66	0	-470
Net post-tax income from discontinued operations	0	0	0	0	0	0	0
PROFIT AFTER TAX	**1 147**	**710**	**503**	**161**	**-140**	**0**	**2 381**
attributable to minority interests	2	23	86	0	0	0	111
attributable to equity holders of the parent	**1 145**	**687**	**418**	**161**	**-140**	**0**	**2 270**
a Of which non-cash expenses	-75	-160	-127	-22	-94	0	-477
Depreciation and amortisation of fixed assets	-61	-163	-55	-23	-90	0	-392
Other	-14	3	-72	2	-4	0	-84
Acquisitions of non-current assets*	501	537	361	111	191	0	1 700
INCOME STATEMENT, 2009							
Net interest income	2 406	1 839	1 060	234	-42	0	5 497
Gross earned premiums, insurance	3 526	1 094	268	8	0	-41	4 856
Gross technical charges, insurance	-3 471	-757	-177	-24	0	12	-4 416
Ceded reinsurance result	-25	-25	-28	0	0	15	-64
Dividend income	65	9	16	7	0	0	96
Net (un)realised gains from financial instruments at fair value through profit or loss	80	77	731	51	-1	0	938
Net realised gains from available-for-sale assets	141	18	64	53	17	0	293
Net fee and commission income	623	308	271	367	0	0	1 569
Other net income	142	109	137	1	1	-48	342
TOTAL INCOME	**3 487**	**2 671**	**2 342**	**697**	**-23**	**-62**	**9 111**
Operating expenses[a]	-1 813	-1 611	-920	-514	-92	62	-4 888
Impairment	-99	-866	-933	-15	0	0	-1 913
on loans and receivables	-97	-854	-929	-2	0	0	-1 883
on available-for-sale assets	-2	0	0	-13	0	0	-16
Share in results of associated companies	0	-25	0	3	0	0	-22
PROFIT BEFORE TAX	**1 575**	**170**	**489**	**170**	**-115**	**0**	**2 289**
Income tax expense	-468	-44	-8	-30	44	0	-507
Net post-tax income from discontinued operations	0	0	0	0	0	0	0
PROFIT AFTER TAX	**1 106**	**125**	**481**	**140**	**-71**	**0**	**1 782**
attributable to minority interests	3	-15	70	0	0	0	58
attributable to equity holders of the parent	**1 103**	**140**	**411**	**140**	**-71**	**0**	**1 724**
a Of which non-cash expenses	-129	-159	-4	-33	-103	0	-429
Depreciation and amortisation of fixed assets	-67	-157	-43	-26	-105	0	-398
Other	-62	-2	39	-7	2	0	-31
Acquisitions of non-current assets*	359	210	88	32	138	0	827

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

The table below presents some of the main on-balance-sheet products by segment.

(in millions of EUR)	Belgium Business Unit	CEER Business Unit	Merchant Banking Business Unit	European Private Banking Business Unit	Group Centre	KBC group
BALANCE SHEET, 31-12-2008						
Total loans to customers	55 390	38 334	62 033	1 535	4	157 296
of which mortgage loans	28 447	11 879	14 958	287	0	55 571
of which reverse repos	0	1 662	2 174	1	0	3 838
Deposits from customers	77 521	40 085	67 639	10 211	1 276	196 733
of which repos	0	1 665	6 190	0	0	7 855
BALANCE SHEET, 31-12-2009						
Total loans to customers	57 021	36 001	58 826	1 283	0	153 230
of which mortgage loans	30 934	12 863	15 005	378	0	59 180
of which reverse repos	0	3 096	3 199	0	0	6 295
Deposits from customers	72 920	43 404	67 914	8 090	1 136	193 464
of which repos	320	3 138	9 741	0	0	13 199

Note 2 b: Segment reporting based on geographic area

This segment reporting format is based on geographic areas, reflecting KBC's focus on its two home markets – Belgium and Central and Eastern Europe (including Russia) – and its selective presence in other countries ('Rest of the world', i.e. mainly the US, Southeast Asia and Western Europe excluding Belgium).

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

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

More details on the geographic breakdown of balance sheet figures can be found in the various notes to the balance sheet. The breakdown in this note is based on the geographic location of the counterparty.

(in millions of EUR)	Belgium	Central & Eastern Europe and Russia	Rest of the world	Inter-segment eliminations	KBC group
2008					
Total income from external customers	3 761	3 190	2 220	0	9 172
Total assets (period-end)	211 646	56 465	87 206	–	355 317
Total liabilities (period-end)	194 256	51 211	94 474	–	339 941
Acquisitions of non-current assets (period-end)	1 077	283	341	–	1 700
2009					
Total income from external customers	4 060	2 886	2 166	0	9 111
Total assets (period-end)	208 551	58 411	57 268	–	324 231
Total liabilities (period-end)	187 689	52 289	67 077	–	307 054
Acquisitions of non-current assets* (period-end)	495	236	96	–	827

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

Note 3: Net interest income

(in millions of EUR)	2008	2009
Total	**4 992**	**6 065**
Interest income	**17 353**	**12 049**
Available-for-sale assets	2 038	2 096
Loans and receivables	10 054	7 497
Held-to-maturity investments	485	491
Other assets not at fair value	279	48
Subtotal, interest income from financial assets not measured at fair value through profit or loss	*12 856*	*10 132*
of which impaired financial assets	*9*	*50*
Financial assets held for trading	1 602	593
Hedging derivatives	989	532
Other financial assets at fair value through profit or loss	1 905	791
Interest expense	**-12 360**	**-5 983**
Financial liabilities measured at amortised cost	-9 017	-4 463
Other liabilities not at fair value	-9	-17
Investment contracts at amortised cost	0	0
Subtotal, interest expense for financial assets not measured at fair value through profit or loss	*-9 026*	*-4 480*
Financial liabilities held for trading	-332	-90
Hedging derivatives	-878	-891
Other financial liabilities at fair value through profit or loss	-2 124	-523

Note 4: Dividend income

(in millions of EUR)	2008	2009
Total	**259**	**145**
Shares held for trading	64	43
Shares initially recognised at fair value through profit or loss	21	1
Available-for-sale shares	173	101

Note 5: Net (un)realised gains from financial instruments at fair value through profit or loss

(in millions of EUR)	2008	2009
Total	**-3 481**	**-3 450**
Trading instruments (including interest and fair value changes in trading derivatives)	-4 925	-3 707
Other financial instruments initially recognised at fair value through profit or loss	979	34
Foreign exchange trading	462	228
Fair value adjustments in hedge accounting	3	-5
Micro hedge	-4	-5
Fair value hedges	-1	-4
Changes in the fair value of the hedged items	123	16
Changes in the fair value of the hedging derivatives, including discontinuation	-123	-20
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	7	0
Fair value hedge of interest rate risk	-1	2
Changes in the fair value of the hedged items	391	86
Changes in the fair value of the hedging derivatives, including discontinuation	-392	-85
Cashflow hedges of interest rate risk	7	-2
Changes in the fair value of the hedging derivatives, ineffective portion	7	-2

- With regard to the ALM derivatives (except for micro-hedging derivatives, which are used to only a limited extent in the group), the following applies:
  - For ALM derivatives classified under 'Portfolio hedge of interest rate risk', the interest concerned is recognised under 'Net interest income'. Changes in the fair value of these derivatives are recognised under 'Net (un)realised gains from financial instruments at fair value through profit or loss', but due to the fact that changes in the fair value of the hedged assets are also recognised under this heading – and the hedging is effective – the balance of this heading is zero.
  - For other ALM derivatives, the interest in question is recognised under 'Net (un)realised gains from financial instruments at fair value through profit or loss' (a positive 47 and a negative 308 million euros in 2008 and 2009, respectively). The fair value changes are also recognised under this heading, most (but not all) of which are offset by changes in the fair value of a bond portfolio that is classified as 'financial instruments initially recognised at fair value through profit or loss' (see accounting policies).
- The effectiveness of the hedge is determined according to the following methods:
  - For fair value micro hedging, the *dollar offset method* is used on a quarterly basis, which requires changes in the fair value of the hedged item to offset changes in the fair value of the hedging instrument within a range of 80%–125%, which is currently the case.
  - For cashflow micro hedges, the designated hedging instrument is compared with a *perfect hedge* of the hedged cashflows on a prospective (by BPV measurement) and retrospective basis (by comparing the fair value of the designated hedging instrument with the *perfect hedge*). The effectiveness of both tests must fall within a range of 80%–125%, which is currently the case.
  - For fair value hedges for a portfolio of interest rate risk, effectiveness is assessed on the basis of the rules set out in the European version of IAS 39 (carve-out). IFRS does not permit net positions to be reported as hedged items, but does allow hedging instruments to be designated as a hedge of a gross asset position (or a gross liabilities position, as the case may be). Specifically, care is taken to ensure that the volume of assets (or liabilities) in each maturity bucket is greater than the volume of hedging instruments allocated to the same bucket.
- Total exchange differences, excluding those recognised on financial instruments at fair value through profit or loss came to 392 million euros for 2008 and to 228 million euros for 2009. These are included in the 462 and 228 million euros shown in the table.
- 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, day 1 profit is reserved and is released in profit or loss during the life and until the maturity of the financial instrument. Movements in deferred day 1 profit can be summarised as follows:

(in millions of EUR)	**2008**	**2009**
Deferred day 1 profits, opening balance on 1 January	104	86
New deferred day 1 profits	70	0
Day 1 profits recognised in profit or loss during the period		
Amortisation of day 1 profits	-72	-49
Financial instruments no longer recognised	-20	-4
Exchange differences	4	-6
Deferred day 1 profits, closing balance on 31 December	86	28

- 'Net (un)realised gains from financial instruments at fair value through profit or loss' also includes the effect of value changes in CDOs held in portfolio. In 2009, this effect amounted – on balance – to a negative 2.9 billion euros (also incorporating the impact of the acquired government guarantee, including the relevant fees charged – see below – and the negative effect of increasing cover from 40% to 70% for the CDO-related counterparty exposure to MBIA, the US monoline insurer).
- On 14 May 2009, KBC Group NV signed a guarantee agreement with the Belgian State regarding a substantial part of its structured credit portfolio. The plan basically comprises a notional amount totalling 20 billion euros, with 5.5 billion euros relating to the notional value of the unhedged super senior CDO investments and 14.4 billion euros the notional value of the counterparty exposure to MBIA. Against payment of a fee, KBC has purchased a State guarantee which covers 90% of the risk of default, after a first-loss tranche in which KBC bears any loss in full. The transaction is structured as follows (in basic terms):
  - a first tranche of 3.2 billion euros: KBC bears any credit losses in full;
  - a second tranche of 2 billion euros: KBC bears any credit losses in full. It has the option of asking the Belgian State to subscribe to newly issued KBC shares at market value, for 90% of the loss in this tranche (KBC continues to bear 10% of the risk);
  - a third tranche of 14.8 billion euros: 90% of any credit losses will be paid in cash by the State (KBC continues to bear 10% of the risk).
- 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 (recognised upfront in 2009). There was also a positive effect on the mark-to-market value of the guaranteed positions. In addition, KBC has to pay the Belgian State a commitment fee of roughly 60 million euros per half year for the second tranche (*the equity guarantee*). That contract, including the fee due, is measured at fair value through profit or loss.

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

(in millions of EUR)	2008	2009
Total	**95**	**273**
Fixed-income securities	-12	178
Shares	107	95

Note 7: Net fee and commission income

(in millions of EUR)	2008	2009
Total	**1 714**	**1 492**
Fee and commission income	**2 848**	**2 517**
Securities and asset management	1 730	1 475
Margin on life insurance investment contracts without DPF (deposit accounting)	31	30
Commitment credit	234	271
Payments	529	499
Other	325	243
Fee and commission expense	**-1 134**	**-1 025**
Commission paid to intermediaries	-477	-451
Other	-658	-573

- 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)	2008	2009
Total	**618**	**428**
of which gains or losses on		
- Sale of loans and receivables	-2	10
- Sale of held-to-maturity investments	0	-5
- Sale of financial liabilities measured at amortised cost	-1	1
- Other:	622	422
Sale of stake in Prague Stock Exchange	40	0
Impact of change in ownership percentage of Nova Ljubljanska banka	54	0
Income from (mainly operational) leasing activities, KBC Lease Group	46	74
Income from consolidated private equity participations	94	56
Income from VAB Group	64	79

Note 9: Technical accounts, insurance

(in millions of EUR)	Insurance contracts, life	Insurance contracts, non-life	Insurance contracts, total	Investment contracts with DPF, life	Investment contracts without DPF, life	Non-technical account	Total
2008							
Net interest income	0	0	0	0	0	798	798
Gross earned premiums, insurance	855	2 075	2 930	1 678	0	0	4 608
Gross technical charges, insurance	-737	-1 206	-1 943	-1 921	-22	0	-3 885
Ceded reinsurance result	-2	-63	-65	0	0	-6	-72
Dividend income	0	0	0	0	0	135	135
Net (un)realised gains from financial instruments at fair value through profit or loss	0	0	0	0	0	-1 130	-1 130
Net realised gains from available-for-sale assets	0	0	0	0	0	103	103
Net fee and commission income	-100	-387	-487	-37	12	40	-471
Other net income	0	0	0	0	0	99	99
TOTAL INCOME	**17**	**419**	**436**	**-280**	**-9**	**38**	**185**
Operating expenses	-99	-391	-490	-33	-18	-122	-662
Impairment	0	0	0	0	0	-740	-740
Share in results of associated companies	0	0	0	0	0	0	0
Allocation to the technical accounts	-123	88	-35	-125	0	160	0
PROFIT BEFORE TAX	**-205**	**116**	**-89**	**-438**	**-27**	**-663**	**-1 217**
Income tax expense							227
Net post-tax income from discontinued operations							0
PROFIT AFTER TAX							**-990**
attributable to minority interests							-4
attributable to equity holders of the parent							**-987**
2009							
Net interest income	0	0	0	0	0	739	739
Gross earned premiums, insurance	854	1 925	2 779	2 077	0	0	4 856
Gross technical charges, insurance	-703	-1 244	-1 948	-2 503	15	0	-4 436
Ceded reinsurance result	-2	-56	-58	0	0	-6	-64
Dividend income	0	0	0	0	0	60	60
Net (un)realised gains from financial instruments at fair value through profit or loss	0	0	0	0	0	-361	-361
Net realised gains from available-for-sale assets	0	0	0	0	0	53	53
Net fee and commission income	4	-305	-300	-39	13	53	-273
Other net income	0	0	0	0	0	143	143
TOTAL INCOME	**153**	**320**	**473**	**-466**	**28**	**680**	**715**
Operating expenses	-44	-250	-294	-24	-17	-136	-471
Impairment	0	0	0	0	0	-366	-366
Share in results of associated companies	0	0	0	0	0	0	0
Allocation to the technical accounts	345	157	503	404	0	-907	0
PROFIT BEFORE TAX	**454**	**227**	**682**	**-86**	**11**	**-729**	**-122**
Income tax expense							-15
Net post-tax income from discontinued operations							0
PROFIT AFTER TAX							**-137**
attributable to minority interests							3
attributable to equity holders of the parent							**-140**

- In conformity with IFRS, the figures relating to gross earned premiums do not include investment contracts without DPF (which largely correspond to unit-linked contracts). See Note 10.

Note 10: Gross earned premiums, life insurance

(in millions of EUR)	2008	2009
Total	**2 533**	**2 931**
Breakdown by type		
Accepted reinsurance	26	25
Primary business	2 507	2 906
Breakdown of primary business		
Individual versus group		
Individual premiums, including unit-linked insurance	2 191	2 608
Premiums under group contracts	316	297
Periodic versus single		
Periodic premiums	810	792
Single premiums	1 697	2 114
Non-profit-sharing versus profit-sharing contracts		
Premiums from non-profit-sharing contracts	212	202
Premiums from profit-sharing contracts	2 208	2 609
Unit-linked	87	95

- As required under IFRS, deposit accounting is used for investment contracts without DPF. This means that the premium income (and technical charges) from these contracts is not recognised under the gross earned premiums (and gross technical charges) heading, 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 2008 accounted for premium income of 1 billion euros and in 2009 for premium income of 1.3 billion euros.

Note 11: Overview of non-life insurance per class of business

(in millions of EUR)	Gross earned premiums	Gross claims incurred	Gross operating expenses	Ceded reinsurance	Total
2008					
Total	**2 052**	**-1 198**	**-562**	**-63**	**230**
Accepted reinsurance	227	-141	-51	-13	22
Primary business	1 826	-1 057	-511	-50	207
Accident & health (classes 1 & 2, excl. industrial accidents)	158	-56	-26	9	86
Industrial accidents (class 1)	83	-63	-13	-1	5
Motor, third-party liability (class 10)	527	-368	-149	-10	-1
Motor, other classes (classes 3, 7)	341	-200	-99	0	42
Shipping, aviation, transport (classes 4, 5, 6, 7, 11, 12)	53	-39	-14	-8	-9
Fire and other damage to property (classes 8, 9)	469	-215	-152	-22	79
General third-party liability (class 13)	109	-85	-37	-3	-16
Credit and suretyship (classes 14, 15)	20	0	-2	-11	7
Miscellaneous pecuniary losses (class 16)	15	-6	-5	-1	3
Legal assistance (class 17)	39	-21	-9	0	9
Assistance (class 18)	12	-4	-4	-1	3
2009					
Total	**1 925**	**-1 251**	**-493**	**-56**	**124**
Accepted reinsurance	237	-180	-49	-13	-4
Primary business	1 687	-1 072	-444	-43	129
Accident & health (classes 1 & 2, excl. industrial accidents)	139	-64	-37	-2	37
Industrial accidents (class 1)	78	-67	-15	-3	-7
Motor, third-party liability (class 10)	483	-328	-120	-6	29
Motor, other classes (classes 3, 7)	308	-211	-81	0	15
Shipping, aviation, transport (classes 4, 5, 6, 7, 11, 12)	44	-30	-12	-6	-4
Fire and other damage to property (classes 8, 9)	450	-236	-118	-23	72
General third-party liability (class 13)	112	-90	-39	-3	-20
Credit and suretyship (classes 14, 15)	4	-7	-2	1	-4
Miscellaneous pecuniary losses (class 16)	13	-10	-5	-1	-3
Legal assistance (class 17)	42	-22	-11	0	10
Assistance (class 18)	15	-6	-5	-1	4

Note 12: Operating expenses

(in millions of EUR)	2008	2009
Total	**-5 600**	**-5 292**
Staff expenses	-3 139	-2 912
of which share-based payment (equity-settled)	0	-1
of which share-based payment (cash-settled)	30	1
General administrative expenses	-1 984	-1 937
Depreciation and amortisation of fixed assets	-392	-402
Provisions for risks and charges	-84	-42

- General administrative expenses (see table) include repair and maintenance expenses, advertising costs, rent, professional fees, various (non-income) taxes and utilities.
- Share-based payments are included under staff expenses, and can be broken down as follows:
  A. Main cash-settled share-based payment arrangements
  KBC Financial Products established a phantom equity plan in 1999 as a means of keeping its senior executives. One million phantom shares were issued between 1999 and 2002. Since only one million shares could be issued under the plan, all new participants had to acquire shares from existing members of the plan. The shares were valued based on the profit before tax of the KBC Financial Products group. The plan was terminated in 2005 and all employees paid out over a four-year period ending in March 2009. At the end of 2009, KBC Financial Products did not recognise any outstanding liabilities in this regard (as opposed to 7 million euros at year-end 2008).
  B. Main equity-settled share-based payments
  Since 2000, the KBC Bank and Insurance Holding Company NV (now KBC Group NV) has launched a number of share option plans. The share options have been granted to all or to certain members of staff of the company and various subsidiaries. The share options were granted free to the members of staff, who only had to pay the relevant tax on the benefit when the options were allocated. The share options have a life of seven to ten years from the date of issue and can be exercised in specific years in the months of June, September or December. Not all the options need be exercised at once. When exercising options, members of staff can either deposit the resulting shares on their custody accounts or sell them immediately on NYSE Euronext Brussels.
  The KBC Bank and Insurance Holding Company NV (now KBC Group NV) took over three share option plans of KBC Peel Hunt Ltd. dating from 1999 and 2000. Eligible KBC Peel Hunt staff members have obtained options on KBC Group NV shares instead of KBC Peel Hunt Ltd. shares.
  KBC Group NV has repurchased treasury shares in order to be able to deliver shares to staff when they exercise their options.
- IFRS 2 has not been applied to equity-settled option plans that predate 7 November 2002, since they are not covered by the scope of IFRS 2. The option plans postdating 7 November 2002 are limited in size.
- In 2009, there was a capital increase reserved for KBC group employees, who could buy shares at 27.73 euros per share. This resulted in the recognition of an employee benefit of 1 million euros, recognised as staff expenses (in 2008, the capital increase for staff did not result in the recognition of an employee benefit).
- An overview of the number of stock options for staff is shown in the table. The average price of the KBC share was 20.9 euros during 2009. In 2009, no new KBC share options for personnel were issued.

		2008		2009
Options	**Number of options[1]**	**Average exercise price**	**Number of options[1]**	**Average exercise price**
Outstanding at beginning of period	1 126 413	47.12	981 425	47.83
Granted during period	0	–	0	–
Exercised during period	-144 970	42.29	0	–
Expired during period	-18	37.50	-3 380	42.58
Forfeited during period	0	–	0	–
Outstanding at end of period[2]	**981 425**	**47.83**	**978 045**	**48.09**
Exercisable at end of period	**807 845**	**43.59**	**910 395**	**44.03**

1 In share equivalents.
2 2008: range of exercise prices: 28.3–97.94 euros; weighted average residual term to maturity: 35 months.
2009: range of exercise prices: 28.3–97.94 euros; weighted average residual term to maturity: 27 months.

Note 13: Personnel

	2008	2009
Total average number of persons employed (in full-time equivalents)	**59 150**	**56 939**
Breakdown by legal entity		
KBC Bank	43 784	40 735
KBC Insurance	8 460	8 277
KBL EPB	2 810	2 741
KBC Group NV (holding company)	4 096	5 186
Breakdown by employee classification		
Blue-collar staff	1 059	903
White-collar staff	55 920	53 952
Senior management	2 171	2 084

- The figures in the table are annual averages and may differ from the end-of-year totals shown in the ‘Corporate social responsibility’ section.

Note 14: Impairment (income statement)

(in millions of EUR)	2008	2009
Total	**-2 234**	**-2 777**
Impairment on loans and receivables	**-822**	**-1 903**
Breakdown by type		
Specific impairment, on-balance-sheet lending	-801	-1 810
Specific impairment, off-balance-sheet credit commitments	-6	-13
Portfolio-based impairment	-15	-80
Breakdown by business unit		
Belgium	-46	-97
Central & Eastern Europe and Russia	-313	-854
Merchant Banking	-407	-950
European Private Banking	-56	-2
Impairment on available-for-sale assets	**-1 333**	**-350**
Breakdown by type		
Shares	-918	-338
Other	-415	-12
Impairment on goodwill	**-25**	**-509**
Impairment on other	**-54**	**-14**
Intangible fixed assets, other than goodwill	-32	0
Property and equipment	-7	-8
Held-to-maturity assets	-15	-2
Associated companies (goodwill)	0	0
Other	-1	-4

- 'Impairment on loans and receivables' was accounted for primarily by loans and advances to customers (term loans and reclassified ABS).
- Impairment on available-for-sale assets. Impairment on shares was, of course, related to plummeting share prices in the second half of 2008 and in the first quarter of 2009. The high level of impairment in the 'Other' category in 2008 was accounted for mainly by bonds that had been issued by Washington Mutual, Lehman Brothers and the Icelandic banks.
- Impairment on goodwill. In 2008, this heading had included *inter alia* 15 million euros for a KBC Financial Products group company (Merchant Banking Business Unit); in 2009, it included *inter alia* 399 million euros for group companies in Central and Eastern Europe (primarily Russia, Bulgaria and Slovakia). In most cases, the impairment reflects the difference between the carrying value before impairment and the value in use.
- Impairment on other. In 2008, this heading had included primarily impairment charges on intangible fixed assets (32 million euros), on property and equipment (7 million euros) and on held-to-maturity securities (15 million euros), due to the lower creditworthiness of the issuers of these securities. In 2009, it included *inter alia* impairment charges on property and equipment (8 million euros) and on held-to-maturity securities (2 million euros). Impairment always relates to the difference between the carrying value before impairment and the value in use of the property and equipment and the intangible fixed asset in question.

Note 15: Share in results of associated companies

(in millions of EUR)	2008	2009
Total	**-1**	**-22**
of which Nova Ljubljanska banka	8	-27

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

Note 16: Income tax expense

(in millions of EUR)	2008	2009
Total	**629**	**234**
Breakdown by type		
Current taxes on income	-339	-157
Deferred taxes on income	968	391
Tax components		
Profit before tax	-3 007	-2 781
Income tax at the Belgian statutory rate	33.99%	33.99%
Income tax calculated	1 022	945
Plus/minus tax effects attributable to		
differences in tax rates, Belgium – abroad	29	91
tax-free income	519	157
adjustments related to prior years	56	181
adjustments, opening balance of deferred taxes due to change in tax rate	-3	2
unused tax losses and unused tax credits to reduce current tax expense	52	29
unused tax losses and unused tax credits to reduce deferred tax expense	1	78
reversal of previously recognised deferred tax assets due to tax losses	-30	-4
other (mainly non-deductible expenses)	-1 018	-1 244
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*	**919**	**744**

* 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 27.

Note 17: Earnings per share

(in millions of EUR)	2008	2009
Basic earnings per share		
Net profit attributable to equity holders of the parent	-2 484	-2 466
Weighted average number of shares outstanding ('000 of units)	339 985	339 569
Basic earnings per share (in EUR)	-7.31	-7.26
Diluted earnings per share		
Net profit attributable to equity holders of the parent	-2 484	-2 466
Elimination of interest expense on freely convertible debt (net of tax effect)	0	0
Net profit used to determine diluted EPS	-2 484	-2 466
Weighted average number of shares outstanding ('000 of units)	339 985	339 569
Dilutive potential shares ('000 of units)	1 028	7
Weighted average number of shares for diluted earnings ('000 of units)	341 014	339 576
Diluted earnings per share (in EUR)	-7.28	-7.26

- For a definition of basic earnings per share and diluted earnings per share, see the 'Glossary of ratios used'.
- Overview of dilutive instruments:
  - freely convertible bonds: none;
  - options on KBC Group NV shares allocated to staff members: for more detailed information, see Note 12.

Note 18: Financial assets and liabilities, breakdown by portfolio and product

FINANCIAL ASSETS

(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
31-12-2008								
Loans and advances to credit institutions and investment firms[a]	8 288	4 544	0	23 964	–	–	–	36 796[2]
Loans and advances to customers[b]	4 297	4 281	0	148 718	–	–	–	157 296
Discount and acceptance credit	0	0	0	153	–	–	–	153
Consumer credit	0	0	0	4 625	–	–	–	4 625
Mortgage loans	0	3 215	0	52 356	–	–	–	55 571
Term loans	4 297	910	0	72 708	–	–	–	77 915
Finance leasing	0	0	0	6 728	–	–	–	6 728
Current account advances	0	0	0	6 718	–	–	–	6 718
Other	0	156	0	5 429	–	–	–	5 585
Equity instruments	5 533	193	3 419	–	–	–	–	9 145
Investment contracts (insurance)	–	6 948	–	–	–	–	–	6 948
Debt instruments issued by	16 480	12 648	42 058	3 805	10 761	–	–	85 752
Public bodies	8 947	10 961	28 581	20	9 727	–	–	58 235
Credit institutions and investment firms	3 849	316	7 867	21	751	–	–	12 804
Corporates	3 684	1 372	5 609	3 765	283	–	–	14 713
Derivatives	38 559	–	–	–	–	241	–	38 800
Total carrying value	73 157	28 615	45 476	176 487	10 761	241	–	334 737
Accrued interest income	400	379	895	543	212	38	–	2 466
Carrying value including accrued interest income	73 557	28 994	46 371	177 029	10 973	279	–	337 203
Fair value	73 557	28 994	46 371	179 713	11 108	279	–	340 021
a of which reverse repos								*11 214*
b of which reverse repos								*3 838*
31-12-2009								
Loans and advances to credit institutions and investment firms[a]	566	3 708	0	16 930	–	–	–	21 204
Loans and advances to customers[b]	3 169	6 133	0	143 928	–	–	–	153 230
Discount and acceptance credit	0	9	0	116	–	–	–	125
Consumer credit	0	0	0	4 947	–	–	–	4 947
Mortgage loans	0	2 349	0	56 830	–	–	–	59 180
Term loans	3 169	3 579	0	64 904	–	–	–	71 652
Finance leasing	0	0	0	5 569	–	–	–	5 569
Current account advances	0	0	0	5 123	–	–	–	5 123
Other	0	196	0	6 439	–	–	–	6 635
Equity instruments	2 977	20	2 418	–	–	–	–	5 414
Investment contracts (insurance)	–	7 957	–	–	–	–	–	7 957
Debt instruments issued by	12 653	12 457	52 694	3 270	11 765	–	–	92 838
Public bodies	8 056	11 202	39 439	3	10 662	–	–	69 362
Credit institutions and investment firms	2 512	327	6 297	0	767	–	–	9 903
Corporates	2 085	928	6 958	3 267	335	–	–	13 572
Derivatives	20 995	–	–	–	–	165	–	21 160
Total carrying value	40 360	30 275	55 112	164 128	11 765	165	–	301 804
Accrued interest income	203	245	1 008	470	280	48	–	2 254
Carrying value including accrued interest income	40 563	30 520	56 120	164 598	12 045	213	–	304 057
Fair value	40 563	30 520	56 120	166 886	12 463	213	–	306 765
a of which reverse repos								*6 297*
b of which reverse repos								*6 295*

1 Designated at fair value through profit or loss (fair value option).
2 Of which loans and advances to banks repayable on demand and term loans to banks at not more than three months amounted to 20 898 million euros in 2008 and 10 205 million euros in 2009.

FINANCIAL LIABILITIES

(in millions of EUR)	Held for trading	Designated at fair value[1, e]	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Measured at amortised cost	Total
31-12-2008								
Deposits from credit institutions and investment firms[c]	461	17 676	–	–	–	–	42 465	60 602[2]
Deposits from customers and debt certificates[d]	1 354	17 431	–	–	–	–	175 935	196 733
Deposits from customers	0	10 786	–	–	–	–	136 179	146 964
Demand deposits	0	847	–	–	–	–	43 892	44 739
Time deposits	0	9 927	–	–	–	–	58 655	68 582
Savings deposits	0	0	–	–	–	–	28 951	28 951
Special deposits	0	0	–	–	–	–	3 546	3 546
Other deposits	0	12	–	–	–	–	1 135	1 147
Debt certificates	1 354	6 645	–	–	–	–	41 770	49 768
Certificates of deposit	0	1 382	–	–	–	–	13 740	15 122
Customer savings certificates	0	0	–	–	–	–	3 077	3 077
Convertible bonds	0	0	–	–	–	–	0	0
Non-convertible bonds	1 354	4 426	–	–	–	–	16 063	21 843
Convertible subordinated liabilities	0	0	–	–	–	–	0	0
Non-convertible subordinated liabilities	0	836	–	–	–	–	8 889	9 726
Liabilities under investment contracts	–	6 749	–	–	–	–	452	7 201
Derivatives	39 785	–	–	–	–	683	–	40 469
Short positions	2 960	–	–	–	–	–	–	2 960
In equity instruments	394	–	–	–	–	–	–	394
In debt instruments	2 566	–	–	–	–	–	–	2 566
Other	244	101	–	–	–	–	3 739	4 085
Total carrying value	44 805	41 957	–	–	–	683	224 604	312 049
Accrued interest expense	161	272	–	–	–	232	1 216	1 882
Carrying value including accrued interest expense	44 966	42 228	–	–	–	916	225 821	313 931
Fair value	44 966	42 228	–	–	–	916	227 562	315 672
c of which repos								*18 647*
d of which repos								*7 855*
e of which own credit risk								*-371*
31-12-2009								
Deposits from credit institutions and investment firms[c]	211	6 678	–	–	–	–	38 555	45 444[2]
Deposits from customers and debt certificates[d]	834	16 695	–	–	–	–	179 935	193 464
Deposits from customers	0	13 154	–	–	–	–	132 165	145 319
Demand deposits	0	150	–	–	–	–	44 271	44 421
Time deposits	0	12 992	–	–	–	–	44 448	57 441
Savings deposits	0	0	–	–	–	–	38 645	38 645
Special deposits	0	0	–	–	–	–	3 677	3 677
Other deposits	0	11	–	–	–	–	1 124	1 135
Debt certificates	834	3 541	–	–	–	–	43 770	48 146
Certificates of deposit	0	42	–	–	–	–	15 746	15 788
Customer savings certificates	0	0	–	–	–	–	2 583	2 583
Convertible bonds	0	0	–	–	–	–	0	0
Non-convertible bonds	834	3 218	–	–	–	–	16 311	20 363
Convertible subordinated liabilities	0	0	–	–	–	–	0	0
Non-convertible subordinated liabilities	0	282	–	–	–	–	9 129	9 411
Liabilities under investment contracts	–	7 685	–	–	–	–	254	7 939
Derivatives	26 304	–	–	–	–	882	–	27 185
Short positions	2 147	–	–	–	–	–	–	2 147
In equity instruments	486	–	–	–	–	–	–	486
In debt instruments	1 661	–	–	–	–	–	–	1 661
Other	250	168	–	–	–	–	1 514	1 931
Total carrying value	29 745	31 226	–	–	–	882	216 258	278 111
Accrued interest expense	146	83	–	–	–	205	905	1 339
Carrying value including accrued interest expense	29 891	31 309	–	–	–	1 087	217 163	279 450
Fair value	29 891	31 309	–	–	–	1 087	220 892	283 180
c of which repos								*11 513*
d of which repos								*13 199*
e of which own credit risk								*-204*

1 Designated at fair value through profit or loss (fair value option).
2 Of which deposits from banks repayable on demand amounted to 15 885 million euros in 2008 and 11 890 million euros in 2009.

- Financial assets and liabilities are grouped into categories. These categories are defined and relevant valuation rules provided in 'Financial assets and liabilities (IAS 39)', Note 1b.
- In October 2008, the International Accounting Standards Board (IASB) issued amendments to IAS 39 and IFRS 7 under 'Reclassification of financial assets'. Endorsed by the European Union on 15 October 2008, these amendments permit an entity to reclassify financial assets in particular circumstances. Certain non-derivative financial assets measured at fair value through profit or loss (other than those classified under the fair value option) may be reclassified to 'held to maturity', 'loans and receivables' or 'available for sale' in certain cases. Assets classified as 'available for sale' may be transferred to 'loans and receivables', likewise in certain cases. The amendments to IFRS 7 also impose additional disclosure requirements if the reclassification option is used. 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.

Financial assets reclassified out of 'available for sale' to 'loans and receivables' on 31-12-2008 (in millions of EUR) – situation at 31-12-2009

Carrying value			3 138
Fair value			3 256
Impact on the revaluation reserve and on the income statement	**If not reclassified (before taxes)**	**After reclassification (before taxes)**	**Impact (before taxes)**
Revaluation reserve (available-for-sale assets)	-599	-763	-165
Income statement	-308	-290	18

The reclassification had a negative impact of 165 million euros on equity and a positive impact of 18 million euros on the income statement. Besides specific impairment, 4 million euros was also set aside for portfolio-based impairment on loans and receivables. On the reclassification date (31 December 2008), the estimated recoverable amount of these assets came to 5 billion euros and the effective interest rate varied between 5.88% and 16.77%.

- In line with the IAS definition, KBC defines fair value as 'the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction'. Fair value is not the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale. An imbalance between supply and demand (e.g., fewer buyers than sellers, thereby forcing prices down) is not the same as a forced transaction or distress sale. Distress sales or forced trades are transactions that are either carried out on an occasional basis, due to – for example – changes in the regulatory environment, or that are not market-driven but rather entity- or client-driven.
- Financial assets and liabilities measured at fair value are grouped into three categories, viz. available for sale (AFS), held for trading (HFT) and designated at fair value through profit or loss (FIFV), and valued according to the valuation hierarchy provided in IAS 39. This hierarchy prioritises the use of inputs used in valuation techniques 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. These 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.
    a 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.
    b 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 measurement. For example, if a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement.

The valuation methodology and the corresponding classification in the fair value hierarchy of the most commonly used financial instruments are summarised in the table.

	Instrument type	Products	Valuation technique
Level 1	Liquid financial instruments for which quoted prices are regularly available	FX spot, exchange traded financial futures, exchange traded options, exchange traded stocks, government bonds, other liquid bonds	Mark-to-market
Level 2	Plain vanilla/liquid derivatives	(Cross-currency) interest rate swaps (IRS), FX swaps, FX forwards, forward rate agreements (FRA), inflation swaps, reverse floaters, bond future options, interest rate future options, overnight index swaps (OIS) FX resets	Discounted cashflow analysis based on cash and derivative curves
		Caps & floors, interest rate options, stock options, European & American FX options, forward starting options, digital FX options, FX strips of simple options, European swaptions, constant maturity swaps (CMS), European cancellable IRS	Option pricing model based on observable inputs
		Credit default swaps (CDS)	CDS model based on credit spreads
	Linear financial instruments (without optional features)	Loans & deposits, simple cashflows, repo transactions, commercial paper	Discounted cashflow analysis based on cash and derivative curves
	Illiquid bonds, structured notes	Illiquid bonds, structured notes	Third-party pricing or valuation model based on observable inputs
	Asset backed securities	Asset backed securities (ABS)	Third-party pricing
Level 3	Exotic derivatives	Target profit forwards, Bermudan swaptions, digital interest rate options, quanto digital FX options, FX Asian options, FX simple/double European barrier options, FX simple digital barrier options, FX touch rebates, double average rate options, inflation options, cancellable reverse floaters, American and Bermudan cancellable IRS, CMS spread options, CMS interest rate caps/floors, (callable) range accruals	Option pricing model based on unobservable inputs
	Illiquid credit-linked instruments	Collateralised debt obligations (CDOs: notes and super senior tranches, including the related guarantee from the Belgian Federal Government)	Valuation model based on correlation of probability of default of underlying assets
	Private equity investments	Private equity and non-quoted participations	Based on EVCA (European Private Equity & Venture Capital Association)

- The total change in fair value taken to the income statement in 2009 using a level 3 valuation technique, was largely accounted for by CDOs held in portfolio at group level, and amounted to -2.9 billion euros (including the guarantee agreement with the Belgian Federal Government).
  In 2009, KBC changed its method for valuing CDOs. Instead of using a model based on credit default swap spreads and external ratings, it used a Gaussian Copula model, which better reflects the impact of losses in the underlying reference portfolios of the CDOs that are being valued. The Gaussian Copula models the distribution of default moments and probabilities of the underlying corporate and ABS names in the reference portfolios of the CDOs. The asset default trigger in the model is derived from the credit default swap spreads in the market. The correlation between defaults is modelled through Gaussian Copulas and can as such be simulated. By discounting the cashflows resulting from the default curves on the underlying assets, the value for a specific CDO tranche is determined. The model also ensures that the inner tranches are valued in line with the market, through the calibration with CDX and iTraxx credit spread indices.
  Until September 2009, the value of the CDO notes had been written down to zero. On 31 December 2009, they were valued at the lower of: (1) their value based on the Gaussian Copula (after market value adjustments for illiquidity) and (2) their expected fundamental value (after market value adjustments for illiquidity) at year-end 2009. This valuation method takes account of a reserve for model risk relating to unobservable inputs.
  Results of sensitivity tests on the current model for CDOs originated by KBC Financial Products, in which credit spreads are shifted, are given in the table. The tests take into account the full guarantee agreement with the Belgian Federal Government and a counterparty value adjustment of 70% for MBIA. The scope includes all exposure in the unhedged and hedged CDO portfolio, excluding CDOs in run-off (not structured by KBC Financial Products) and CDOs hedged by Channel.

Profit/loss sensitivity based on corporate and ABS credit spread indices (in billions of EUR, 31-12-2009)

Spreads -50%	Spreads -20%	Spreads -10%	Spreads +10%	Spreads +20%	Spreads +50%
1.1	0.4	0.2	-0.2	-0.3	-0.7

- The fair value of the equity guarantee with the Belgian Federal Government (and the corresponding commitment fee) is measured using a level 3 model that reflects – among other things – movements in the KBC subordinated credit default swap spread and in the fair value of the hedged super senior exposure since the guarantee agreement was signed. If the fair value of the super senior positions was to improve by 10% on its year-end 2009 level, this would lead to an additional charge of 11 million euros, while a similar improvement in KBC's subordinated credit spread would lead to an additional charge of 8 million euros.
- The total change in fair value taken to the income statement in 2009 also includes the impact of changes in own credit spreads on the fair value of own issues designated at fair value through profit or loss. In 2009, KBC adopted a different method to calculate this impact, changing from a method based on CDS spreads to one based on the actual funding spreads, in order to establish a value that better reflects the accounting policies prevailing in the professional markets for these types of financial liabilities. Using the new method, the effect of changes in own credit spreads resulted in a gain of 44 million euros in 2009, 123 million euros of which was realised on the repurchase of tier-1 issues (in 2008, the effect was a gain of 371 million euros). That is 49 million euros higher than the amount would have been using the method based on CDS spreads (rather than on funding spreads). For certain financial liabilities, the new method for calculating the impact of changes in own credit spreads is based on prices quoted on the secondary market (i.e. Bloomberg prices).
- Sensitivity tests show that an increase of 1 basis point in the actual funding spread would reduce the fair value of the liabilities by 1 million euros.
- Market value adjustments are recognised on all positions that are measured at fair value, with fair value changes being reported in net profit or loss or in equity to cover close-out costs, adjustments for less liquid positions or markets, mark-to-model-related valuation adjustments, counterparty risk, liquidity risk and operations-related costs. When calculating market value adjustments for derivatives counterparty risk (excluding MBIA), the group also takes account of its own credit risk for derivatives with a negative fair value.
- The table depicts the financial assets and liabilities measured at fair value. The disclosures on these financial instruments are categorised according to their respective level in the fair value hierarchy (level 1, 2 or 3).

Overview of the products in the fair value hierarchy on 31-12-2009

(in millions of EUR)	Level 1	Level 2	Level 3	Total
Financial assets designated at fair value				
Held for trading				
Loans and advances to credit institutions and investment firms	0	566	0	566
Loans and advances to customers	0	3 169	0	3 169
Equity instruments	1 104	1 801	72	2 977
Debt instruments	10 355	2 152	146	12 653
Derivatives	243	16 603	4 150	20 995
Accrued interest expense	–	–	–	203
Designated at fair value through profit or loss				
Loans and advances to credit institutions and investment firms	0	3 708	0	3 708
Loans and advances to customers	0	6 133	0	6 133
Equity instruments	3	17	0	20
Investment contracts (insurance)	7 607	350	0	7 957
Debt instruments	11 298	927	231	12 457
Accrued interest income	–	–	–	245
Available for sale				
Equity instruments	2 061	33	325	2 418
Debt instruments	49 090	3 442	162	52 694
Accrued interest income	–	–	–	1 008
Hedging derivatives				
Derivatives	0	165	0	165
Accrued interest income	–	–	–	48
Total	81 760	39 065	5 085	127 415
Financial liabilities designated at fair value				
Held for trading				
Deposits from credit institutions and investment firms	0	211	0	211
Deposits from customers and debt certificates	0	729	105	834
Derivatives	209	20 516	5 579	26 304
Short positions	1 900	227	20	2 147
Other	0	250	0	250
Accrued interest expense	–	–	–	146
Designated at fair value through profit or loss				
Deposits from credit institutions and investment firms	0	6 678	0	6 678
Deposits from customers	0	13 281	3 414	16 695
Liabilities under investment contracts	7 354	331	0	7 685
Other	0	0	168	168
Accrued interest expense	–	–	–	83
Hedging derivatives				
Derivatives	0	882	0	882
Accrued interest expense	–	–	–	205
Total	**9 463**	**43 105**	**9 285**	**62 288**

- The table provides a reconciliation from opening to closing balances for those assets and liabilities that are measured using a level 3 valuation technique.

Movements table of assets and liabilities valued in level 3 of the fair value hierarchy – situation at 31-12-2009
(in millions of EUR)

Level 3 financial assets

	Held for trading					Designated at fair value through profit or loss				Available for sale		Hedging derivatives
	Loans and advances	Equity instruments	Investment contracts (insurance)	Debt instruments	Derivatives	Loans and advances	Equity instruments	Investment contracts (insurance)	Debt instruments	Equity instruments	Debt instruments	Derivatives
Opening balance	0	121	0	74	6 631	0	0	0	103	336	147	0
Gains or losses	0	-29	0	-91	-2 808	0	0	0	133	-5	11	0
in profit or loss*	0	-29	0	-91	-2 808	0	0	0	133	0	17	0
in equity	0	0	0	0	0	0	0	0	0	-5	-6	0
Purchases	0	19	0	164	742	0	0	0	55	42	4	0
Disposals	0	-39	0	-1	-66	0	0	0	-60	-46	0	0
Settlements	0	0	0	0	-349	0	0	0	0	-2	0	0
Transfers into level 3	0	0	0	0	0	0	0	0	0	0	0	0
Transfers out of level 3	0	0	0	0	0	0	0	0	0	0	0	0
Transfers into/out of non-current assets held for sale	0	0	0	0	0	0	0	0	0	0	0	0
Changes in the scope of consolidation	0	0	0	0	0	0	0	0	0	0	0	0
Closing balance	0	72	0	146	4 150	0	0	0	231	325	162	0
Total gains or losses included in profit or loss for assets held at the end of the reporting period	0	0	0	73	-2 107	0	0	0	101	-3	0	0

Level 3 financial liabilities

	Held for trading						Designated at fair value through profit or loss				Hedging derivatives
	Deposits from credit institutions	Deposits from customers and debt certificates	Liabilities under investment contracts	Derivatives	Short positions	Other	Deposits from credit institutions	Deposits from customers and debt certificates	Liabilities under investment contracts	Other	Derivatives
Opening balance	0	291	0	6 336	106	0	0	4 859	0	101	0
Gains or losses	0	25	0	1 228	-83	0	0	-85	0	67	0
in profit or loss*	0	25	0	1 228	-83	0	0	-85	0	67	0
in equity	0	0	0	0	0	0	0	0	0	0	0
Issues	0	35	0	-1 834	10	0	0	0	0	0	0
Repurchases	0	-246	0	-151	-13	0	0	-1 360	0	0	0
Transfers into level 3	0	0	0	0	0	0	0	0	0	0	0
Transfers out of level 3	0	0	0	0	0	0	0	0	0	0	0
Transfers out of/into liabilities associated with disposal groups	0	0	0	0	0	0	0	0	0	0	0
Changes in the scope of consolidation	0	0	0	0	0	0	0	0	0	0	0
Closing balance	0	105	0	5 579	20	0	0	3 414	0	168	0
Total gains or losses included in profit or loss for liabilities held at the end of the reporting period	0	25	0	1 225	-73	0	0	-8	0	0	0

* Recognised mainly under 'Net (un)realised gains from financial instruments at fair value through profit or loss', 'Net realised gains on available-for-sale assets' and 'Impairment on available-for-sale assets'.

- The following also applies to financial assets:
  - Most of the changes in the market value of loans and advances initially designated at fair value through profit or loss are accounted for by changes in interest rates. The effect of changes in credit exposure is negligible.
  - Most of the loans and advances designated at fair value through profit or loss are accounted for by reverse repo transactions and a limited portfolio of home loans. In each case, the carrying value comes close to the maximum credit exposure.
- In addition, the following applies to financial liabilities:
  - In accordance with IFRS requirements, account was taken of the effect of changes in own credit spreads when measuring the fair value of financial liabilities designated at fair value through profit or loss.
  - The fair value of demand and savings deposits (which both are repayable on demand) is presumed to be equal to their carrying value.
  - A 'repo' transaction is a transaction where one party (the buyer) sells securities to another party and undertakes to repurchase these securities at a designated future date at a set price. In most cases, repo transactions are governed by bilateral framework agreements (generally Global Master Repo Agreements) which include a description of the periodic exchanges of collateral. The repo transactions shown in the table are related mainly to the temporary lending of bonds. In this type of lending, the risk and the income from the bonds are for KBC. The amount of the repos is virtually identical to the amount of the underlying assets (that have been lent out).

Note 19: Financial assets and liabilities, breakdown by portfolio and geographic location

FINANCIAL ASSETS

(in millions of EUR)	Held for trading	Designated at fair value*	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Measured at amortised cost	Total
31-12-2008								
Belgium	5 584	6 440	12 649	71 523	2 512	141	–	98 849
Central & Eastern Europe and Russia	9 897	1 996	8 365	39 189	5 621	120	–	65 189
Rest of the world	57 676	20 179	24 462	65 774	2 628	-21	–	170 699
Total carrying value	73 157	28 615	45 476	176 487	10 761	241	–	334 737
Accrued interest income	400	379	895	543	212	38	–	2 466
Carrying value including accrued interest income	73 557	28 994	46 371	177 029	10 973	279	–	337 203
31-12-2009								
Belgium	3 961	8 602	17 991	74 625	1 718	56	–	106 953
Central & Eastern Europe and Russia	7 307	1 079	12 216	35 580	6 668	108	–	62 957
Rest of the world	29 091	20 594	24 905	53 923	3 379	2	–	131 894
Total carrying value	40 360	30 275	55 112	164 128	11 765	165	–	301 804
Accrued interest income	203	245	1 008	470	280	48	–	2 254
Carrying value including accrued interest income	40 563	30 520	56 120	164 598	12 045	213	–	304 057

* Designated at fair value through profit or loss.

FINANCIAL LIABILITIES

(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
31-12-2008								
Belgium	2 778	12 755	–	–	–	558	81 604	97 695
Central & Eastern Europe and Russia	1 547	3 790	–	–	–	27	40 628	45 993
Rest of the world	40 479	25 411	–	–	–	98	102 372	168 361
Total carrying value	44 805	41 957	–	–	–	683	224 604	312 049
Accrued interest expense	161	272	–	–	–	232	1 216	1 882
Carrying value including accrued interest expense	44 966	42 228	–	–	–	916	225 821	313 931
31-12-2009								
Belgium	4 115	7 284	–	–	–	656	86 124	98 178
Central & Eastern Europe and Russia	948	5 492	–	–	–	91	42 308	48 838
Rest of the world	24 682	18 451	–	–	–	135	87 826	131 095
Total carrying value	29 745	31 226	–	–	–	882	216 258	278 111
Accrued interest expense	146	83	–	–	–	205	905	1 339
Carrying value including accrued interest expense	29 891	31 309	–	–	–	1 087	217 163	279 450

* Designated at fair value through profit or loss.

Note 20: Financial assets, breakdown by portfolio and quality

FINANCIAL ASSETS

(in millions of EUR)	Held for trading	Designated at fair value*	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Measured at amortised cost	Total
31-12-2008								
Unimpaired assets	73 557	28 994	45 496	175 179	10 970	279	–	334 474
Impaired assets	–	–	1 996	4 447	22	–	–	6 465
Impairment	–	–	-1 120	-2 597	-19	–	–	-3 736
Total carrying value (including accrued interest income)	73 557	28 994	46 371	177 029	10 973	279	–	337 203
31-12-2009								
Unimpaired assets	40 563	30 520	55 602	160 060	12 044	213	–	299 002
Impaired assets	–	–	924	8 506	6	–	–	9 437
Impairment	–	–	-407	-3 969	-6	–	–	-4 381
Total carrying value (including accrued interest income)	40 563	30 520	56 120	164 598	12 045	213	–	304 057

* Designated at fair value through profit or loss.

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
31-12-2008		
Loans and advances	4 671	1 141
Debt instruments	0	0
Derivatives	32	1
Total	**4 703**	**1 142**
31-12-2009		
Loans and advances	3 696	1 235
Debt instruments	8	4
Derivatives	0	0
Total	**3 704**	**1 239**

* Financial assets that are 90 days or more past due are always considered 'impaired'.

- Financial assets are past due if a counterparty fails to make a payment at the time agreed in the contract. The concept of 'past due' applies to a contract, not to a counterparty. For example, if a counterparty fails to make a monthly repayment, the entire loan is considered past due, but that does not mean that other loans to this counterparty are considered past due.
- Fixed-income financial assets are impaired when impairment is identified on an individual basis. The concept of 'impairment' is relevant for all financial assets that are not measured at fair value through profit or loss. For loans, impairment is identified on an individual basis if the loan has a probability of default (PD) rating of 10, 11 or 12. Since PD ratings relate to counterparties, so too does the concept of impaired.
- Information on 'maximum credit exposure' is provided in the table. The maximum credit exposure relating to a financial asset is generally the gross carrying value, net of impairment in accordance with IAS 39.

(in millions of EUR)	31-12-2008	31-12-2009
Maximum credit exposure		
Equity instruments	9 145	5 414
Debt instruments	85 752	92 838
Loans and advances	194 092	174 434
of which designated at fair value through profit or loss	8 826	9 841
Derivatives	38 800	21 160
Other (including accrued interest)	57 488	41 320
Total	385 276	335 166
Carrying value of financial assets pledged by KBC as collateral		
For liabilities	50 772	40 327
For contingent liabilities	7 450	6 800

- Information on collateral held is provided in the following table. Collateral can be called in if loans are terminated for various reasons such as default or bankruptcy. In the event of bankruptcy, the collateral will be sold by the receiver. In other cases, the bank will itself sell up the collateral. Possession of collateral is only taken in exceptional cases (which accounts for the limited amounts shown in the table).
- Collateral held that relates to OTC derivatives is primarily cash, which is recognised by KBC on the balance sheet (and is not included in the table).
- There is an obligation to return collateral held (which may be sold or repledged in the absence of default by the owner) in its original form, or possibly in cash.

Collateral held (which may be sold or repledged in the absence of default by the owner)

(in millions of EUR)	Fair value of collateral held		Fair value of collateral sold or repledged	
	31-12-2008	31-12-2009	31-12-2008	31-12-2009
Financial assets	19 131	17 958	6 868	9 403
Equity instruments	75	47	0	0
Debt instruments	18 675	17 762	6 868	9 403
Loans and advances	206	140	0	0
Cash	175	8	0	0
Other	0	0	0	0
Property and equipment	0	0	0	0
Investment property	0	0	0	0
Other	0	0	0	0

- Collateral obtained by taking possession is not material.

Note 21: Financial assets and liabilities, breakdown by portfolio and remaining term to maturity

FINANCIAL ASSETS

(in millions of EUR)	Held for trading	Designated at fair value*	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Measured at amortised cost	Total
31-12-2008								
At not more than one year	19 973	8 093	7 026	70 039	1 824	–	–	106 954
At more than one but not more than five years	6 844	6 544	19 628	27 987	4 541	–	–	65 544
At more than five years	4 669	8 812	16 188	74 944	4 608	–	–	109 221
Without maturity	42 072	5 546	3 530	4 059	0	279	–	55 485
Total carrying value	73 557	28 994	46 371	177 029	10 973	279	–	337 203
31-12-2009								
At not more than one year	9 416	8 725	9 583	56 309	1 614	–	–	85 648
At more than one but not more than five years	4 163	7 283	26 307	23 976	4 382	–	–	66 112
At more than five years	2 464	7 667	17 566	80 329	6 048	–	–	114 074
Without maturity	24 520	6 844	2 663	3 983	0	213	–	38 224
Total carrying value	40 563	30 520	56 120	164 598	12 045	213	–	304 057

* Designated at fair value through profit or loss.

FINANCIAL LIABILITIES

(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
31-12-2008								
At not more than one year	3 953	29 727	–	–	–	–	163 954	197 635
At more than one but not more than five years	864	1 549	–	–	–	–	23 234	25 648
At more than five years	260	5 382	–	–	–	–	8 406	14 047
Without maturity	39 889	5 570	–	–	–	916	30 227	76 601
Total carrying value	44 966	42 228	–	–	–	916	225 821	313 931
31-12-2009								
At not more than one year	1 862	19 568	–	–	–	–	143 503	164 933
At more than one but not more than five years	687	3 500	–	–	–	–	24 390	28 578
At more than five years	453	1 971	–	–	–	–	9 796	12 220
Without maturity	26 890	6 270	–	–	–	1 087	39 473	73 720
Total carrying value	29 891	31 309	–	–	–	1 087	217 163	279 450

* Designated at fair value through profit or loss.

Note 22: Impairment on financial assets that are available for sale

(in millions of EUR)	2008 Fixed-income securities	2008 Shares	2009 Fixed-income securities	2009 Shares
Opening balance	28	431	333	788
Movements with an impact on results				
Impairment recognised	420	918	17	338
Impairment reversed	-6	0	-5	0
Movements without an impact on results				
Write-offs	0	0	0	0
Changes in the scope of consolidation	0	-2	0	0
Other	-111	-560	-217	-846
Closing balance	**333**	**788**	**127**	**280**

Note 23: Impairment on financial assets held to maturity

Fixed-income securities (in millions of EUR)	2008	2009
Opening balance	0	19
Movements with an impact on results		
Impairment recognised	15	2
Impairment reversed	0	0
Movements without an impact on results		
Write-offs	0	-15
Changes in the scope of consolidation	0	0
Other	4	-1
Closing balance	**19**	**6**

Note 24: Impairment on loans and receivables (balance sheet)

(in millions of EUR)	31-12-2008	31-12-2009
Total	**2 709**	**4 080**
Breakdown by type		
Specific impairment, on-balance-sheet loans and receivables	2 352	3 667
Specific impairment, off-balance-sheet credit commitments	91	85
Portfolio-based impairment	266	328
Breakdown by counterparty		
Impairment on loans and advances to banks	128	36
Impairment on loans and advances to customers	2 469	3 933
Specific impairment, off-balance-sheet credit commitments	112	111

MOVEMENTS TABLE	Specific impairment, on-balance-sheet loans and receivables	Specific impairment, off-balance-sheet credit commitments	Portfolio-based impairment	Total
Opening balance 01-01-2008	1 963	84	186	2 233
Movements with an impact on results				
Loan loss expenses	1 329	46	156	1 531
Loan loss recoveries	-528	-39	-141	-708
Movements without an impact on results				
Write-offs	-270	-2	0	-272
Changes in the scope of consolidation	9	0	15	25
Other	-151	2	49	-99
Closing balance 31-12-2008	2 352	91	266	2 709
Opening balance 01-01-2009	2 352	91	266	2 709
Movements with an impact on results				
Loan loss expenses	2 454	95	185	2 734
Loan loss recoveries	-644	-81	-105	-831
Movements without an impact on results				
Write-offs	-463	-15	0	-479
Changes in the scope of consolidation	-6	0	0	-6
Other	-26	-4	-18	-48
Closing balance 31-12-2009	3 667	85	328	4 080

Note 25: Derivative financial instruments

	Held for trading				Micro hedging: fair value hedge				Micro hedging: cashflow hedge*				Portfolio hedge of interest rate risk			
	Carrying value		Notional amount		Carrying value		Notional amount		Carrying value		Notional amount		Carrying value		Notional amount	
(in millions of EUR)	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
31-12-2008																
Total	**38 559**	**39 785**	**1 077 232**	**1 048 887**	**111**	**118**	**2 234**	**2 230**	**111**	**396**	**15 333**	**15 271**	**19**	**169**	**9 647**	**9 647**
Breakdown by type																
Interest rate contracts	13 031	12 665	662 390	662 469	106	117	2 168	2 168	44	385	14 901	14 888	19	169	9 647	9 647
Interest rate swaps	12 130	11 999	570 717	570 166	106	116	2 168	2 168	44	385	14 877	14 888	19	169	9 647	9 647
Forward rate agreements	129	144	30 518	28 060	0	0	0	0	0	0	0	0	0	0	0	0
Futures	57	52	11 682	12 756	0	0	0	0	1	0	24	0	0	0	0	0
Options	715	467	49 469	50 865	0	0	0	0	0	0	0	0	0	0	0	0
Forwards	0	4	5	622	0	0	0	0	0	0	0	0	0	0	0	0
Foreign exchange contracts	3 073	2 765	224 699	225 986	4	2	59	55	67	12	431	383	0	0	0	0
Forward foreign exchange operations/currency forwards	995	960	114 901	116 262	0	0	0	0	2	0	30	29	0	0	0	0
Currency and interest rate swaps	1 328	1 251	77 955	78 465	4	2	59	55	64	4	351	297	0	0	0	0
Futures	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Options	750	554	31 842	31 259	0	0	0	0	1	8	50	57	0	0	0	0
Equity contracts	9 716	11 889	50 313	54 958	0	0	7	7	0	0	0	0	0	0	0	0
Equity swaps	2 653	3 451	31 081	31 214	0	0	7	7	0	0	0	0	0	0	0	0
Forwards	25	1	8	29	0	0	0	0	0	0	0	0	0	0	0	0
Futures	4	11	357	219	0	0	0	0	0	0	0	0	0	0	0	0
Options	7 027	8 036	18 837	22 625	0	0	0	0	0	0	0	0	0	0	0	0
Warrants	7	389	30	870	0	0	0	0	0	0	0	0	0	0	0	0
Credit contracts	12 634	12 351	138 612	104 230	0	0	0	0	0	0	0	0	0	0	0	0
Credit default swaps	12 634	12 351	138 612	104 230	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	105	115	1 217	1 245	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	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
31-12-2009																
Total	**20 995**	**26 304**	**917 155**	**905 786**	**43**	**187**	**4 371**	**4 340**	**119**	**434**	**18 773**	**18 757**	**3**	**261**	**8 181**	**8 181**
Breakdown by type																
Interest rate contracts	11 136	13 154	567 887	568 046	43	186	4 356	4 323	72	425	18 287	18 287	3	260	8 176	8 176
Interest rate swaps	10 322	12 675	503 165	503 832	43	186	4 356	4 323	72	425	18 287	18 287	3	260	8 176	8 176
Forward rate agreements	15	14	9 636	9 715	0	0	0	0	0	0	0	0	0	0	0	0
Futures	13	4	10 845	7 427	0	0	0	0	0	0	0	0	0	0	0	0
Options	786	459	44 236	47 056	0	0	0	0	0	0	0	0	0	0	0	0
Forwards	0	2	5	15	0	0	0	0	0	0	0	0	0	0	0	0
Foreign exchange contracts	1 568	1 627	182 225	184 935	0	1	7	8	47	8	486	470	0	0	0	0
Forward foreign exchange operations/currency forwards	274	313	83 409	85 226	0	0	0	0	0	2	30	32	0	0	0	0
Currency and interest rate swaps	1 047	1 166	82 202	83 229	0	1	7	8	47	3	266	224	0	0	0	0
Futures	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Options	248	148	16 613	16 481	0	0	0	0	1	4	190	214	0	0	0	0
Equity contracts	3 132	3 807	35 838	44 464	0	0	9	9	0	0	0	0	0	0	0	0
Equity swaps	1 381	951	24 095	24 118	0	0	9	9	0	0	0	0	0	0	0	0
Forwards	14	1	26	7	0	0	0	0	0	0	0	0	0	0	0	0
Futures	11	15	764	901	0	0	0	0	0	0	0	0	0	0	0	0
Options	1 722	2 811	10 945	16 866	0	0	0	0	0	0	0	0	0	0	0	0
Warrants	5	28	7	2 573	0	0	0	0	0	0	0	0	0	0	0	0
Credit contracts	5 108	7 687	130 975	108 110	0	0	0	0	0	0	0	0	0	0	0	0
Credit default swaps	5 108	7 687	130 975	108 110	0	0	0	0	0	0	0	0	0	0	0	0
Credit spread options	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total return swaps	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Commodity and other contracts	50	28	231	231	0	0	0	0	0	0	0	0	0	0	5	5

* Including hedges of net investments in foreign operations.

- The carrying values given in the tables are dirty prices for derivatives held for trading and clean prices for hedging derivatives. The accrued interest income on hedging derivatives amounted to 38 million euros in 2008 and 48 million euros in 2009, while the accrued interest expense came to 232 million euros in 2008 and 205 million euros in 2009.
- One way in which the group's ALM department manages the interest rate risk is to conclude derivatives contracts. The accounting mismatches attributable to these hedging activities (derivatives as opposed to assets or liabilities) are dealt with in two ways:
  - Portfolio hedges of interest rate risk: used to hedge the interest rate risk on a particular loan portfolio (term loans, home loans, instalment loans and straight loans) with interest rate swaps. The hedge is set up in accordance with the requirements of the carved-out version of IAS 39.
  - Financial assets and liabilities designated at fair value through profit or loss (the fair value option): used to eliminate or significantly reduce a measurement or recognition inconsistency ('an accounting mismatch' that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases). This method is used specifically to avoid other accounting mismatches relating to the loan portfolio (measured at amortised cost) and the interest rate swaps (measured at fair value) in ALM. For this purpose, a (government) bond portfolio has been classified as a financial asset at fair value through profit or loss. The fair value option is also used for CDOs and certain financial liabilities with embedded derivatives whose economic risk and characteristics are closely related to those of the host contract (some KBC IFIMA issues), which would otherwise give rise to an accounting mismatch with the hedging instruments.
- In addition, KBC uses micro-hedge accounting permitted under IAS 39 to limit the volatility of results in the following cases:
  - Fair value hedges: used in certain asset-swap constructions, where KBC buys a bond on account of the credit spread. The interest rate risk of the bond is hedged by means of an interest rate swap. This technique is also applied to certain fixed-term debt instruments issued by KBC Bank.
  - Cashflow hedges: used primarily to swap floating-rate notes for a fixed rate.
  - Hedges of net investments in foreign operations: the exchange risk attached to foreign-currency investments is hedged by attracting funding in the currency concerned at the level of the investing entity.
- Usually one of the micro-hedging techniques that must be documented individually is used for large individual transactions that can clearly be separated out. For the purposes of ALM, which by definition is macro-management, use is made of the possibilities specifically provided for under IAS 39, namely the 'fair value option' and the 'portfolio hedge of interest rate risk' according to the carved-out version.
- As regards the relationship between risk management and hedge accounting policy, 'economic' management is given priority and the risks have to be hedged in accordance with the general ALM framework. It is then decided what the most efficient option is for limiting (any) resulting accounting mismatch using one of the above hedging techniques.
- The estimated cashflows from the cashflow hedging derivatives per time bucket break down as follows (in millions of EUR):

	Inflow	Outflow
- Not more than three months:	26	-22
- More than three but not more than six months:	51	-65
- More than six months but not more than one year:	112	-176
- More than one but not more than two years:	298	-456
- More than two but not more than five years:	928	-1 141
- More than five years:	2 727	-2 827

Note 26: Other assets

(in millions of EUR)	31-12-2008	31-12-2009
Total	**2 525**	**2 597**
Debtors arising out of primary insurance operations	272	282
Debtors arising out of reinsurance operations	117	90
Other debtors and called capital as yet unpaid	0	0
Deposits with ceding companies	97	103
Income receivable (other than interest income from financial assets)	419	720
Other	1 620	1 402

Note 27: Tax assets and tax liabilities

(in millions of EUR)	31-12-2008	31-12-2009
CURRENT TAXES		
Current tax assets	363	367
Current tax liabilities	384	379
DEFERRED TAXES	**1 971**	**1 706**
Deferred tax assets by type of temporary difference	3 919	3 684
Employee benefits	253	222
Losses carried forward	249	828
Tangible and intangible fixed assets	85	84
Provisions for risks and charges	59	56
Impairment for losses on loans and advances	260	330
Financial instruments at fair value through profit or loss and fair value hedges	1 423	1 160
Fair value changes, available-for-sale assets, cashflow hedges and hedges of net investments in foreign operations	1 329	796
Technical provisions	86	82
Other	175	125
Unused tax losses and unused tax credits	240	1 358
Deferred tax liabilities by type of temporary difference	1 948	1 978
Employee benefits	37	42
Losses carried forward	0	0
Tangible and intangible fixed assets	125	127
Provisions for risks and charges	54	49
Impairment for losses on loans and advances	127	120
Financial instruments at fair value through profit or loss and fair value hedges	775	717
Fair value changes, available-for-sale assets, cashflow hedges and hedges of net investments in foreign operations	606	645
Technical provisions	103	101
Other	120	176
Recognised in the balance sheet as follows:		
Deferred tax assets	2 090	1 847
Deferred tax liabilities	119	140

- 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.
- The total net decrease in deferred taxes (265 million euros) breaks down as follows:
  - decrease in deferred tax assets: 235 million euros;
  - increase in deferred tax liabilities: 30 million euros.
- The decrease in deferred tax assets is accounted for by:
  - the increase via the income statement: +317 million euros (losses carried forward, including the capitalised notional interest deduction (+579 million euros) and financial instruments at fair value through profit or loss and fair value hedges (-262 million euros));
  - the decrease in deferred tax assets consequent on the rise in the market value of available-for-sale securities: -534 million euros;
  - other items (-18 million euros).
- The increase in deferred tax liabilities is made up of the following:
  - the increase in deferred tax liabilities consequent on the rise in the market value of available-for-sale securities: +39 million euros;
  - other items (-9 million euros).

Note 28: Investments in associated companies

(in millions of EUR)	31-12-2008	31-12-2009
Total	**27**	**608**
Overview of investments, including goodwill		
Nova Ljubljanska banka	0	582
Other	27	26
Goodwill on associated companies		
Gross amount	0	210
Accumulated impairment	0	0
Breakdown by type		
Unlisted	27	608
Listed	0	0
Fair value of investments in listed associated companies	0	0
MOVEMENTS TABLE	**2008**	**2009**
Opening balance (1 January)	634	27
Acquisitions	0	0
Carrying value, transfers	-26	0
Share in the result for the period	-1	-22
Dividends paid	-4	-5
Share of gains and losses not recognised in the income statement	0	9
Translation differences	-1	0
Changes in goodwill	0	0
Transfers to or from non-current assets held for sale and disposal groups	-576	601
Other movements	0	-2
Closing balance (31 December)	27	608

- 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.
- Goodwill paid on associated companies is included in the nominal value of 'Investments in associated companies' shown on the balance sheet. An impairment test has been performed and the necessary impairment losses on goodwill have been recognised (see table).
- In 2009, the participating interest in Nova Ljubljanska banka (NLB) – transferred in 2008 to 'Non-current assets held for sale and disposal groups' – was transferred back to 'Investments in associated companies', owing to the uncertainty surrounding the sale of this shareholding in the short term.

Note 29: Property and equipment and investment property

(in millions of EUR)	31-12-2008	31-12-2009
Property and equipment	**2 964**	**2 890**
Investment property	**689**	**762**
Rental income	73	70
Direct operating expenses from investments generating rental income	19	18
Direct operating expenses from investments not generating rental income	5	2

MOVEMENTS TABLE	**Land and buildings**	**IT equipment**	**Other equipment**	**Total property and equipment**	**Investment property**
2008					
Opening balance	1 612	154	468	2 234	593
Acquisitions	361	125	470	956	47
Disposals	-143	-9	-210	-362	-16
Depreciation	-86	-83	-81	-250	-23
Impairment					
Recognised	-2	-1	-4	-7	-1
Reversed	1	0	0	1	0
Transfers to or from non-current assets held for sale and disposal groups	0	0	0	0	0
Translation differences	-43	-5	-13	-60	-8
Changes in the scope of consolidation	39	4	14	56	100
Other movements	-8	-4	407	395	-3
Closing balance	1 732	182	1 051	2 964	689
of which accumulated depreciation and impairment	1 016	639	238	1 894	160
of which expenditure on items in the course of construction	17	1	13	31	–
of which finance lease as a lessee	2	4	0	6	–
Fair value 31-12-2008	–	–	–	–	837
2009					
Opening balance	1 732	182	1 051	2 964	689
Acquisitions	90	82	378	550	31
Disposals	-23	-5	-176	-205	-11
Depreciation	-92	-89	-65	-246	-24
Impairment					
Recognised	-1	-2	0	-3	-6
Reversed	0	0	0	0	2
Transfers to or from non-current assets held for sale and disposal groups	-1	0	-9	-9	0
Translation differences	8	0	1	9	1
Changes in the scope of consolidation	-1	0	-6	-7	70
Other movements	0	8	-170	-163	11
Closing balance	1 712	176	1 003	2 890	762
of which accumulated depreciation and impairment	1 072	617	247	1 937	189
of which expenditure on items in the course of construction	16	1	7	24	–
of which finance lease as a lessee	0	0	1	1	–
Fair value 31-12-2009	–	–	–	–	886

- KBC applies the following annual rates of depreciation to property, equipment and investment property: between 3% and 10% for land and buildings, between 30% and 33% for IT equipment, between 10% and 33% for other equipment, and between 3% and 5% for investment property.
- 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.
- 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 parameters available on the date of the assessment (including location and market situation, type of building and construction, state of repair, use, etc.).

Note 30: Goodwill and other intangible assets

(in millions of EUR)	Goodwill	Software developed inhouse	Software developed externally	Other	Total
2008					
Opening balance	3 094	103	171	133	3 501
Acquisitions	471	107	99	20	697
Disposals	0	-23	-6	-5	-34
Adjustment resulting from subsequent identification	0	0	0	0	0
Amortisation	0	-44	-67	-10	-120
Impairment					
Recognised	-25	-3	0	-29	-57
Reversed	0	0	0	0	0
Transfers to or from non-current assets held for sale and disposal groups	0	0	0	0	0
Translation differences	-108	0	-2	-2	-113
Changes in the scope of consolidation	0	0	4	13	17
Other movements	48	43	-50	-66	-25
Closing balance	3 479	183	149	55	3 866
of which accumulated amortisation and impairment	37	229	556	74	896
2009					
Opening balance	3 479	183	149	55	3 866
Acquisitions	39	76	79	14	208
Disposals	0	-4	-2	-19	-25
Adjustment resulting from subsequent identification	0	0	0	0	0
Amortisation	0	-55	-63	-15	-132
Impairment					
Recognised	-509	0	0	0	-509
Reversed	0	0	0	0	0
Transfers to or from non-current assets held for sale and disposal groups	0	0	0	0	0
Translation differences	-16	0	0	1	-16
Changes in the scope of consolidation	-72	0	0	0	-72
Other movements	-4	0	-8	6	-5
Closing balance	2 918	201	155	42	3 316
of which accumulated amortisation and impairment	546	268	620	71	1 505

- The 'goodwill' column includes the goodwill paid on companies included in the scope of consolidation. Goodwill paid on associated companies is included in the nominal value of 'Investments in associated companies' shown on the balance sheet. An impairment test has been performed and the necessary impairment losses on goodwill have been recognised (see table). Given the volatility of the markets, the test was carried out in each quarter of 2009 (instead of annually).
- Impairment on goodwill under IAS 36 is recognised in profit or loss if the recoverable amount of an investment is lower than its carrying value. The recoverable amount is defined as the higher of the value in use (calculated based on discounted cashflow analysis) and the fair value (calculated based on multiple analysis, regression analysis, etc.) less costs to sell.
  - The discounted cashflow method calculates the recoverable amount of an investment as the present value of all future free cashflows of the business. This method is based on long-term projections about the company's business and the resulting cashflows (i.e. projections for a number of years ahead (varying from 5 to 20), and the terminal value of the business at the end of the specific projection period). The terminal growth rate is determined using a long-term average market growth rate. The present value of these future cashflows is calculated using a compound discount rate, which is based on the Capital Asset Pricing Model (CAPM). A risk-free rate, a market-risk premium (multiplied by an activity beta), and a country risk premium (to reflect the impact of the economic situation of the country where KBC is active) are also used in the calculation. KBC has developed two distinct discounted cashflow models, viz. a bank model and an insurance model. In both cases, free cashflows are considered to be the dividends that can be paid out to the company's shareholders, account taken of the minimum capital requirements.
  - The multiple-analysis method calculates the recoverable amount of an investment relative to the value of comparable companies. The value is determined on the basis of relevant ratios between the value of the comparable company and the carrying value, or profit, for instance, of that company. For the purposes of comparison, account is taken of listed companies (where value is equated to market capitalisation) and of companies involved in mergers or acquisitions (where the value is equated to the sales price).
  - The regression analysis method calculates the recoverable amount of an investment using a regression analysis of comparable listed companies. For banks, account is taken primarily of the relationship between market capitalisation, net asset value and profitability. Statistical analysis has shown that a strong correlation exists between these parameters. It is assumed that a company with a comparable net asset value and comparable profitability is comparable in value.
- At the end of 2009, goodwill was accounted for primarily by (in each case, the consolidated entity, i.e. including subsidiaries) KBL EPB (994 million euros), Absolut Bank (356 million euros), ČSOB Czech Republic (253 million euros), K&H Bank (255 million euros), CIBANK (171 million euros) and DZI Insurance (144 million euros), WARTA (156 million euros) and Kredyt Bank (72 million euros), and ČSOB Slovakia including Istrobanka (191 million euros). At the end of 2008, goodwill was accounted for primarily by (in each case, the consolidated entity, i.e. including subsidiaries) KBL EPB (1 016 million euros), Absolut Bank (461 million euros), ČSOB Czech Republic (271 million euros), K&H Bank (258 million euros), CIBANK (290 million euros) and DZI Insurance (209 million euros), WARTA (156 million euros) and Kredyt Bank (93 million euros), and ČSOB Slovakia including Istrobanka (246 million euros).

Note 31: Technical provisions, insurance

(in millions of EUR)	31-12-2008	31-12-2009
Gross technical provisions	**19 523**	**22 012**
Insurance contracts	9 699	10 244
Provisions for unearned premiums and unexpired risk	510	504
Life insurance provision	5 222	5 493
Provision for claims outstanding	3 586	3 770
Provision for profit sharing and rebates	20	29
Other technical provisions	361	449
Investment contracts with DPF	9 824	11 768
Life insurance provision	9 813	11 715
Non-life insurance provision	0	0
Provision for profit sharing and rebates	11	53
Reinsurers' share	**280**	**284**
Insurance contracts	280	284
Provisions for unearned premiums and unexpired risk	17	15
Life insurance provision	6	7
Provision for claims outstanding	256	262
Provision for profit sharing and rebates	0	0
Other technical provisions	0	0
Investment contracts with DPF	0	0
Life insurance provision	0	0
Non-life insurance provision	0	0
Provision for profit sharing and rebates	0	0

		2008		2009
MOVEMENTS TABLE	**Gross**	**Reinsurance**	**Gross**	**Reinsurance**
INSURANCE CONTRACTS, LIFE				
Opening balance	5 367	14	5 547	17
Net payments received/premiums receivable	649	85	731	0
Gross payments made	-429	-12	-362	0
(Theoretical) risk premiums	-158	-1	-147	0
Accretion of interest	173	0	145	0
Profit share allocated	29	0	73	0
Purchase/sale of portfolio	0	0	0	0
Exchange differences	0	0	12	0
Other movements	-83	-69	-94	-1
Closing balance	5 547	17	5 904	16
INSURANCE CONTRACTS, NON-LIFE				
Opening balance	4 106	277	4 152	263
Payments regarding claims of previous years	-425	-16	-453	-24
Surplus/shortfall of claims provision in previous years	-195	-5	-94	12
New claims	683	28	689	20
Purchase/sale of portfolio	4	1	0	0
Transfers	0	0	0	0
Exchange differences	-6	0	40	5
Other movements	-16	-21	7	-8
Closing balance	4 152	263	4 340	268
INVESTMENT CONTRACTS WITH DPF, LIFE				
Opening balance	8 431	0	9 824	0
Net payments received/premiums receivable	1 584	0	1 959	0
Gross payments made	-520	0	-500	0
Theoretical risk premiums	0	0	-4	0
Accretion of interest	332	0	492	0
Profit share allocated	64	0	62	0
Purchase/sale of portfolio	0	0	0	0
Exchange differences	0	0	0	0
Other movements	-67	0	-67	0
Closing balance	9 824	0	11 768	0

- Technical provisions relate to insurance contracts and investment contracts with a discretionary participation feature (DPF).
- Liabilities under investment contracts without DPF are valued according to IAS 39 (deposit accounting). These liabilities concern mainly unit-linked contracts, which are included in financial liabilities (see Note 18).
- Life insurance provisions are calculated using various assumptions. Judgement is required when making these assumptions and the assumptions used are based on various internal and external sources of information. Because IFRS 4 refers extensively to local accounting principles for the recognition of technical provisions at present, these provisions are generally calculated using the technical parameters that were applicable at the inception of the insurance contract and are subject to liability adequacy tests. The key parameters:
  - Mortality and morbidity rates are based on standard mortality tables and adapted where necessary to reflect the group's own experience.
  - Expense assumptions are based on current expense levels and expense loadings.
  - The discount rate is generally equal to the technical interest rate (3–5%) and remains constant throughout the life of the policy, in some cases adjusted to take account of legal requirements and internal policy decisions.

- Assumptions for non-life claims provisioning are based on past claims experience (including assumptions in respect of claim numbers, claim payments, and claims handling costs), and adjusted to take account of such factors as anticipated market experience, claims inflation, and external factors such as court awards and legislation. Non-life provisions are generally not discounted except when long-term obligations and/or annuities (e.g., hospitalisation, industrial accidents) are involved.

Note 32: Provisions for risks and charges

(in millions of EUR)	Provision for restructuring	Provision for taxes and pending legal disputes	Other	Subtotal	Impairment, off-balance-sheet credit commitments	Total
2008						
Opening balance	18	270	60	348	108	456
Movements with an impact on results						
Amounts allocated	67	153	11	232	59	291
Amounts used	-1	-11	-17	-29	0	-29
Unused amounts reversed	-8	-94	-16	-118	-57	-175
Other movements	-3	18	59	74	3	76
Closing balance	72	337	97	506	113	619
2009						
Opening balance	72	337	97	506	113	619
Movements with an impact on results						
Amounts allocated	18	180	136	213	116	329
Amounts used	-24	-84	-9	-117	0	-117
Unused amounts reversed	-18	-26	-10	-54	-103	-156
Other movements	-11	11	-9	-9	-15	-24
Closing balance	37	419	84	539	111	651

- Restructuring provisions were set aside mainly for a number of companies in the KBC Financial Products group (at year-end 2009: 21 million euros), for the KBL EPB group (8 million euros) and for certain Central and Eastern European subsidiaries of KBC Bank (3 million euros in total). Restructuring provisions set aside a year earlier were primarily for the KBC Financial Products group (at year-end 2008: 45 million euros), for the KBL EPB group (12 million euros) and for certain Central and Eastern European subsidiaries of KBC Bank (9 million euros in total).
- In 2009, the provision for taxes and pending legal disputes went up by 82 million euros, largely on account of the amounts set aside for commercial disputes involving the sale of CDOs to customers. Settlement has already been reached with most customers. The remaining portion of the provision for commercial disputes involving CDOs came to 0.1 billion euros at year-end 2009.
- 'Other provisions' include those set aside for miscellaneous risks and future expenditure.
- Specific impairment for off-balance-sheet credit commitments includes impairment for guarantees, etc.
- For most of the provisions recorded, no reasonable estimate can be made of when they will be used.
- The most significant legal disputes pending are discussed below. 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. whether it is probable there will be an outflow of resources ('probable'); or whether there may, but probably will not, be an outflow of resources ('possible'); or whether the likelihood of an outflow of resources is remote ('remotely probable').
  Provisions are set aside for 'probable outflow' cases (see 'Notes on the accounting policies'). No provisions are constituted for 'possible outflow' cases, but information is provided in the annual accounts if such cases might have a material impact on the balance sheet (i.e. when the claim could lead to a possible outflow of more than 25 million euros).
  All other claims ('remotely probable outflow'), of whatever magnitude, that represent a minor or no risk at all do not have to be reported. Nonetheless, for reasons of transparency, KBC has also provided information on the current status of the most important cases in this category.

  The most important cases are listed below. The information provided is limited in order not to prejudice the position of the group in ongoing litigation.
  - Probable outflow:
    - In 2003, a major case of fraud at K&H Equities Hungary was uncovered. Numerous customers suffered substantial losses on their securities portfolios as a result of unauthorised speculative transactions and possible misappropriations of funds. Instructions and portfolio overviews were forged or tampered with. In August 2008, heavy criminal sentences were handed down. An appeal is pending. Most claims have already been settled either amicably or following an arbitral decision. Appropriate provisions have been set aside for the claims still outstanding (including a net amount of 29 million euros for the biggest case, known as DBI Kft. (Betonut)).
    - 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 26 cases. In addition, KB Consult was placed under suspicion by an investigating magistrate in 2004. KBC Bank and KBC Group NV were also summoned to appear in the proceedings before the Bruges court sitting in chambers, which decided on 27 May 2009 to postpone the case indefinitely. A provision of 47 million euros has been constituted to deal with the potential impact of claims for damages in this respect (on balance, this is a 3-million-euro reversal of the provision recognised at year-end 2008 due to the favourable judgment in one case). 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 (itself a former subsidiary of Gevaert, but now owned by 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. In November 1995, Broeckdal had been converted into a cash company and sold to Mubavi België, a subsidiary of Mubavi Nederland (a Dutch real estate investment group, declared bankrupt in 2005), in a transaction that was completely legitimate at the time. According to the Belgian Ministry of Finance, Mubavi België never actually made any investments and failed to file any proper tax returns. However, Broeckdal Vastgoedmaatschappij contested this claim and in December 2002 initiated court proceedings against the Belgian Ministry of Finance before the civil court in Antwerp. The civil case pending before the Brussels court has been suspended until final judgment has been passed in the tax-related proceedings pending before the Antwerp court. A provision of 26 million euros has been set aside to cover potential damages (in 2008, the amount was below the 25-million-euro disclosure threshold).
  - Possible outflow:
    - In 2002, a 100-million-euro claim was filed against KBC Bank by the shareholders of a holding company that had wholly owned NV Transport Coulier, a major transport firm in the petrochemical sector declared bankrupt in 1992. According to the claimants, the bank made various errors that led to the bankruptcy of the firm. On 14 October 2005, the court issued a decision, declaring the claims inadmissible. This decision was appealed on 30 June 2006, but no ruling can be expected before the first quarter of 2010.
  - Remotely probable outflow:
    - In the criminal proceedings that began on 3 April 2009 against eleven current and former directors and staff members of KBC Bank and Kredietbank SA Luxembourgeoise (KBL) accused of co-operation in tax evasion committed by customers of KBC Bank and KBL, the Brussels criminal court ruled on 8 December 2009 that the criminal proceedings were inadmissible. The Court judged that, given the extraordinary and doubtful circumstances in which the documents submitted by the public prosecutor came into the hands of the judicial authorities, they could not be used as evidence in legal proceedings. Following a close investigation into the way in which the disputed documents were incorporated into the proceedings, the court ruled that the criminal investigation had not been carried out in a fair and impartial manner, and gave very detailed reasons for this. The public prosecutor filed an appeal on 10 December 2009.
    - ČSOB (and KBC Bank in one case) is involved in a number of court cases relating to the *Agreement on Sale of Enterprise*, concluded on 19 June 2000 between Investiční a Poštovní banka (IPB) and ČSOB and to the guarantees provided in this respect by the Czech Republic and the Czech National Bank. In one of these cases, ČSOB initiated arbitration proceedings in respect of the above guarantees at the International Chamber of Commerce on 13 June 2007 against the Czech Republic concerning payment of the equivalent of 62 million euros plus interest. The Czech government has filed a counterclaim, provisionally estimated at the equivalent of 1 billion euros plus interest. Having examined the matter, internationally renowned law firms have, in formal legal opinions, come to the conclusion that the counterclaim is unfounded. A ruling is expected in the second half of 2010.

Note 33: Other liabilities

(in millions of EUR)	31-12-2008	31-12-2009
Total	**5 309**	**4 422**
Breakdown by type		
Retirement benefit plans or other employee benefits	1 530	1 146
Deposits from reinsurers	98	95
Accrued charges (other than from interest expenses on financial liabilities)	1 269	843
Other	2 412	2 339

- For more information on retirement benefit plans or other employee benefits, see Note 34.

Note 34: Retirement benefit obligations

(in millions of EUR)	31-12-2008	31-12-2009
DEFINED BENEFIT PLANS		
Reconciliation of defined benefit obligations		
Defined benefit obligations at the beginning of the period	1 786	1 884
Current service cost	107	110
Interest cost	93	96
Plan amendments	33	-21
Actuarial gain (loss)	-16	5
Benefits paid	-113	-111
Exchange differences	-11	0
Curtailments	-1	0
Changes in the scope of consolidation	0	0
Other	7	35
Defined benefit obligations at the end of the period	1 884	1 997
Reconciliation of the fair value of plan assets		
Fair value of plan assets at the beginning of the period	1 520	1 293
Actual return on plan assets	-230	189
Employer contributions	109	93
Plan participant contributions	18	21
Benefits paid	-113	-111
Exchange differences	-6	4
Settlements	-3	0
Changes in the scope of consolidation	0	0
Other	-3	40
Fair value of plan assets at the end of the period	1 293	1 529
of which financial instruments issued by the group	10	13
Funded status		
Plan assets in excess of defined benefit obligations	-580	-468
Unrecognised net actuarial gains	69	-43
Unrecognised transaction amount	0	0
Unrecognised past service cost	0	0
Unrecognised assets	-1	-1
Unfunded accrued/prepaid pension cost	-512	-512
Movement in net liabilities or net assets		
Unfunded accrued/prepaid pension cost at the beginning of the period	-508	-512
Net periodic pension cost	-121	-95
Employer contributions	109	-93
Exchange differences	0	0
Changes in the scope of consolidation	0	0
Other	8	2
Unfunded accrued/prepaid pension cost at the end of the period	-512	-512
Amounts recognised in the balance sheet		
Prepaid pension cost	77	58
Accrued pension liabilities	-589	-570
Unfunded accrued/prepaid pension cost	-512	-512

Note 34: Retirement benefit obligations (continued)

(in millions of EUR)	31-12-2008	31-12-2009
Amounts recognised in the income statement		
Current service cost	107	110
Interest cost	93	96
Expected return on plan assets	-88	-64
Adjustments to limit prepaid pension cost	1	1
Amortisation of unrecognised prior service costs	33	-21
Amortisation of unrecognised net gains/unrecognised net losses	-8	-8
Employee contributions	-18	-18
Curtailments	-1	0
Settlements	3	0
Changes in the scope of consolidation	0	0
Actuarially determined net periodic pension cost*	121	95
Actual rate of return on plan assets	**-15.1%**	**14.7%**
Principal actuarial assumptions used (based on weighted averages)		
Discount rate	5.1%	5.0%
Expected rate of return on plan assets	5.7%	5.2%
Expected rate of salary increase	3.4%	3.4%
Rate of pension increase	0.9%	0.8%
DEFINED CONTRIBUTION PLANS		
Expenses for defined contribution plans	7	6

* Included under staff expenses (see Note 12, 'Operating expenses').

- The pension claims of the staff of various KBC group companies are covered by pension funds and group insurance schemes, most of which are defined benefit plans. The main defined benefit plans are the KBC pension fund which covers KBC Bank, KBC Insurance (since 2007) and most of their Belgian subsidiaries, the KBC Insurance group insurance scheme (for staff employed prior to 1 January 2007) and KBL EPB's pension plans (which include both group insurance and pension funds). The assets of these first two plans are managed by KBC Asset Management. The benefits are dependent on, among other things, the employee's years of service, as well as on his/her remuneration in the years before retirement. The annual funding requirements for these plans are determined based on actuarial cost methods.
- Past figures for the main items shown in the table (figures for year-end 2005, 2006, 2007, 2008 and 2009 (in millions of euros):
  - Defined benefit obligations: 1 922, 1 717, 1 786, 1 884, 1 997;
  - Fair value of plan assets: 1 478, 1 497, 1 520, 1 293, 1 529;
  - Unfunded accrued or prepaid pension cost: -604, -474, -508, -512, -512.
- The expected return on plan assets (ROA) is calculated on the basis of the OLO rate, account taken of the plan's investment mix.
  ROA = (X x rate on OLO T years) + (Y x (rate on OLO T years + 3%)) + (Z x (rate on OLO T years + 1.75%)), where:
  T = term of the OLO used for the discount rate;
  X = percentage of fixed-income securities;
  Y = percentage of shares;
  Z = percentage of real estate.
  The risk premiums of 3% and 1.75%, respectively, are based on the long-term returns from shares and real estate.
- At year-end 2009, the assets of the group's biggest pension plans were as follows:
  - KBC pension fund: 40% shares, 48% bonds, 9% real estate and 3% cash (in 2008: 33% shares, 54% bonds, 10% real estate and 3% cash);
  - KBC Insurance group insurance scheme (including Fidea): 8% shares, 88% bonds, 2% real estate and 2% cash (in 2008: 13% shares, 86% bonds and 1% real estate);
  - KBL EPB pension plan: 39% shares, 54% bonds, 3% real estate and 4% cash (in 2008: 9% shares, 67% bonds and 24% cash).
- The following contributions are expected to be made to these plans in 2010:
  - KBC pension fund: 75 million euros;
  - KBC Insurance group insurance scheme (including Fidea): 4 million euros;
  - KBL EPB pension plan: 10 million euros.
- Changes in the assumptions used in the actuarial calculation of plan assets and gross liabilities from defined benefit plans had the following impact on plan assets (a plus sign indicates a positive impact, a minus sign a negative impact, this relates to the three pension schemes mentioned in the preceding paragraph, combined): +2 million euros in 2005, +1 million euros in 2006, -1 million euros in 2007, 0 million euros in 2008 and 0 million euros in 2009. The impact on pension liabilities came to +16 million euros, -40 million euros, -7 million euros, -88 million euros and -18 million euros, respectively.

Note 35: Parent shareholders equity and non-voting core-capital securities

(in number of shares)	31-12-2008	31-12-2009
Ordinary shares	357 752 822	357 918 125
Mandatorily convertible bonds	0	0
Non-voting core-capital securities	118 644 067	237 288 134
of which ordinary shares that entitle the holder to a dividend payment	*341 819 369*	*344 392 245*
of which treasury shares	*18 216 385*	*18 189 217*
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 (in number of shares)	Ordinary shares	Mandatorily convertible bonds	Non-voting core-capital securities
2008			
Opening balance	355 115 321	2 589 347	0
Issue of shares/core-capital securities	48 154	0	118 644 067
Conversion of mandatorily convertible bonds into shares	2 589 347	-2 589 347	0
Other movements	0	0	0
Closing balance	357 752 822	0	118 644 067
2009			
Opening balance	357 752 822	0	118 644 067
Issue of shares/core-capital securities	165 303	0	118 644 067
Conversion of mandatorily convertible bonds into shares	0	0	0
Other movements	0	0	0
Closing balance	357 918 125	0	237 288 134

- Ordinary shares: the share capital of KBC Group NV consists of ordinary shares of no nominal value. All ordinary shares carry voting rights and each share represents one vote. No participation certificates or non-voting shares have been issued. At year-end 2009, the companies belonging to the KBC group held 18 189 217 ordinary KBC shares in portfolio. These were primarily treasury shares repurchased under the earlier share buyback programmes and treasury shares needed for the employee stock option plans. 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 are not included in 'Parent shareholders' equity', but in 'Minority interests'.
- Mandatorily convertible bonds: on 1 December 2008, all remaining mandatorily convertible bonds were converted into ordinary shares. At 31 December 2009, there were no freely convertible bonds outstanding.
- 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 Federal Government (the Federal Holding and Investment Company) and the Flemish Regional Government (each in the amount of 3.5 billion euros). The transaction with the Belgian Federal Government was concluded in December 2008, while the agreement with the Flemish Regional Government was finalised in July 2009. KBC Group NV used the proceeds of these transactions to strengthen the core capital of its banking activities by a total of 5.5 billion euros (via an ordinary capital increase at KBC Bank) and to raise the solvency margin of its insurance activities by 1.5 billion euros (via an ordinary capital increase at KBC Insurance). The other features of the transactions are:
  - Issue price: 29.50 euros per security.
  - Coupon: the higher of (i) 2.51 euros per security (corresponding to an interest rate of 8.5%), and (ii) 120% of the dividend paid on ordinary shares for 2009 (coupon payment in 2010) and 125% for 2010 and subsequent years (coupon payments in 2011 and later). No coupon will be paid if there is no dividend.
  - Buyback option: subject to the approval of the financial regulator, KBC may at any time repurchase all or some of the securities at 150% of the issue price (44.25 euros), payable in cash.
  - Exchange option (only valid for the transaction with the Belgian State): after three years, (i.e. in December 2011), KBC may at any time exchange the securities for ordinary shares on a one-for-one basis. Should KBC opt to do this, the State may choose to receive payment in cash for the securities. The cash amount will be equal to 115% of the issue price as of the fourth year, and will increase each subsequent year by 5 percentage points (with a cap at 150%).

Note 36: Commitments and contingent liabilities

(in millions of EUR)	31-12-2008	31-12-2009
Credit commitments – undrawn amount		
Given	43 320	34 097
Irrevocable	36 388	20 209
Revocable	6 932	13 888
Received	3 442	3 469
Financial guarantees		
Given	18 009	17 029
Guarantees received/collateral	190 159	185 631
For impaired and past due assets	5 191	7 888
Non-financial assets	4 012	3 751
Financial assets	1 179	4 136
For assets that are not impaired or past due	184 968	177 744
Non-financial assets	145 253	147 464
Financial assets	39 715	30 279
Other commitments		
Given	650	1 848
Irrevocable	625	1 828
Revocable	25	20
Received	238	257

- The fair value of financial guarantees is based on the available market value, while the fair value of non-financial guarantees is based on the value when the loan is taken out (for example, the mortgage registration amount) or when the personal guarantee is established.
- KBC Group NV irrevocably and unconditionally guarantees all sums, indebtedness, obligations and liabilities outstanding on 31 December 2009 listed in Section 5c of the Irish Companies (Amendment) Act of the following Irish companies, which are consequently eligible for exemption from certain disclosure requirements, pursuant to Section 17 of the Irish Companies (Amendment) Act 1986:
  - KBC Asset Management International Limited
  - KBC Asset Management Limited
  - KBC Financial Services (Ireland) Limited
  - KBC Fund Managers Limited
  - Eperon Asset Management Limited.

Note 37: Leasing

(in millions of EUR)	31-12-2008	31-12-2009
Finance lease receivables		
Gross investment in finance leases, receivable	8 004	6 682
At not more than one year	2 416	2 047
At more than one but not more than five years	4 204	3 286
At more than five years	1 384	1 349
Unearned future finance income on finance leases	1 200	1 054
Net investment in finance leases	6 765	5 601
At not more than one year	2 057	1 749
At more than one but not more than five years	3 704	2 858
At more than five years	1 004	994
of which unguaranteed residual values accruing to the benefit of the lessor	7	18
Accumulated impairment for uncollectable lease payments receivable	108	187
Contingent rents recognised in income	16	15
Operating lease receivables		
Future aggregate minimum rentals receivable under non-cancellable leases	698	729
At not more than one year	212	231
At more than one but not more than five years	453	485
At more than five years	33	13
Contingent rents recognised in income	2	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: most finance leasing is carried out via separate companies operating mainly in Belgium and Central Europe. KBC offers finance lease products ranging from equipment and vehicle leasing to real estate leasing. In Belgium, finance leasing is typically sold through KBC group's branch network.
- Operational leasing involves primarily full service car leasing, which is sold through the network of KBC Bank and CBC Banque branches and through an internal sales team. Full service car leasing activities are being developed in Central Europe, too.

Note 38: Related-party transactions

(in millions of EUR)	2008	2009
TRANSACTIONS WITH RELATED PARTIES, EXCLUDING DIRECTORS		
Assets	**23 385**	**29 288**
Loans and advances	1 015	370
Current account advances	24	13
Term loans	991	357
Finance leases	0	0
Consumer credit	0	0
Mortgage loans	0	0
Equity instruments	208	268
Trading securities	5	50
Investment securities	203	218
Other amounts receivable	22 162	28 649
Liabilities	**1 878**	**744**
Deposits	501	603
Deposits	376	479
Other borrowings	125	124
Other financial liabilities	1	31
Debt certificates	1	31
Subordinated liabilities	0	0
Share-based payments (granted)	0	0
Share-based payments (exercised)	0	0
Other liabilities	1 376	110
Income statement	**739**	**928**
Net interest income	737	939
Gross earned premiums	0	0
Dividend income	13	12
Net fee and commission income	1	1
Other net income	24	8
General administrative expenses	-36	-33
Guarantees		
Guarantees issued by the group	0	0
Guarantees received by the group	0	0
TRANSACTIONS WITH DIRECTORS		
Total*	8	6
Breakdown per director		
Members of the Group Executive Committee	3	5
Other members	5	1
Breakdown by type of remuneration		
Short-term employee benefits	5	4
Post-employment benefits	2	2
Defined benefit plans	2	2
Defined contribution plans	0	0
Other long-term employee benefits	0	0
Termination benefits	0	1
Share-based payments	0	0
Share options, in units		
At the beginning of the period	62 700	64 000
Granted	7 300	0
Exercised	-6 000	0
Changes in directors	0	-29 700
At the end of the period	64 000	34 300
Advances and loans granted to directors and partners*	**3**	**2**

* 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.

- After the elimination of transactions with consolidated subsidiaries, the transactions that remain are primarily with
  - associated companies (including with NLB for around 176 million euros in receivables and around 112 million euros in debt instruments);
  - non-consolidated special purpose vehicles;
  - KBC Ancora, Cera CVBA, MRBB;
  - the pension funds and the directors of the group;
  - the Belgian Federal Government and the Flemish Regional Government (see the capital-strengthening transactions in Note 35) totalling around 28.6 billion euros in receivables and 0.3 billion euros in debt instruments.
- All related-party transactions occur at arm's length.
- There were no material transactions with associated companies other than shown in the table.

Note 39: Auditor's remuneration

In 2009, KBC Group NV and its consolidated subsidiaries paid Ernst & Young Bedrijfsrevisoren BCVBA fees amounting to a total of 15 775 397 euros for standard audit services. Remuneration paid for other services came to 1 657 926 euros in 2009, viz.:

- other certifications: 1 045 286 euros;
- tax advice: 226 730 euros;
- other non-audit assignments: 385 910 euros.

Note 40: List of significant subsidiaries and associated companies

Company	Registered office	Ownership percentage at group level	Business unit*	Activity
KBC BANK				
Fully consolidated subsidiaries				
Absolut Bank	Moscow – RU	95.00	CEER	Credit institution
Antwerp Diamond Bank NV	Antwerp – BE	100.00	MB	Credit institution
CBC Banque SA	Brussels – BE	100.00	B	Credit institution
Centea NV	Antwerp – BE	99.56	B	Credit institution
CIBANK AD	Sofia – BG	81.69	CEER	Credit institution
ČSOB a.s. (Czech Republic)	Prague – CZ	100.00	CEER	Credit institution
ČSOB a.s. (Slovak Republic)	Bratislava – SK	100.00	CEER	Credit institution
KBC Asset Management NV	Brussels – BE	100.00	B	Asset management
KBC Bank NV	Brussels – BE	100.00	B/MB/GC	Credit institution
KBC Bank Deutschland AG	Bremen – DE	100.00	MB	Credit institution
KBC Bank Funding LLC & Trust (group)	New York – US	100.00	MB	Issuance of trust preferred securities
KBC Bank Ireland Plc	Dublin – IE	100.00	MB	Credit institution
KBC Clearing NV	Amsterdam – NL	100.00	MB	Clearing
KBC Commercial Finance	Brussels – BE	100.00	MB	Factoring
KBC Credit Investments NV	Brussels – BE	100.00	MB	Investment in credit-related securities
KBC Finance Ireland	Dublin – IE	100.00	MB	Lending
KBC Financial Products (group)	Various locations	100.00	MB	Equities and derivatives trading
KBC Internationale Financieringsmaatschappij NV	Rotterdam – NL	100.00	MB	Issuance of bonds
KBC Lease (group)	Various locations	100.00	MB	Leasing
KBC Peel Hunt Limited	London – GB	100.00	MB	Stock exchange broker, corporate finance
KBC Private Equity NV	Brussels – BE	100.00	MB	Private equity
KBC Real Estate NV	Zaventem – BE	100.00	MB	Real estate
KBC Securities NV	Brussels – BE	100.00	MB	Stock exchange broker, corporate finance
K&H Bank Rt.	Budapest – HU	100.00	CEER	Credit institution
Kredyt Bank SA	Warsaw – PL	80.00	CEER	Credit institution
Associated companies				
Nova Ljubljanska banka d.d. (group)	Ljubljana – SI	30.57	CEER	Credit institution
KBC INSURANCE				
Fully consolidated subsidiaries				
ADD NV	Heverlee – BE	100.00	B	Insurance company
Assurisk SA	Luxembourg – LU	100.00	MB	Insurance company
ČSOB Pojišt'ovna a.s.(Czech Republic)	Pardubice – CZ	100.00	CEER	Insurance company
ČSOB Poist'ovňa a.s. (Slovak Republic)	Bratislava – SK	100.00	CEER	Insurance company
DZI Insurance	Sofia – BG	89.53	CEER	Insurance company
Fidea NV	Antwerp – BE	100.00	B	Insurance company
VAB Group	Zwijndrecht – BE	74.81	B	Automobile assistance
K&H Insurance Rt.	Budapest – HU	100.00	CEER	Insurance company
KBC Banka A.D.	Belgrade – RS	100.00	CEER	Credit institution
KBC Insurance NV	Leuven – BE	100.00	B	Insurance company
Secura NV	Brussels – BE	95.04	MB	Insurance company
VITIS Life Luxembourg SA	Luxembourg – LU	99.99	EPB	Insurance company
TUiR WARTA S.A.	Warsaw – PL	100.00	CEER	Insurance company
Proportionately consolidated subsidiaries				
NLB Vita d.d.	Ljubljana – SI	50.00	CEER	Insurance company

Note 40: List of significant subsidiaries and associated companies (continued)

Company	Registered office	Ownership percentage at group level	Business unit*	Activity
KBL EPB				
Fully consolidated subsidiaries				
Brown, Shipley & Co. Limited	London – GB	99.91	EPB	Credit institution
KBL Richelieu Banque Privée	Paris – FR	99.91	EPB	Credit institution
KBL European Private Bankers SA	Luxembourg – LU	99.91	EPB	Credit institution
KBL (Switzerland) Ltd.	Geneva – CH	99.90	EPB	Credit institution
Merck Finck & Co.	Munich – DE	99.91	EPB	Credit institution
Puilaetco Dewaay Private Bankers SA	Brussels – BE	99.91	EPB	Credit institution
Theodoor Gilissen Bankiers NV	Amsterdam – NL	99.91	EPB	Credit institution
KBC GROUP NV (other direct subsidiaries)				
Fully consolidated subsidiaries				
KBC Global Services NV	Brussels – BE	100.00	GC	Cost-sharing structure
KBC Group NV	Brussels – BE	100.00	GC	Holding company

* Abbreviations: B = Belgium; CEER = Central & Eastern Europe and Russia; MB = Merchant Banking; EPB = European Private Banking; GC = Group Centre.

- For a complete list of the companies included in or excluded from the scope of consolidation, as well as all associated companies, as at 31 December 2009, see www.kbc.com (Group profile/Organisational structure).

Note 41: Main changes in the scope of consolidation

Parent company	Company	Consolidation method	Ownership percentage at group level		Comments
			31-12-2008	31-12-2009	
Additions					
None	–	–	–	–	–
Exclusions					
None	–	–	–	–	–
Changes in ownership percentage and internal mergers					
KBC Bank	CIBANK AD	Full	77.09	81.69	–
KBC Bank	Istrobanka	Full	100.00	–	Merged with ČSOB (Slovakia) in 3Q 2009
KBC Bank	KBC Bank Nederland	Full	100.00	–	Merged with KBC Bank NV in 2Q 2009

Note 42: Post-balance-sheet events

Events after balance sheet date are those events, favourable and unfavourable, that occur between the balance sheet date (31 December 2009) 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:

- 24 February 2010: as part of the new strategy that focuses on the group's home markets, KBC sold its US reverse mortgage loan portfolio (World Alliance Financial Corp.) held by KBC Financial Products. Although the financial impact of this transaction is limited, it reduces KBC's risk profile and frees up some 0.8 billion US dollars in cash.
- In the first half of 2010, KBC will significantly reduce its credit default swap position, as part of its restructuring of KBC Financial Products. This will ultimately lead to a reduction in regulatory capital requirements.

Note 43: General information (IAS 1)

Name	KBC Group NV
Incorporated	9 February 1935 as Kredietbank NV; the present name dates from 2 March 2005.
Country of incorporation	Belgium
Registered office	2 Havenlaan, 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 registered with the Belgian Banking, Finance and Insurance Commission.
Life	Indefinite
Object	The company is a financial holding company which has as object the direct or indirect ownership and management of shareholdings in other companies, including – but not restricted to – credit institutions, insurance companies and other financial institutions. The company also has as object to provide support services to third parties, as mandatary or otherwise, in particular to companies in which the company has an interest – either directly or indirectly (Article 2 of the Articles of Association).
Documents open to public inspection	The Articles of Association of the company are open to public inspection at the Registry of the Brussels Commercial Court. The financial statements have been filed with the National Bank of Belgium. Decisions on the appointment, resignation and dismissal of members of the Executive Committee and the Board of Directors are published in the *Appendices to the Belgian Official Gazette.* Financial reports about the company and convening notices of general meetings of shareholders are also published in the financial press and/or on www.kbc.com. Copies of the company's annual reports are available at its registered office. They are sent annually to the holders of registered shares and to those who have requested a copy.
General Meeting of Shareholders	A General Meeting is held every year at the company's registered office or at any other place designated in the convening notice, at 11 a.m. on the last Thursday of April, or, if this day is a public holiday, at 4 p.m. on the business day immediately before it. In order to be admitted to the General Meeting, the holders of bearer shares, bearer bonds or bearer warrants, and the holders of bearer certificates issued in co-operation with the company, must deposit these securities at least four business days prior to the meeting at the registered office or at another place designated in the convening notice. The owners of registered shares, bonds, warrants or certificates issued in co-operation with the company must also notify the registered office in writing, at least four business days prior to the meeting, of their intention to attend the General Meeting. Holders of book-entry shares, bonds, warrants or certificates issued in co-operation with the company, who wish to be admitted to the General Meeting must, at least four business days prior to the meeting, deposit at the registered office or at another place designated in the convening notice, a certificate drawn up by the recognised account holder or by the clearing house, attesting to the non-availability of the shares, bonds, warrants or certificates until the date of the General Meeting. Holders of bonds, warrants or certificates issued in co-operation with the company are entitled to attend the General Meeting, but they have only advisory voting capacity. In derogation from what has been set out above, the Board of Directors may decide that the holders of shares, bonds, warrants or certificates issued in co-operation with the company, in order to gain access to the General Meeting, have to prove that they hold these securities at midnight on the registration date, regardless of the number of securities they hold on the day of the General Meeting. This registration date may not be earlier than fifteen days and not later than five business days prior to the General Meeting. In a register designated by the Board of Directors, the number of securities held by each holder of securities at midnight on the registration date will be entered. The registration date will be specified in the convening notice for the General Meeting, along with the way in which the holders of securities can register.

COMPANY ANNUAL ACCOUNTS

Background

The company annual accounts of KBC Group NV are presented here in abridged form. As required by law, the company annual accounts, the report of the Board of Directors and the auditor's report are filed with the National Bank of Belgium. These documents are available free of charge on request from:

KBC Group NV
Investor Relations – IRO
2 Havenlaan
1080 Brussels
Belgium

The auditor has delivered an unqualified audit opinion on the company annual accounts of KBC Group NV.

The company annual accounts have been prepared according to Belgian accounting standards (B-GAAP) and are, therefore, not comparable with the figures prepared in accordance with IFRS in the other sections of this annual report.

Company balance sheet, profit and loss account, and profit appropriation (B-GAAP)

Company balance sheet after profit appropriation, according to B-GAAP

(in millions of EUR)	31-12-2008	31-12-2009
Fixed assets	**13 771**	**17 094**
Financial fixed assets	13 771	17 094
Associated companies	13 760	17 083
Participating interests	13 510	16 833
Amounts receivable	250	250
Companies linked by participating interests	11	11
Participating interests	1	1
Amounts receivable	10	10
Current assets	**371**	**545**
Stocks and contracts in progress	0	0
Amounts receivable within one year	2	23
Trade debtors	0	2
Other amounts receivable	2	22
Investments	317	467
Own shares	317	436
Other investments	0	30
Cash at bank and in hand	33	43
Deferred charges and accrued income	19	12
Total assets	**14 142**	**17 638**
Capital and reserves	**9 251**	**9 415**
Capital	1 244	1 245
Subscribed capital	1 244	1 245
Share premium account	4 332	4 336
Reserves	1 445	1 445
Legal reserve	124	124
Reserves not available for distribution	318	438
Untaxed reserves	190	190
Reserves available for distribution	812	693
Profit brought forward	2 230	2 390
Provisions and deferred taxes	**0**	**0**
Provisions for liabilities and charges	0	0
Creditors	**4 890**	**8 223**
Amounts payable at more than one year	4 732	7 835
Financial debts	4 732	7 835
Subordinated loans	3 500	7 000
Non-subordinated bonds	782	635
Credit institutions	0	0
Other loans	450	200
Amounts payable within one year	110	351
Amounts payable at more than one year falling due within the year	0	250
Financial debts	84	83
Other loans	84	83
Trade debts	2	0
Amounts owed because of taxation, remuneration and social security charges	2	1
Taxes	1	0
Remuneration and social security charges	2	1
Other creditors	22	16
Accrued charges and deferred income	48	38
Total liabilities	**14 142**	**17 638**

Company profit and loss account, according to B-GAAP

(in millions of EUR)	31-12-2008	31-12-2009
Charges		
A Interest and other debt charges	79	57
B Other financial charges	1	1
C Services and sundry goods	44	30
D Remuneration, social security charges and pensions	8	3
F Depreciation, amortisation, amounts written down and provisions for liabilities and charges	0	0
G 1) Write-downs on financial fixed assets	0	177
2) Write-downs on current assets	952	0
I Losses on sale of financial fixed assets	0	0
K Taxes	5	1
L Profit for the period	797	159
Total	**1 886**	**428**
N Profit for the period available for appropriation	797	159
Income		
A Income from financial fixed assets	1 843	266
B Income from current assets	30	6
C Other financial income	2	5
D Operating income	2	12
G 1) Reversals of write-downs on financial fixed assets	0	0
2) Reversals of write-downs on current assets	0	119
H Reversals of provisions for liabilities and charges	7	0
I 2) Gains on sale of financial fixed assets	2	0
J Extraordinary income	0	0
[M Transfer from untaxed reserve]	0	20
Total	**1 886**	**428**

Appropriation account, according to B-GAAP

(in millions of EUR)	31-12-2008	31-12-2009
Profit to be appropriated	2 340	2 390
Profit for the period available for appropriation	797	159
Profit brought forward from the previous financial year	1 543	2 230
Appropriations to capital and reserves	110	0
To the legal reserve	1	0
To other reserves	109	0
Profit (Loss) to be carried forward	2 230	2 390
Profit to be paid out	0	0
Dividends	0	0
Directors' entitlements	0	0
Other parties entitled to a share in profit, employee profit-sharing	0	0

It will be proposed to the general meeting of shareholders that the profit for appropriation for the 2009 financial year be appropriated as shown in the table. No dividend will be paid for 2009.

Note 1: Financial fixed assets (B-GAAP, non-consolidated)

Financial fixed assets, according to B-GAAP

(in millions of EUR)	Participating interests in associated companies	Amounts receivable from associated companies	Participating interests in companies linked by participating interests	Amounts receivable from companies linked by participating interests
Carrying value at 31-12-2008	13 510	250	1	10
Acquisitions in 2009	3 500	0	0	0
Disposals in 2009	0	0	0	0
Other changes in 2009	-177	0	0	0
Carrying value at 31-12-2009	**16 833**	**250**	**1**	**10**

KBC Group NV's participating interests in associated companies comprise mainly the shareholdings in KBC Bank NV (99.99%), KBC Insurance NV (99.99%), KBL European Private Bankers SA (KBL EPB 91.49% – excluding the KBL EPB shares held by Kredietcorp SA), KBC Global Services NV (99.99%) and KBC Asset Management NV (48.14%). The main changes compared with year-end 2008 relate to the subscription to capital increases carried out at KBC Bank NV (3 250 million euros) and at KBC Insurance NV (250 million euros). The other changes concern a write-down on KBL EPB shares (177 million euros).

The amounts receivable from associated companies are related to a subordinated perpetual loan of 250 million euros to KBC Bank NV. The amounts receivable from companies linked by participating interests are accounted for by the portion of a bond loan issued in 2005 by Nova Ljubljanska banka that KBC Group NV subscribed to.

Note 2: Changes in capital and reserves (B-GAAP; non-consolidated)

(in millions of EUR)	31-12-2008	Capital increase for staff	Conversion of MCBs and exercise of warrants	Other	Retained profit	31-12-2009
Capital	1 244	1	0	0	0	1 245
Share premium account	4 332	4	0	0	0	4 336
Reserves	1 445	0	0	0	0	1 445
Profit (Loss) brought forward	2 230	0	0	0	159	2 390
Capital and reserves	**9 251**	**5**	**0**	**0**	**159**	**9 415**

Note 3: Details of changes in capital and the share premium account (B-GAAP; non-consolidated)

At year-end 2009, the company's issued share capital amounted to 1 244 910 128 euros. The share capital is fully paid up and increased by 575 254 euros during the course of the financial year. On 31 December 2009, it was represented by 357 918 125 shares. The number of VVPR strips issued came to 58 284 437 at that time. All of the 165 303 shares issued in 2009 will only be entitled to dividend from the 2010 financial year.

Changes in capital and the share premium account in 2008 and 2009, according to B-GAAP

(in EUR)	Date	Capital	Share premium account	Number of shares
Contribution of 1998–2008 MCBs	31-03-2008	1 235 168 055	4 158 422 282	355 118 679
Contribution of 1998–2008 MCBs	30-06-2008	1 235 182 073	4 158 690 345	355 122 707
Contribution of 1998–2008 MCBs	30-09-2008	1 235 381 264	4 162 499 601	355 179 946
Contribution of 1998–2008 MCBs	01-12-2008	1 244 167 297	4 330 519 850	357 704 668
Capital increase for staff	31-12-2008	1 244 334 873	4 331 754 518	357 752 822
Capital increase for staff	31-12-2009	1 244 910 127	4 335 763 116	357 918 125

The main changes in 2009 were as follows:

- As a result of a capital increase decided upon by the Board of Directors under its authority to raise capital, 165 303 new VVPR shares were issued that were reserved exclusively for the personnel of KBC Group NV and some of its Belgian subsidiaries. Consequently, the pre-emption right of existing shareholders was suspended. The shares were issued at a price of 27.73 euros and will be blocked for two years. Through this capital increase, the group aims to strengthen its ties with personnel. Given the limited extent of the capital increase, the financial ramifications for existing shareholders are minor.

The authorisation to increase capital may be exercised until 21 May 2014 for an amount of 899 424 745 euros. Based on a par value of 3.48 euros a share, a maximum of 258 455 386 new KBC Group NV shares can therefore be issued under this authorisation.

Note 4: Shareholders

The table shows the shareholder structure based on the disclosures received pursuant to:
- the Belgian Act of 2 May 2007 on the disclosure of significant participations in issuers whose shares are admitted to trading on a regulated market;
- Articles 631 and 632 of the Belgian Companies Code.

Shareholder structure (disclosure in accordance with the Act of 2 May 2007)

	Disclosure relating to	Address	Number of KBC shares (as a % of the sum of the outstanding number of shares at the time of disclosure)
KBC Ancora Comm.VA	1 September 2008	5 Philipssite, box 10, 3001 Leuven, Belgium	82 216 380 (23.15%)
Cera CVBA	1 September 2008	5 Philipssite, box 10, 3001 Leuven, Belgium	25 903 183 (7.29%)
MRBB CVBA	1 September 2008	40 Diestsevest, 3000 Leuven, Belgium	42 562 675 (11.99%)
Other core shareholders	1 September 2008	C/o Ph. Vlerick, 2 Ronsevaalstraat, 8510 Bellegem, Belgium	39 867 989 (11.23%)
KBC group companies	1 September 2008	2 Havenlaan, 1080 Brussels, Belgium	18 240 777 (5.14%)
BlackRock Inc.	1 December 2009	33 King William Street, London EC4R 9AS, United Kingdom	12 264 598 (3.43%)*

* New disclosure relating to the situation at 2 February 2010: 10 709 212 shares (2.99%).

Shareholder structure on 31-12-2009 (disclosure in accordance with the Belgian Companies Code)

	Address	Number of KBC shares
Assurisk SA	8-10 avenue de la Gare, 1610 Luxembourg, Grand Duchy of Luxembourg	300
KBC Bank NV	2 Havenlaan, 1080 Brussels, Belgium	3 919 845
KBC Investments Limited	111 Old Broad Street, EC2N 1FP London, United Kingdom	13 168
KBC Securities NV	12 Havenlaan, 1080 Brussels, Belgium	2
VITIS Life Luxembourg SA	7 boulevard Royal, postbox 803, 2018 Luxembourg, Grand Duchy of Luxembourg	2 400
Total		**3 935 715**
As a percentage of the total number of shares		*1.1%*

Information on (changes in) KBC shares held by KBC Group NV is provided in the 'Information for our shareholders and bondholders' section under the heading, 'KBC share in 2009'. The average par value of the KBC share came to 3.48 euros during 2009.

KBC Group NV own shares, 31-12-2009	Address	Number of KBC shares
KBC Group NV	2 Havenlaan, 1080 Brussels, Belgium	14 253 502

Note 5: Balance sheet

'Investments' came to 467 million euros at year-end 2009. The year-on-year increase (150 million euros) was accounted for by an increase in term investments (30 million euros) and in own shares (119 million euros). The rise in own shares was due primarily to lower write-downs being recorded according to the lower of cost or market (LOCOM) rule (-847 million euros compared with -966 million euros at year-end 2008).
On balance, 'Amounts payable at more than one year' rose by 3 103 million euros, due chiefly to the subscription by the Flemish Regional Government to yield-enhanced securities issued by KBC Group NV (+3 500 million euros), the issue of fixed-rate notes (+230 million euros), the repayment in full of a loan that had reached maturity (-250 million euros), the transfer of floating-rate notes to 'Amounts payable within one year' (-250 million euros), and the redemption at maturity of fixed-rate commercial paper (-88 million euros) and floating-rate notes (-40 million euros).
'Financial debts payable within one year' fell by 1 million euros, mainly on account of the redemption at maturity of commercial paper issued by KBC Group NV (-45 million euros) and an increase in commercial paper issued (+44 million euros). The decrease in the 'Other creditors' heading (-6 million euros) was attributable chiefly to the reduction in coupon amounts to be paid.

Note 6: Profit and loss account

KBC Group NV made a net profit of 159 million euros in 2009. The main income items were dividend receipts totalling 259 million euros from KBC Asset Management NV, KBL EPB SA and Kredietcorp SA. The year-on-year decline of 1 569 million euros was accounted for primarily by the lower dividend paid by KBL EPB SA and Kredietcorp SA, the higher dividend paid by KBC Asset Management NV and the non-payment of a dividend by KBC Bank NV, KBC Insurance NV and Gebema NV.
The LOCOM valuation of own shares held in portfolio resulted in a reversal of write-downs amounting to 119 million euros.
The main expense items were the write-down on the participating interest in KBL EPB (177 million euros) and debt-service charges (57 million euros).

Note 7: Auditor's remuneration

In 2009, KBC Group NV paid Ernst & Young Bedrijfsrevisoren BCVBA fees of 79 340 euros for standard audit services. Remuneration paid for non-audit services came to 10 740 euros, viz.:
- other certifications: 10 740 euros;
- other non-audit assignments: 0 euros.

Note 8: Conflicts of interest

Please see the 'Corporate governance' section, under 'Conflicts of interest that fall within the scope of Article 523 or 524 of the Belgian Companies Code'.

Note 9: Share buyback programmes

No shares were repurchased in 2009.

Management certification
'I, Luc Philips, Chief Financial Officer of the KBC group, certify 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 financial condition and results of the company, including its consolidated subsidiaries, and that the annual report provides a fair overview of the development and results of the company and the situation of the company, including its consolidated subsidiaries, as well as an overview of the main risks and uncertainties to which it is exposed.'

GLOSSARY OF RATIOS USED

(Core) Tier-1 ratio	[tier-1 capital] / [total risk-weighted volume]. For detailed calculations, see the 'Value and risk management in 2009' section. The calculation of the core tier-1 ratio does not include hybrid instruments (but does include the core-capital securities sold to the Belgian and Flemish governments).
Basic earnings per share	[profit after tax, attributable to equity holders of the parent] / [average number of ordinary shares, plus mandatorily convertible bonds, less treasury shares]. If a coupon is paid on the core-capital securities sold to the Belgian and Flemish governments, it will be deducted from the numerator.
CAD ratio	[regulatory capital] / [total risk-weighted volume]. For detailed calculations, see the 'Value and risk management in 2009' section.
Claims reserve ratio (insurance)	[average net provision for claims outstanding, non-life] / [net earned premiums, non-life].
Combined ratio (non-life insurance)	[net claims incurred / net earned premiums] + [net expenses / net written premiums].
Cost/income ratio (banking)	[operating expenses of the banking activities] / [total income of the banking activities].
Cover ratio	[individual impairment on non-performing loans] / [outstanding non-performing loans]. For a definition of 'non-performing', see 'Non-performing loan ratio'. The numerator may also include individual impairment on performing loans and portfolio-based impairment.
Credit cost ratio	[net changes in individual and portfolio-based impairment for credit risks] / [average outstanding loan portfolio]. For a definition of the loan portfolio, see the 'Value and risk management in 2009' section.
Diluted earnings per share	[profit after tax, attributable to equity holders of the parent, adjusted for interest expense (after tax) for non-mandatorily convertible bonds] / [average number of ordinary shares, plus mandatorily convertible bonds, less treasury shares, plus the dilutive effect of options (number of stock options allocated to staff with an exercise price less than the market price) and non-mandatorily convertible bonds]. If a coupon is paid on the core-capital securities sold to the Belgian and Flemish governments, it will be deducted from the numerator.
Dividend per share	[amount of dividend paid out] / [number of shares entitled to dividend at period-end].
Equity market capitalisation	[closing price of KBC share] x [number of ordinary shares].
Equity per share	[parent shareholders' equity] / [number of ordinary shares plus mandatorily convertible bonds, less treasury shares (at period-end)].
Net expense ratio (insurance)	[net expenses / net written premiums].
Net interest margin	[net interest income] / [average interest-bearing assets].
Non-performing loan ratio	[amount outstanding of non-performing loans (loans for which principal repayments or interest payments are more than ninety days in arrears or overdrawn)] / [total outstanding loan portfolio].
Return on allocated capital for a particular business unit	[profit 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 net profit of a business unit is the sum of the net profit made by all the companies in that business unit, adjusted to take account of allocated central overheads and the funding cost of goodwill paid. The capital allocated to a business unit is based on a tier-1 ratio of 8.5% (under Basel II) for the banking activities and a solvency ratio of 200% for the insurance activities. For the banking activities, the allocated tier-1 capital comprises core capital (75%) and hybrid capital (25%). For the insurance activities, the allocated solvency capital comprises solely core capital. In calculating the return on allocated capital, only core capital is taken into account in the denominator.
Return on equity	[profit after tax, attributable to equity holders of the parent] / [average parent shareholders' equity, excluding the revaluation reserve for available-for-sale assets]. If a coupon is paid on the core-capital securities sold to the Belgian and Flemish governments, it will be deducted from the numerator.
Solvency ratio (insurance)	[available solvency capital] / [minimum regulatory solvency capital]. For detailed calculations, see the 'Value and risk management in 2009' section.

Information on products, services and publications of the KBC group can be obtained from the KBC-Telecenter on weekdays between 8 a.m. and 10 p.m., and on Saturdays and bank holidays between 9 a.m. and 5 p.m.
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E-mail kbc.telecenter@kbc.be

Shareholders and the press can also contact KBC's Press Office and Investor Relations Office, whose contact details appear in the 'Information for our shareholders and bondholders' section, along with a financial calendar.

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