KBC Bank

Annual Report 2008

To the reader

Company name

Everywhere where mention is made of KBC, the group or KBC Bank in this annual report, the consolidated bank entity is meant, i.e. KBC Bank NV, including all its subsidiaries and sub-subsidiaries. Where KBC Bank NV is used, this refers solely to the non-consolidated entity. KBC Group or the KBC group refers to the parent company of KBC Bank. The information in the last section ('Company annual accounts') relates solely to the non-consolidated entity.

Difference between KBC Bank and KBC Group

The KBC group was created on 2 March 2005 through the merger of the KBC Bank and Insurance Holding Company and its parent company, Almanij. The schematic shows the group's legal structure, which has one single entity – KBC Group NV – in control of three underlying companies, viz. KBC Bank, KBC Insurance and KBL European Private Bankers (KBL EPB). KBC Group shares are traded on NYSE Euronext Brussels and the Luxembourg Stock Exchange. All KBC Bank shares are owned (directly and indirectly) by KBC Group. A number of KBC Bank's debt instruments are exchange-listed.

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.

Glossary of ratios used

CAD ratio: [consolidated regulatory capital, KBC Bank] / [total risk-weighted volume, KBC Bank]. For detailed calculations, see the 'Value and risk management' section.

Cover ratio: [individual impairment on non-performing loans] / [outstanding non-performing loans]. For a definition of 'non-performing', see 'Non-performing ratio'. The numerator may also include individual impairment on performing loans and portfolio-based impairment.

Cost/income ratio: [operating expenses] / [total income].

Credit cost ratio: [net changes in individual and portfolio-based impairment for credit risks] / [average outstanding loan portfolio]. For a definition of the loan portfolio, see the 'Value and risk management' section.

Non-performing 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].

Tier-1 ratio: [consolidated tier-1 capital, KBC Bank] / [total risk-weighted volume, KBC Bank]. For detailed calculations, see the 'Value and risk management' section.

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KBC Bank profile

Area of operation and activities

KBC Bank is a multi-channel bank catering mainly for retail customers, small and medium-sized enterprises and private banking clientele. Geographically, KBC focuses on Belgium and Central and Eastern Europe for its retail bancassurance and asset management activities, as well as for the provision of services to business customers, and occupies significant, even leading positions in these two home markets. Elsewhere around the globe, the group has established a presence in selected countries and regions.

Shareholders

Shareholders, 31-12-2008	Number of shares
KBC Group	582 917 642
KBC Insurance	1
Total	582 917 643

All shares carry voting rights. The shares are not listed.

Network and personnel

Network and personnel	
Bank branches, 31-12-2008	
Belgium	879
Central & Eastern Europe and Russia	1 411
Number of staff (2008 average in FTEs)	43 784

Financial calendar

Financial communication is organised at KBC group level. The General Meeting of Shareholders of KBC Bank is held on 29 April 2009. KBC Bank's annual report will be available on 9 April 2009.

Financial calendar, KBC group	
2008 financial year	Earnings release: 12 February 2009
	Publication of the embedded value in the life insurance business: 2 April 2009
	Annual Report, Corporate Social Responsibility Report and Risk Report for 2008 available: 9 April 2009
	AGM: 30 April 2009
1Q 2009	Earnings release: 14 May 2009
2Q 2009	Earnings release: 6 August 2009
3Q 2009	Earnings release: 13 November 2009
4Q 2009	Earnings release: 11 February 2010

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

Long-term credit ratings

Long-term credit ratings, 18 March 2009	
Fitch	A+ (negative outlook)
Moody's	Aa3 (negative outlook)
Standard & Poor's	A (stable outlook)

Main developments in 2008 and in the opening months of 2009: in February 2008, Moody's revised the ratings outlook from 'stable' to 'negative' • in October 2008, Standard & Poor's and Fitch placed the bank's rating on 'negative watch' • in November 2008, Standard & Poor's lowered the rating by one notch • in December 2008, Fitch lowered the rating by one notch • in January 2009, Moody's lowered the rating by one notch • in March 2009, Standard & Poor's lowered the rating by one notch.

Key financial figures

Key financial figures at group level, IFRS	2007	2008
Balance sheet, end of period (in millions of EUR)		
Total assets	309 476	318 550
Loans and advances to customers	146 710	156 163
Securities	80 438	71 880
Deposits from customers and debt securities	182 567	190 153
Parent shareholders' equity	12 342	10 728
Income statement (in millions of EUR)		
Total income	7 576	4 349
Operating expenses	-4 140	-4 411
Impairment	-212	-1 439
Profit after tax, group share	2 261	-1 521
Solvency		
Tier-1 ratio, KBC Bank (Basel II)	8.5%	9.6%/*pro forma* 11.2%*
CAD ratio, KBC Bank (Basel II)	12.2%	13.2%/*pro forma* 14.7%*

* *Pro forma*: including the capital-strengthening transaction with the Flemish Regional Government for 2 billion euros in January 2009.

Review of the consolidated annual accounts

Overview of the consolidated income statement

Income statement, KBC Bank (consolidated, IFRS-compliant, in millions of EUR)	2007	2008
Net interest income	3 179	4 020
Dividend income	126	131
Net (un)realised gains from financial instruments at fair value through profit or loss	1 768	-2 100
Net realised gains from available-for-sale assets	189	-11
Net fee and commission income	1 897	1 769
Other net income	416	538
Total income	7 576	4 349
Operating expenses	-4 140	-4 411
Impairment	-212	-1 439
on loans and receivables	-148	-760
on available-for-sale assets	-50	-613
Share in the result of associated companies	59	2
Profit before tax	3 283	-1 500
Income tax expense	-750	216
Net post-tax income from discontinued operations	0	0
Profit after tax	2 534	-1 283
attributable to minority interests	273	238
attributable to equity holders of the parent	2 261	-1 521

Analysis of the income statement

Net interest income came to 4 020 million euros in 2008. If items such as trading-related interest income are excluded, and the interest income related to certain ALM hedging derivatives included[1], commercial net interest income rose by 8% compared with the previous year. Besides the impact of new acquisitions and exchange differences, this increase was also partly due to the higher volume of loans and deposits, especially so in Central & Eastern Europe and Russia (where loans were up 25% and deposits 8%, even disregarding the positive impact of new acquisitions and exchange rate fluctuations), but there was a notable rise in deposits in Belgium (up 6%), too. Moreover, the average net interest margin widened by 12 basis points in Central and Eastern Europe. On the other hand, the higher rate of interest paid on deposits had a negative impact in Belgium, more particularly the increase in the base rate paid on savings deposits from 1 July 2008. For the bank as a whole, the net interest margin narrowed by 8 basis points to 1.67%.

Net (un)realised gains from financial instruments at fair value through profit or loss came to a negative 2 100 million euros, compared with a positive 1 768 million euros in 2007. Although the 2008 figures were favourably affected by changes in the fair value of own debt instruments (+0.4 billion euros), they were adversely impacted by the one-off loss stemming from the discontinuation of certain derivative trading activities at KBC Financial Products (-0.2 billion euros) and higher value markdowns on the CDOs held in portfolio. In 2007, the downward adjustment in the market value of CDOs amounted to -0.1 billion euros before tax. This was almost -2.5 billion euros in 2008, owing to the downgrading of CDO tranches, increased counterparty exposure to monoline insurers and wider credit spreads. KBC also acted proactively and fully wrote down the value of all mezzanine CDO notes (i.e. all CDO notes with the exception of the super senior tranches) of CDOs originated by KBC Financial Products, so that fluctuations in the value of these notes would no longer affect future results.
Whereas many competitors charge these markdowns to equity – without this having any impact on their net earnings – most of the losses recorded at KBC have a direct impact on net earnings. This is due to the fact that, unlike the situation at many sector peers, the CDOs held in portfolio at KBC comprise few ‘physical bonds’, but rather derivatives. In accordance with prevailing accounting rules, movements in the value of such derivatives are recorded in the income statement.

[1] In the IFRS figures, many of the ALM hedging instruments (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 gains from financial instruments at fair value’, whereas interest relating to the underlying assets appears under ‘Net interest income’. When calculating the change in net interest income, the interest on the relevant ALM hedging instruments is therefore recorded under 'Net interest income'.

More information on the portfolio of structured investments (CDOs and other asset backed securities) is provided in KBC's *Risk Report*, which is available at www.kbc.com.

Net realised gains from available-for-sale assets (*realised gains*) came to -11 million euros in 2008, compared with +189 million euros in 2007. This decline was largely attributable to the sharp fall in stock market prices.

Net fee and commission income amounted to 1 769 million euros in 2008, 7% less than the year-earlier figure. The trend in net fee and commission income cannot be separated from the financial and stock market crisis, which prompted investors to turn their backs on investment funds and to opt instead for traditional deposit products.

Dividend income totalled 131 million euros, in line with the previous year (126 million euros).

Other net income amounted to 538 million euros, up 122 million euros on the figure for 2007. This heading includes a number of rather large exceptional items. The main ones in 2007 and 2008 were the capital gain on the sale GBC, a bank card clearing house in Hungary (35 million euros in 2007), a refund from the Belgian deposit protection scheme (44 million euros in 2007), the revaluation gain on the participating interest in Nova Ljubljanska banka in Slovenia following a capital increase (54 million euros in 2008), and the capital gain realised on the sale of the stake in the Prague Stock Exchange (40 million euros in 2008).

At first glance, operating expenses for 2008 (4 411 million euros) were around 7% higher than the year-earlier figure. However, disregarding the impact of exchange rate fluctuations and new acquisitions, costs remained more or less the same as the previous year. The positive effect of lower variable employee remuneration was partly cancelled out by inflation, costs associated with the expansion of the branch network in Central and Eastern Europe, and various one-off items such as restructuring provisions and early retirement provisions. Given the uncertainty on the financial markets and the deteriorating economic situation, the group also announced at the end of 2008 that it would be taking measures to reduce the cost base even more, while ensuring that the main income flows would not be undermined. These measures include a recruitment freeze throughout the group, a review of variable pay components in Belgium, a reduction in the number of people employed in the investment banking and private banking divisions and – more generally – a thorough evaluation of all operations outside the home markets of Belgium and Central and Eastern Europe, an exercise to ascertain whether or not these operations belong to KBC's core activities, generate sufficient return or use up too much capital.

In 2008, impairment *on loans and receivables* amounted to 760 million euros, a significant increase on the 148 million euros recorded in 2007. This was a clear reflection of the worsening economic climate and had a particularly marked impact on the merchant banking business (mainly business credit abroad) and also to a certain extent on activities in Central and Eastern Europe. On the other hand, the Belgian retail business still had extremely low levels of loan losses.

Impairment on *available-for-sale assets* (613 million euros) includes value markdowns on shares and bonds in the investment portfolio. Markdowns on shares came to 290 million euros in 2008 (42 million euros in 2007). Write-downs on bonds rose from 8 million euros to 323 million euros, an increase chiefly accounted for by troubled banks in the US and Iceland.

The credit cost ratio (which includes impairment on loans and on corporate and bank bonds) went up from an exceptionally low 11 basis points in 2007 to 62 basis points in 2008. Since loan losses lag the general economic cycle to a certain extent, KBC has taken account of this ratio increasing further in the year ahead. The credit cost ratio came to 9 basis points for the Belgian retail business (13 basis points in 2007), to 81 basis points for the activities in Central & Eastern Europe and Russia (26 basis points in 2007), and to 90 basis points for the merchant banking business (2 basis points in 2007).

On average, loan quality remained relatively good in 2008, as illustrated, for instance, by the non-performing-loan ratio, which amounted to 1.7%, compared with 1.5% at the end of 2007. Given that a lag effect exists here, too, this ratio could deteriorate in the future. At year-end 2008, the percentage of cover for non-performing loans afforded by (all) loan loss provisions came to 93%.

Most of the other impairment charges relate to restructuring in the investment banking division and includes an amount of 19 million euros in relation to goodwill (zero in 2007) and 48 million euros in relation to other assets (14 million euros in 2007).

The share in the results of associated companies came to 2 million euros in 2008. Income tax expense amounted to a *positive* 216 million euros, which was of course due to the *negative* result before tax. Profit after tax attributable to minority interests totalled 238 million euros, in line with the year-earlier figure (273 million euros).

The main changes to the scope of consolidation in 2008 are given in Note 36 in the 'Consolidated annual accounts' section. The overall impact on the net result of these changes and of the main exchange rate movements was limited to roughly +90 million euros on a net result of -1 283 million euros.

Analysis of the balance sheet and solvency

At the end of 2008, total assets came to 319 billion euros, a slight increase (+3%) on the previous year.

As in 2007, loans and advances to customers (156 billion euros at the end of 2008) and securities (72 billion euros) were the main products on the asset side of the balance sheet. Loans and advances to customers (not including the volume of reverse repurchase agreements) were up 9% on the end of 2007, with the biggest increase in Central & Eastern Europe and Russia (+25%). The main credit products were term loans (78 billion euros) and home loans (55 billion euros).

Customer deposits grew by 5% (excluding the volume of repurchase agreements) to 190 billion euros, with time deposits (67 billion euros), demand deposits (40 billion euros) and savings deposits (29 billion euros) the main products in this category.

At year-end 2008, investment funds managed by KBC (funds do not appear on the balance sheet, but afford customers an alternative to, for instance, traditional bank deposits, which do appear on the balance sheet) came to 77 billion euros. Total assets under management (which, aside from investment funds, also include the assets managed for private and institutional investors) amounted to 163 billion euros, down 8% on the year-earlier figure, owing mainly to the sharp fall in the value of the assets themselves.

On 31 December 2008, parent shareholders' equity came to 10.7 billion euros. The main changes in equity compared with year-end 2007 relate to the inclusion of the net result for the financial year (-1.5 billion euros), the dividends for 2007 that were paid out in 2008 (-0.9 billion euros), the change in the revaluation reserve for available-for-sale assets (-0.8 billion euros), and the impact of the measures agreed with the Belgian State in October 2008 to strengthen the group's capital base (2.25 billion euros).

Underpinned by this transaction with the government, the solvency position at the end of 2008 was reflected in a tier-1 ratio for the banking activities of 9.6% (under Basel II). Including the impact of the second operation to strengthen the group's capital base (for 2 billion euros), which was concluded with the Flemish Regional Government in mid-January 2009, the *pro-forma* tier-1 ratio stood at 11.2% at year-end 2008.

Main events

Main events in retail & private bancassurance in Belgium

Facts and figures, retail & private bancassurance in Belgium	2007	2008
Customers (estimates)		
Bank customers (in millions)	3.4	3.5
Network		
Retail bank branches, KBC Bank and CBC Banque*	830	826
Private banking branches, KBC Bank and CBC Banque	25	26
Bank agencies, Centea	712	696
Assets under management (in billions of EUR)		
Investment funds for private individuals	79.9	68.9
Assets managed for private individuals	40.8	34.3
Assets managed for institutional investors	24.7	29.4
Group assets managed by KBC Asset Management	17.2	18.5
Total	162.5	151.0
Market share (estimates)		
Loans	22%	23%
Deposits	19%	20%
Investment funds	35%	37%
Cross-selling indicators		
Life insurance sold via the bank channel	77%	79%
Non-life insurance sold via the bank channel	15%	17%
E-payments indicators – Belgium		
Percentage of payment transactions via electronic channels	93%	94%
Number of KBC- and CBC-Matic ATMs	1 277	1 272
Number of cash withdrawals at KBC- and CBC-Matic ATMs per month	3.9 million	4.0 million
Active subscribers to KBC Internet and PC banking facilities	580 000	675 000
Customer satisfaction		
Percentage of customers surveyed who gave their KBC Bank branch a score of ‘good’ or ‘very good’ (min. 8/10)	72%	70%
Loan portfolio		
Amount granted (in billions of EUR)	58	62

* Excluding CBC's main branches (*succursales*), which offer services to both retail and corporate customers and which are covered in the section on merchant banking. Including branches catering for the social profit segment

Group approach to fierce competition in the savings account market in 2008

KBC Bank responded to market trends by raising the base rate on its savings accounts from 1.75% to 4% in July. This higher rate applied to balances of up to 40 000 euros on all KBC Savings Accounts held by private customers. When the European Central Bank slashed its official interest rates in a series of cuts in the autumn, economic logic required the group to follow suit, and so KBC lowered the savings interest rate again, together with the rates applying to other products, including home loans.
2008 was an extremely good year for the group in terms of deposit-taking, thanks in part to the higher base rate on savings accounts. In Belgium, customer deposits rose by a total of around 4.6 billion euros.

Favourable trend in customer satisfaction ratings

The group has always focused strongly on customers’ experiences, which is why customer satisfaction is measured every year. The results of the 2008 survey remain encouraging. No less than 70% of customers were very satisfied with the service they received. In other words, they gave their branch a score of eight or more out of ten. That’s broadly the same as the previous year’s figure of 72%, and is actually eight percentage points higher than in 2004. Although the survey was carried out in the May-June period, the group continued to do well in terms of customer confidence in the months that followed. That was clear, for instance, from an external study carried out by the organisation *Research Solution* into customers' confidence in their bank, which gave KBC the second highest rating of all the Belgian banks.

Furthermore, KBC Bank received the Belgian 'Bank of the Year 2008' award from *The Banker* magazine.

Change in customers' saving and investment behaviour triggered by the financial crisis

The impact of the crisis on investor behaviour made itself felt primarily in a shift between products. For example, sales of investment funds and unit-linked investment-type insurance (from the bank's sister company, KBC Insurance) were down, but this was offset by growth mainly in traditional bank deposit products. This trend was obviously attributable in part to the higher interest paid on these traditional products.

The group's share of the market increased slightly in 2008. The net inflow of deposits strengthened its share of the deposit market, which went up from 19% in 2007 to 20% in 2008. More specifically, KBC's market share for savings accounts came to just over 18%. Lastly, the share of the market in investment funds, which in the past few years has grown virtually without interruption, rose to no less than 37% in 2008 and means that KBC remains the leader in Belgium for this type of product.

Limited loan losses on the Belgian retail portfolio

Despite the deteriorating economic situation in 2008, KBC still turned in a very respectable performance in terms of loan losses in Belgium. The loan losses incurred on the Belgian retail portfolio remained extremely low, with a credit cost ratio of 0.09%, which even represents an improvement on the already very favourable 0.13% the group reported in 2007. Needless to say, KBC will remain vigilant – loan losses tend to lag the economic cycle somewhat – and account has to be taken of a downturn in this ratio in the near future.

New developments on the electronic bancassurance front

As part of the ongoing improvement of e-services, the KBC-Matic ATM network was further modernised in 2008 and the range of e-banking and e-insurance services offered via KBC-Online expanded once again with the addition of various new applications, including the new SEPA Credit Transfer and Zoomit functions. Zoomit allows users to view incoming invoices in electronic form and to pay them with just a few clicks of the mouse. The success of KBC's online bancassurance systems is reflected in the continuously rising number of users. At the end of 2008, KBC-Online, CBC-Online and Centea-Online had more than 675 000 active subscribers in total, 16% more than in the previous year.

What's more, since April 2008, KBC has been running an entirely new website for private customers in Belgium (www.kbc.be). The information and advisory sections of the site are structured around the customer's basic financial needs of savings and investments, loans, insurance and day-to-day banking and payments. At the same time, it is being developed as a fully fledged sales channel that is available 24 hours a day. A new website for young customers was also launched in 2008. It is structured around the key moments in the lives of this target group and covers such areas as higher education, graduation, a first salary and a place of one's own. These channels are intended to complement the group's network of bank branches in Belgium, which will naturally remain the cornerstone of our service provision.

A totally revamped corporate website – www.kbc.com – was also launched in 2008, where customers and investors can find all sorts of non-sales-related information about the KBC group. KBC opted for a clear and straightforward navigation structure and for a restrained layout. The information has been rearranged and set out in such a way to help users locate everything they want to know about the group faster and more efficiently. The global financial crisis has, after all, amply demonstrated the importance of openness and providing clear and up-to-date communication.

Further initiatives in the field of corporate social responsibility

Most of the group's attention has obviously been devoted to managing the consequences of the global crisis. Nevertheless, there has been no let-up in its efforts in the field of corporate social responsibility.

To give a few examples, KBC has been using 100% green energy since 1 March 2008. All of the group's companies in Belgium are now using this source of sustainable energy, which has had an immediate impact of reducing greenhouse gas emissions by an estimated 47%. The group is also continuing to work on reducing its energy consumption, and it has been decided that the Belgian operations must achieve a climate-neutral footprint by 2010. To meet that objective, a large number of projects – many of them suggested by KBC employees – have already been launched.

On 3 November, KBC and Umicore were jointly awarded the prize for 'Best Corporate Social Responsibility Report' in Belgium. This fine achievement is just recognition of the commitment of the entire KBC group to improve and render even more transparent its performance in the area of corporate social responsibility.

Objectives and focus for the years ahead

It is clear that 2009 is going to be a difficult year. Given that context and the fact that revenue levels will come under pressure, it makes sense to focus even more intensely on efficiency and keeping costs well under control, without of course undermining the group's commercial clout. To that end, an agreement on cost-saving measures has been signed with the social partners. It deals with a number of areas, including a review of variable pay components.
As a financial institution, the group also needs to find a healthy balance between margins on savings and loans, so that its core function of providing financial intermediation services is reasonably compensated.
Lastly, great care will be taken to ensure that customer and employee satisfaction remain the focus of attention. After all, these are the most important factors underpinning KBC's long-term growth and profitability.

Main events in Central & Eastern Europe and Russia

Facts and figures, Central & Eastern Europe and Russia, 31-12-2008	Czech Republic	Slovakia	Hungary	Poland	Bulgaria	Serbia*	Russia
Customers (estimates)							
In millions	3.0	0.4	0.9	1.0	0.3	0.1	0.2
Network							
Bank branches	309	167	256	401	139	65	74
Assets under management							
Total (in billions of EUR)	5.8	0.8	2.3	2.1	-	-	-
Market share (estimate)							
Traditional bank products (loans and deposits)	22%	10%	9%	4%	3%	0,7%	0,6%
Investment funds	34%	13%	22%	5%	–	–	–
E-payment indicators							
Number of proprietary ATMs	683	228	410	410	138	50	167
Active subscribers to Internet and PC banking facilities	560 000	65 000	90 000	200 000	2 000	2 000	12 000
Loan portfolio							
Amount granted (in billions of EUR)	24.2	5.1	8.6	8.4	0.8	0.1	3.9

* KBC Banka in Serbia is a subsidiary of KBC Bank's sister company, KBC Insurance.

Limited acquisition activity in Central and Eastern Europe in 2008

As announced, the group is not planning to make any more major acquisitions in the region in the foreseeable future on account of the current financial and economic situation. In fact, KBC had already decided in 2008 that it would be limiting itself to making relatively smaller, add-on acquisitions and achieving organic growth, primarily in countries where market share is less than the set target of 10%. The acquisition of Istrobanka for approximately 350 million euros at the start of 2008 fits in perfectly with that approach, as it enabled the group to considerably strengthen its position in the Slovakian banking market, where KBC was already present through ČSOB. The deal has increased KBC's share of the Slovakian market from 7% to roughly 10%, which is in line with its targets.

At the same time, work continued on structuring KBC's presence in the region. For instance, 2008 marked the spin-off of ČSOB's Slovakian activities, a move which should allow the group to adjust both its bancassurance concept and its general strategy to the specific conditions prevailing in Slovakia. The structured process to sell the 31% minority stake in Nova Ljubljanska banka in Slovenia was also started up, although the financial crisis has naturally slowed its implementation. In Serbia, A Banka (a subsidiary of KBC Insurance) changed its name to KBC Banka and continued to expand and modernise its product offering, systems and network. Economic and Investment Bank followed suit and changed its name to CIBANK on 1 January 2009. Overall, the group extended its branch network in the region by around 120 branches in 2008 (not including Istrobanka), meaning that the bulk of the branch-opening programme has now been completed.

Central and Eastern Europe and the financial crisis

For KBC, the situation regarding Central and Eastern Europe is as follows. First of all, the group's exposure to Central Europe is largely concentrated in the countries that have been most resilient to the financial crisis, i.e. the Czech Republic, Slovakia and Poland, which together account for three-quarters of the loan portfolio in the region. KBC owns Hungary's second-largest bank. However, the combination of IMF support measures and the fact that the group has pursued a prudent lending policy in recent years means that the Hungarian operations have continued to perform well. What's more, stress tests clearly indicate that KBC's exposure in terms of the foreign currency lending policy it pursues in that country is under control. The exposure to countries where the situation is less clear – the Balkan states and Russia – is limited to 10% of the group's Central European loan portfolio and accounts for just 2% of the group's total portfolio.

Growth forecasts for the economies of the Central and Eastern European countries in which KBC is present have been lowered, as they have for virtually every other country. These revised forecasts could, of course, impact the profit contribution of the group companies there. However, if the elements that relate specifically to the financial crisis are excluded, KBC is still convinced that the region will make an extremely sizeable contribution to group earnings.

Given the specific situation in Russia, KBC has decided to freeze growth of the risk-weighted exposure amount – the loan portfolio – and to monitor the portfolio even more strictly. In fact, throughout the region, credit growth has been restricted in the riskiest segments and sectors and the loan portfolio is being monitored more rigorously.

Robust growth of investment funds

Sales of investment funds remained buoyant, despite the financial crisis. So much so, in fact, that it's fair to say that, at the end of 2008, the group was the largest fund manager in the region comprising the Czech Republic, Slovakia, Hungary and Poland. To be more specific, our share of the investment fund market in the Czech Republic grew from 28% to 34%. In Slovakia, it rose from 12% to 13%, while in Hungary and Poland, it went up from 17% and 4% to 22% and 5%, respectively. Assets under management in the region now total roughly 12 billion euros.

More prestigious international prizes for the group

As in 2007, various group companies won a range of prestigious international prizes. For instance, the bank's Hungarian subsidiary K&H Bank was named 'Bank of the Year 2008' in Hungary by *The Banker*, just as KBC Bank was in Belgium. Meanwhile, *Global Finance* magazine chose ČSOB as its 'Best Bank in the Czech Republic', and Nova Ljubljanska banka won the equivalent prize for Slovenia.

The group's companies in Central and Eastern Europe also performed well in terms of corporate social responsibility. For instance, the new headquarters in the Czech Republic earned a LEED Gold certification for being one of the most ecologically friendly buildings in Europe. And KBC's Hungarian banking subsidiary was runner-up in the national heats of the European Energy Trophy. More about these achievements can be found in KBC's *Corporate Social Responsibility Report*, which is available at www.kbc.com.

Objectives and focus for the years ahead

As already stated, the Central and Eastern European region remains one of the group's most important drivers of growth, certainly in the longer term. What's more, the group's presence in the region is still one of the main foundations on which it builds its strategy. As such, KBC will focus on further consolidating its positions in the Czech Republic, Slovakia, Poland, Hungary and Bulgaria, based on selective organic growth and a modest increase in its loan portfolio. As far as Russia is concerned, the group will maintain a conservative approach whilst the uncertain macroeconomic situation persists.

KBC will continue to set itself apart from its competitors through the ongoing development and refinement of the bancassurance concept in the region, particularly in the Czech Republic, Slovakia, Poland, Hungary and Bulgaria. Moreover, it will keep focusing on the retail segment – private individuals and SMEs – and pay heightened attention to deposit-taking and the sale of products that offer protection of customers' assets, such as insurance and capital-protected asset management products. The group is also setting up a cost-control programme for the region as a whole and intensifying its focus on risk control, solvency and liquidity. Indeed, the cost-control and distribution strategies have both been drawn up with the entire region in mind.

As far as results are concerned, the emphasis will be on achieving sustainable earnings growth, based on above-average income, and keeping expenses in line with inflation and credit charges firmly under control.

Main events in merchant banking

Facts and figures, Merchant Banking	2007	2008
Customers (estimates)		
Corporate banking (Belgium)	19 000	19 000
Network		
KBC Bank corporate branches in Belgium, including branches catering for the social profit segment and CBC Banque *succursales*	29	27
KBC Bank branches in the rest of the world[1], including representative offices	36	33
Assets under management		
Total (in billions of EUR)	0.9[2]	0.04
Market share (estimate)		
Corporate lending (Belgium)	23%	23%
Loan portfolio		
Amount granted (in billions of EUR)	102	100

1 Excluding Central and Eastern Europe, relates solely to corporate branches of KBC Bank or its subsidiaries, KBC Bank Nederland, KBC Bank Deutschland and KBC Bank Ireland.
2 Restated figures.

Impact of the financial crisis on merchant banking results

Without any shadow of doubt, the financial crisis made itself felt most directly in the portfolio of structured products, whose value was marked down on account of wider credit spreads, increased counterparty exposure to monoline insurers and the rating downgrades of the CDO tranches in the investment portfolio. To safeguard its future results, the group also opted to take a proactive approach and mark down to zero all CDO notes it held, with the exception of the most secure category, the super senior tranches. Because the majority of the CDO notes held by the group are located in group companies active in merchant banking, these activities have been worst affected by the markdowns.

Merchant banking activities in 2008

The corporate banking operations in Belgium – which are conducted through the network of KBC and CBC corporate branches – actually did very well. Loan losses were generally limited, and the outstanding volume of business credit continued to grow in the first half of the year, before levelling off. This was a common trend in virtually all the market segments in which KBC operates, including project finance and finance for the diamond trade. There was even some growth in real estate services, factoring and reinsurance activities.

KBC Bank’s dealing room also turned in a strong performance in terms of its currency dealing and bond trading activities in 2008. It goes without saying that the results linked to securities trading, private equity activities and corporate finance were not as good, with the corporate finance results weakening due to a virtual absence of IPO activity. The mergers and acquisitions business held up reasonably well. Central and Eastern European operations accounted for a notably larger proportion of earnings stemming from the stock brokerage and corporate finance businesses. Indeed, the lion’s share of KBC Securities’ net profit now comes from this region. Lastly, a number of specialised market activities relating to equity and credit derivatives – which are concentrated at the subsidiary, KBC Financial Products – generated a negative net result in 2008.

Measures to adapt merchant banking operations to the new market conditions

Given the exceptional market conditions, and as part of a general group-wide exercise, merchant banking operations have been thoroughly reviewed. One outcome of this has been the winding up of hedge fund manager, KBC Alternative Investment Management. And other specialised activities are also being run down, including those conducted by KBC Financial Products on the derivatives market (see above).

Additionally, all merchant banking activities related to equities trading, IPOs, mergers and acquisitions, convertible bonds, equity derivatives, etc., will now be grouped under KBC Securities. That will bring the operations of the subsidiaries, KBC Financial Products, KBC Peel Hunt and KBC Securities into a single structure.

Generally speaking, when it comes to allocating available resources, the group will give priority to its home markets of Belgium and Central Europe (primarily the Czech Republic, Slovakia, Hungary and Poland). A similar focus will be given to its pure corporate finance activities, possibly at the expense of its lending activities in other markets, for example, lending to multinationals that are not linked to KBC's home markets.

Objectives and focus for the years ahead

The primary aim is to consolidate and, where possible, further strengthen the already very strong position in the Belgian corporate market. That means giving priority to the group's home markets when allocating the available resources. In the case of merchant banking, that is Belgium, where the intention is to step up lending to the bank's traditionally sound customers. Credit growth outside the group's home markets will therefore be limited and will depend more than ever on weighing up and evaluating the capital required and the profitability of each activity.

Main developments in corporate social responsibility

Corporate social responsibility (CSR) refers to a set of policies and guidelines that a company should abide by in order to enable it to operate as a responsible actor within society as a whole.

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, shareholders, suppliers, etc.) and by society as a whole.
Indeed, CSR should be embedded in the various areas relating to the financial and non-financial activities of a bank, such as lending, investment, the environment, social policy (in terms of human rights and HR policy), corporate governance, business ethics and relations with customers, suppliers and other stakeholders.

KBC has incorporated all of these areas into a clear internal CSR policy framework, which is translated into a number of specific guidelines and commitments.

As a modern and international financial group, KBC fosters awareness of CSR and encourages relevant initiatives in all the countries in which it operates. Moreover, KBC's vision and achievements in the area of CSR are published separately in an annual *Corporate Social Responsibility Report* (CSR Report). This report provides group-wide information on CSR – including quantitative data on KBC staff and the group's ecological footprint – and is available at www.kbc.com.

Value and risk management

At KBC Group, a group-wide approach is taken to value and risk management, implying that the value and risk management of KBC Bank, as a subsidiary of KBC Group, is encompassed by this approach and inextricably linked to the value and risk management of other subsidiaries (such as KBC Insurance and KBP EPB). The section below focuses on the risk management of the banking activities.

Vision and principles

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.

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

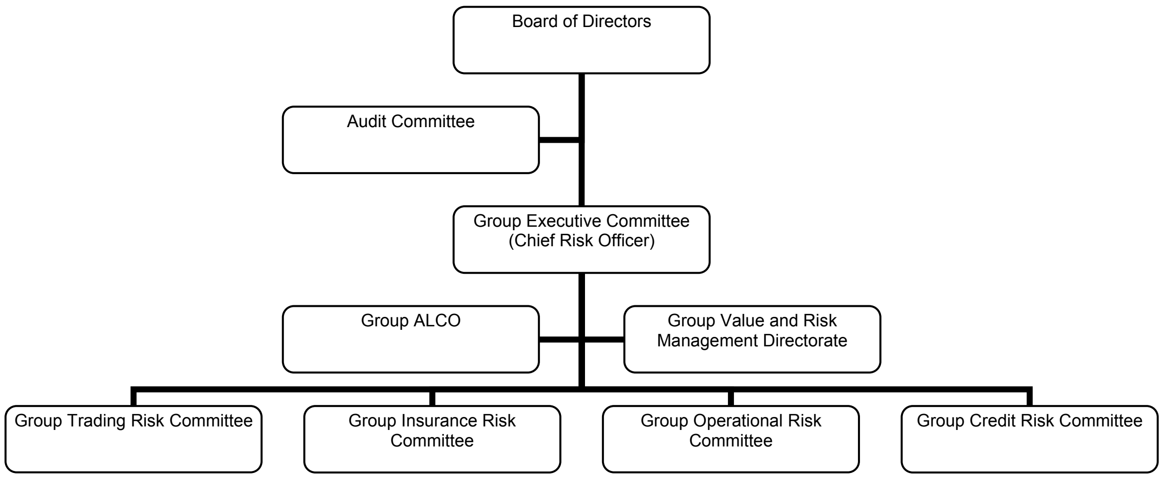
- the entire 'Vision and principles' section;
- the entire 'Risk governance model' section;
- parts of the 'Credit risk management' section, namely 'Description', 'Managing credit risk', the 'Loan portfolio' table (audited parts are indicated in the footnote to the tables) and the 'Other credit exposure' table;
- parts of the 'Asset/Liability management' section, namely 'Description', 'Managing ALM risk', 'Intererest rate risk' (except for the 'Impact of a parallel 1% increase in the yield curve for KBC Bank' table), Foreign exchange risk';
- the entire 'Liquidity risk management' section;
- the entire 'Market risk management' section;
- parts of the 'Solvency' section, namely 'Description', 'Managing solvency', the table in 'Solvency' (audited parts are indicated in the footnote to the table).

Risk governance model (KBC Group)

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 Financial and Risk Officer (CFRO), a member of the Group Executive Committee, supervises risk management. The Group ALCO takes the investment and funding decisions and also monitors the relevant risk exposure. In 2008, the tactical investment decisions previously taken by the Group ALCO were entrusted to a newly established 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 CFRO, 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.



Credit risk management

Description

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. 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. Credit proposals are submitted in writing by a commercial entity. Unless a small amount or a low risk is involved, a loan adviser makes a recommendation. In principle, significant loan decisions are 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., home loans) 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 provided on account of the significant gap between interest rates in the local currency and interest rates in other currencies. During 2008, there was a growing awareness of the inherent risk stemming from fluctuations in exchange rates, resulting in a significant tempering of foreign currency lending by year-end. A cautious approach has been adopted towards this particular type of lending for some considerable time, as reflected *inter alia* in an additional buffer (in terms of the loan-to-value ratio, net disposable income thresholds and shorter maturities) and close monitoring by means of stress tests. Moreover, if the remaining currency risk is still too high, it is hedged at group level.

Supervision and monitoring. Credit 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.

The 'normal' loan portfolio is split up into internal rating classes ranging from 1 (lowest risk) to 9 (highest risk) for the PD and – in a few buckets – for the LGD. Loans to large corporations are reviewed at least once a year, with the internal rating being updated, as a minimum. Reviews of loans to small and medium-sized enterprises are based primarily on risk signals (such as a significant change in the risk class). Moreover, a member of a credit committee will supervise decisions taken at the decision level immediately below, by checking whether the decision is consistent with lending policy. Loans to individuals are screened periodically at aggregate level for review purposes.
PD class 10 is for 'still performing' borrowers, i.e. borrowers with loans for which interest payments and principal repayments are not more than 90 days in arrears or overdrawn, but for which there is reason to believe that they are unlikely to pay (on time), for instance, because they are in arrears or overdrawn 45 or more days (but no more than 90 days).
Classes 11 and 12 are for 'non-performing' borrowers. Class 11 groups borrowers that are more than 90 days in arrears or overdrawn, while class 12 comprises borrowers whose credit has been cancelled or which are in danger of going bankrupt. For the larger loans, an overview of all borrowers in default is submitted to the Group Executive Committee every quarter.

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).

A credit committee decides whether loans can be renegotiated in order to avoid a situation where an obligor facing financial difficulties ends up defaulting. 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. The obligor's situation will then be re-assessed one year later 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'. However, obligors involved in more than two subsequent renegotiations cannot return to a better class than PD 9 so soon.
In 2008, a limited percentage of exposure was renegotiated and avoided impairment. Taking into account 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, avoiding impairment.

Credit risk management at portfolio level

Monitoring is also conducted on a portfolio basis, *inter alia* by means of quarterly reports on the consolidated loan 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. Whereas some limits are still in notional terms, concepts (such as 'expected loss' and 'loss given default') are increasingly being used. The scope of monitoring in terms of name concentration has been widened over the past few years, enabling the credit risk stemming from lending, investment and derivatives activities to be captured. 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.

Overview of the loan portfolio

The loan portfolio includes all (committed and uncommitted) working capital credit lines, investment credit, guarantee credit, credit derivatives (protection sold) and non-government securities in the investment books of the group's banking entities. It excludes government bonds, trading book securities, interprofessional transactions (deposits with financial institutions, exchange transactions, etc.), short-term commercial transactions (e.g., documentary credit) and intragroup transactions. The loan portfolio therefore differs significantly from 'Loans and advances to customers' in the 'Consolidated annual accounts' section, Note 14 (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 portfolio is broken down according to different criteria in the table.

Loan portfolio	31-12-2007	31-12-2008
Total loan portfolio (in billions of EUR)		
Amount granted	204.3	213.1
Amount outstanding	159.9	174.2
Loan portfolio breakdown by business unit (as a % of the portfolio of credit granted)		
Belgium, retail and private banking	28.5%	28.9%
CEER	21.8%	24.0%
Merchant Banking (excluding CEER)	49.7%	47.0%
Total	100.0%	100.0%
Loan portfolio breakdown by credit type (as a % of the portfolio of credit granted)		
Loans	88.1%	87.9%
Guarantee credit	4.9%	5.7%
Corporate bonds	4.4%	4.1%
Bank bonds	2.7%	2.2%
Total	100.0%	100.0%
Loan portfolio breakdown by counterparty sector (as a % of the portfolio of credit granted)[3]		
Private individuals	27.6%	30.6%
Financial and insurance services	13.9%	11.0%
Governments	3.7%	3.7%
Corporates	54.7%	54.7%
Non-financial services	9.6%	9.6%
Retail and wholesale trade	8.2%	8.2%
Real estate	6.7%	6.6%
Construction	4.1%	4.3%
Food industry	2.4%	2.9%
Chemical industry	2.4%	2.3%
Automobile industry	2.6%	2.1%
Metals	1.9%	1.9%
Agriculture, stock farming and fishing	1.9%	1.9%
Electricity	1.8%	1.7%
Other	13.1%	13.2%
Total	100.0%	100.0%
Loan portfolio breakdown by risk class (part of the portfolio[1], as a % of the portfolio of credit granted)[3]		
PD 1 (lowest risk, default probability ranging from 0.00% to 0.10%)	24.9%	23.7%
PD 2 (0.10% – 0.20%)	14.6%	16.4%
PD 3 (0.20% – 0.40%)	13.7%	14.0%
PD 4 (0.40% – 0.80%)	16.6%	18.4%
PD 5 (0.80% – 1.60%)	17.3%	12.7%
PD 6 (1.60% – 3.20%)	6.8%	7.5%
PD 7 (3.20% – 6.40%)	4.0%	3.9%
PD 8 (6.40% – 12.80%)	1.5%	2.0%
PD 9 (highest risk, 12.80% – 100.00%)	0.6%	1.3%
Total	100.0%	100.0%
Impaired loans[2] (PD 10 + 11 + 12; in millions of EUR or %)		
Impaired loans	3 310	4 821
Specific impairment	1 943	2 559
Portfolio-based impairment	185	262

Table continued on next page

Credit cost ratio		
Belgium, retail and private banking	0.13%	0.09%
CEER	0.26%	0.81%
Merchant Banking (excluding CEER)	0.02%	0.90%
Total	0.11%	0.62%
Non-performing (NP) loans (PD 11 + 12; in millions of EUR or %)		
Amount outstanding	2 329	3 044
Specific impairment for non-performing loans	1 456	1 781
Non-performing ratio		
Belgium, retail and private banking	1.6%	1.7%
CEER	2.1%	2.1%
Merchant Banking (excluding CEER)	1.0%	1.6%
Total	1.5%	1.7%
Cover ratio		
Specific impairment for non-performing loans/outstanding non-performing loans	62.5%	58.5%
Specific and portfolio-based impairment for performing and non-performing loans/outstanding non-performing loans	91.4%	92.7%

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

1 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.

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

3 Figures reviewed by the statutory auditor.

Other credit exposure

Besides the credit risks in the loan portfolio, credit risks arise in other bank activities. The main ones are shown in the table.

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 35%), 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 counterparty 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 'Investments in structured credit products' section).

Counterparty risk in interprofessional transactions (deposits with professional counterparties and derivatives trading). 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 20% of the total amount. The bulk of the deposits are due from banks with an investment-grade rating. Risks are curtailed by setting limits (separate limits for both pre-settlement and settlement risk) per counterparty. Close-out netting and collateral techniques are also used. Financial collateral is only taken into account if the assets concerned are considered eligible risk-mitigants for regulatory capital calculations (Basel II). This implies, among other things, that legal comfort must have been obtained regarding the ownership of the collateral for all relevant jurisdictions.

Government securities in the investment portfolio. Exposure to governments is measured in terms of book value and is accounted for mainly by EU states (particularly Belgium), which pose a minimal credit risk. Local or regional governments account for only a fraction of the exposure (0.4 billion euros). The considerable exposure to governments is consistent with reinvestment policy (see the 'Asset/Liability management' section). Limits are in place for this type of credit exposure, as well, especially for governments with a lower than 'AA' internal rating.

Other credit exposure[1] in billions of EUR	31-12-2007	31-12-2008
Short-term commercial transactions	1.8	2.3
Issuer risk[2]	3.7	2.9
Counterparty risk in interprofessional transactions[3]	31.0	22.1
Government bonds in the investment portfolio	32.1	37.5

1 The 2007 figures do not include Absolut Bank and CIBANK, except those for 'Government bonds in the investment portfolio'. The 2008 figures include Absolut Bank.
2 Excluding OECD government bonds.
3 After deduction of collateral and netting benefits.

Internal credit risk models and Basel II

In order to quantify credit risks, KBC has developed various rating models for determining how creditworthy borrowers are and to estimate the expected loss of various types of transactions. These models support credit risk management in pricing, the credit process (acceptance and monitoring) and determining portfolio-based impairment. A number of models are uniform throughout the group (the 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.

These models also form the building blocks for calculating the regulatory capital requirements for credit risk. KBC has in other words opted to use the Internal Rating Based (IRB) Approach.

The switch to the Basel II IRB approach is taking place in stages, with KBC Bank NV and most of its main subsidiaries having already switched over to the IRB Foundation approach in 2007. A number of other material group companies (K&H Bank, Kredyt Bank, Absolut Bank, Centea and the Antwerp Diamond Bank) switched to the Basel II standardised approach in 2008 and will adopt the IRB Foundation approach in 2009-2010 (subject to regulatory approval). In fact, Antwerp Diamond Bank obtained such approval in early 2009. The non-material entities of KBC adopted the Basel II standardised approach in 2008 and will continue to do so. Further moves to the IRB Advanced approach are envisaged, starting in 2011.

Investments in structured credit products

Aggregate information on KBC's investments in structured credit products (including a small position held for trading) is provided in the table. KBC's investments in these products include collateral debt obligations (CDOs) and other asset-backed securities (ABS). At the end of 2008, the total nominal amount (excluding the initial write-downs of junior and equity CDO pieces) of these investments was 15.2 billion euros, 8.7 billion euros of which in CDOs and 6.4 billion euros in other ABS.

With further adverse developments on the financial markets impacting KBC's investments in structured credit products, KBC decided to take firm action. On 22 January 2009, KBC decided to fully write down all non-super senior CDO notes in portfolio which had been originated by KBC FP. As a result, the total impact of the financial crisis on all structured products since the beginning of the crisis (mid-2007) came to 6.5 billion euros (including the initial write-downs of junior and equity CDO pieces), 5.0 billion euros of which was taken to profit or loss (P/L) and 1.5 billion euros recognised in equity. The effect of fair value adjustments to CDOs manifests itself predominantly through P/L, due to the fact that more than 95% of KBC's CDO are synthetic and classified as 'other assets at fair value through profit or loss' under IFRS.

KBC investments in structured credit products (CDOs and other ABS) in billions of EUR, KBC Bank, KBC Insurance and KBL EPB	31-12-2007	31-12-2008
Total nominal amount	17.0	15.9[1]
Initial write-downs of junior and equity CDO pieces[2]	-0.8	-0.8
Subtotal	16.2	15.2
Impact[3] since the beginning of the crisis (mid-2007 to date)	-0.3	-5.7
- impact recognised in P/L	-0.2	-4.2
- impact recognised directly in shareholders' equity	-0.1	-1.5

1 Year-on-year decrease due in part to sales of RMBS and amortisation.
2 The initial write-down of junior and equity CDO pieces had already been recognised through P/L when the CDOs were issued.
3 Includes further value markdowns on CDOs and ABS held in portfolio, and the financial impact of other measures, such as provisioning for monoline insurers.

The table shows a breakdown of the structured credit portfolio according to the rating of the notes held.

KBC Bank, KBC Insurance and KBL EPB	Super senior	Aaa	Aa	A	Baa	Ba	B	Caa	<=Caa3	Unrated	Total
Amounts at nominal value (net of Initial write-downs of junior and equity CDO pieces)											
CDO	5 386	323	322	204	736	574	267	684	166	66	8 726
Other ABS	N.a.	5 768	334	41	45	115	14	63	0	59	6 439
Total	5 386	6 090	656	245	781	689	281	747	166	125	15 166

N.a. = not applicable

Besides investing in CDOs for its own account, KBC also issued CDOs (through KBC Financial Products) and sold them on the market. To cover the risks, credit insurance in the form of super senior credit swaps was taken out with monoline insurers, primarily the US insurer, MBIA, whose creditworthiness has come under pressure. On 31 December 2008, KBC increased the provision for counterparty exposure to MBIA to 642 million euros (40% of the replacement value of the swap contracts). The total amount insured through MBIA (i.e. the notional value of the super senior swaps concluded with MBIA) came to 14 billion euros on 31 December 2008.

Further detailed information on KBC's investments in structured credit products and KBC's involvement in securitisation activities can be found in KBC's Risk Report, which is available at www.kbc.com. This report has not been audited by the statutory auditor.

Asset/Liability Management

Description

Asset/Liability Management (ALM) is the process of managing KBC's structural exposure to macroeconomic risks. These risks include:
- interest rate risk,
- equity risk,
- real estate risk,
- foreign exchange risk,
- inflation risk,
- credit risk (limited to the investment portfolios).

'*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);
- 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.

Managing ALM risk

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. ALM risks are managed and monitored by the Group ALCO, which 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 risk management. Similar teams exist at the subsidiaries outside the euro area.

The ALM strategy is implemented locally by front-office units, co-ordinated by a central investment function which is responsible for co-ordinating the various ALM strategies.

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 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 (99% quantile) 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.
- The VAR is supplemented by other risk measurement methods such as BPV, notional amounts, economic value etc.

The group VAR limit framework is translated into pragmatic risk limits for the various group companies and individual ALM positions (see below).

KBC Bank ALM risk, by risk category (VAR 99%, 1-year time horizon, marginal contribution of various risk types to VAR)* In billions of EUR	31-12-2007	31-12-2008
Interest rate risk	0.65	1.57
Equity risk	0.20	0.18
Real estate risk	0.03	0.03
Other risks	0.01	-0.03
Total diversified VAR (group)	0.91	1.75

* The figures for 2007 exclude Absolut Bank and a number of small group entities. The figures for 2008 include Absolut Bank and a number of small group entities.

Interest rate risk

The bank's ALM interest rate positions 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.

Two main techniques are used to measure interest rate risks: Basis-Point-Value (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 ALM positions 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 table shows how the bank's exposure to interest rate risk developed over the course of 2007 and 2008. Interest rate expectations for 2009 onwards changed during the year and a tactical position was opened to capitalise on this development, thus resulting in a higher interest rate risk position.

BPV of the ALM book, KBC Bank* In millions of EUR	
Average, 1 Q 2007	70
Average, 2 Q 2007	54
Average, 3 Q 2007	41
Average, 4 Q 2007	41
31-12-2007	43
Maximum in 2007	74
Minimum in 2007	37
Average, 1 Q 2008	54
Average, 2 Q 2008	70
Average, 3 Q 2008	72
Average, 4 Q2008	72
31-12-2008	79
Maximum in 2008	79
Minimum in 2008	43

* The 2007 figures exclude Absolut Bank and a number of small group entities. The 2008 figures include Absolut Bank, but still exclude a number of small group entities.

In keeping 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 KBC Bank group, this risk came to 7% at year-end 2008 (well below the 20% threshold, where a bank is considered an 'outlier bank' and which leads to a higher regulatory capital charge).

In the table, the carrying value of assets and liabilities 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), KBC group banks
In millions of EUR

	≤ 1 month	1–3 months	3–12 months	1–5 years	5–10 years	> 10 years	Non-interest-bearing	Total
31-12-2007*								
Cash inflows	35 952	17 181	30 396	63 168	31 162	16 179	20 803	214 841
Cash outflows	54 404	20 438	29 984	58 513	20 907	7 041	23 553	214 841
Derivatives (interest-linked)	11 498	6 843	9	-6 266	-6 158	-5 926	-	-
Interest sensitivity gap	-6 954	3 586	420	-1 611	4 097	3 212	-2 750	-
31-12-2008								
Cash inflows	52 148	28 046	29 188	71 987	38 112	21 745	5 268	246 493
Cash outflows	69 949	36 237	33 338	61 966	23 013	8 707	13 284	246 493
Derivatives (interest-linked)	18 139	10 626	522	-14 425	-6 854	-8 008	-	-
Interest sensitivity gap	338	2 435	-3 627	-4 404	8 245	5 030	-8 016	0

* The 2007 figures exclude CIBANK and a number of small group entities. The 2008 figures include CIBANK but still exclude a number of small group entities.

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 KBC Bank[1]
In millions of EUR

	Impact on net profit (IFRS)		Impact on economic value[2]	
	2007	2008	2007	2008
Total	60	37	459	827

1 The 2007 figures exclude Absolut Bank and a number of small group entities. The 2008 figures include Absolut Bank but still exclude a number of small group entities.
2 Full market value, regardless of accounting classification or impairment rules.

Equity risk

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 IFRS-equity 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 markets [1,2]
In millions of EUR

	Impact on net profit (IFRS)		Impact on IFRS equity (after tax)	
	2007	2008	2007	2008
Total	-53	-39	-20	-10

Impact of a 25% drop in the equity markets [2,3]
In millions of EUR

	Impact on net profit (IFRS)		Impact on IFRS equity (after tax)	
	2007	2008	2007	2008
Total	-	-77	-	-22

1 The 2007 figures exclude Absolut Bank and a number of small group entities.
2 The 2008 figures include Absolut Bank but still exclude a number of small group entities.
3 Comparable figures for 2007 not available.

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. 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 10% drop in real estate prices*
In millions of EUR

	Impact on economic value	
	2007	2008
Total	-73	-85

* The 2007 figures exclude Absolut Bank and a number of small group companies. The 2008 figures include Absolut Bank but still exclude 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. FX 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 FX exposure of banking entities without a trading book and of other entities has to be hedged, if material. Equity holdings in non-euro currencies that are part of the investment portfolio 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 management

Description

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 liquidity limits are set by the Group ALCO. 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:

  Contingency liquidity 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 (a) a period that is required to restore market confidence in the group following a KBC-specific event and (b) a period that is required for markets to stabilise after a general market event. 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 illustrates structural liquidity risk by grouping the assets and liabilities at year-end 2008 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'. In 2008, KBC attracted 69 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 25 billion euros.

Liquidity risk at year-end[1,2]

In billions of EUR	<= 1 month	1-3 months	3-12 months	1-5 years	5-10 years	> 10 years	not defined	Total
31-12-2007 (including intercompany deals)								
Total inflows	90	42	42	64	33	26	46	343
Total outflows	108	44	32	34	11	9	151	390
Net liquidity gap in 2007	-17	-3	10	30	22	17	-105	-46
31-12-2008 (excluding intercompany deals)								
Total inflows	102	23	25	68	39	43	8	308
Total outflows[3]	122	30	24	26	7	9	90	308
Professional funding	48	11	4	1	0	0	0	65
Customer funding	23	11	14	6	1	6	72	133
Debt certificates	5	7	6	20	6	3	0	46
Other[4]	46	0	0	0	0	0	18	64
Liquidity gap in 2008 (excl. undrawn commitments)	-20	-7	1	41	33	34	-82	0
Undrawn commitments							-43	
Net liquidity gap in 2008 (incl. undrawn commitments)	-20	-7	1	41	33	34	-125	-43

1 Absolut Bank and CIBANK included for the first time in the 2008 figures.
2 Differences with Note 14 stem from differences in scope: non-material banking entities and insurance entities are not included in the table.
3 Professional funding includes all deposits from credit insitutions 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 14.
4 'Other' in the first time bucket comprises mainly derivatives with negative fair value. These are compensated by derivatives with positive fair value incorporated into inflows.

- 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.

Impact of the financial crisis on KBC's liquidity position

KBC has always had a strong customer deposit base and this was no different during the financial crisis, owing to the continued steady inflow of deposits. As the deposit overhang is almost entirely invested in securities pledgeable at the ECB, KBC has a large liquidity buffer. Compared to its European competitors, KBC's reliance on interbank funding is relatively low. However, during the crisis, more recourse was had to short-term interbank funding, as market conditions prevented maturing debt issues from being replaced by new long-term funding. Despite the severe liquidity crisis, KBC's liquidity buffer has remained within pre-set limits.

Market risk management

Description

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), KBC Securities and KBC Peel Hunt), the group also engages in trading in equities and their derivatives. KBC FP also sells and deals in structured credit derivatives (services for hedge funds and the launch and management of collateralised debt obligations). KBC FP was also involved in the seeding and management of Alternative Investment Management (AIM) hedge funds. However, KBC FP has been downsizing its activities in response to the current market situation: the proprietary trading and alternative investment management business lines are being closed down completely, while secured advances to hedge funds will be run down as rapidly as possible.

Risk governance

Market risk tolerance is determined by the Board of Directors through an annual limit review. The Group Value and Risk Management Directorate and the Group Trading Risk Committee advise on limits before they are submitted to the Board.

Decisions relating to trading risk management are taken by the Group Trading Risk Committee, which is chaired by the Group CFRO and includes representatives from line management, risk management and top management. This committee manages market risk and deals with counterparty and operational risk related to the trading activities. It also keeps track of structural trends, monitors group-wide risk limits and may order corrective action to be taken. The development of portfolio models, the measurement of the risk position, and monitoring and reporting tasks are all performed centrally and at group level. The Group Model Committee is responsible for the mathematical and operational risk aspects of all market risk models developed and/or used within the KBC group.

The centralisation of trading risk management entails close co-operation between all value and risk management units at both group and local level. In the Group Value and Risk Management Directorate, risk co-ordinators are the first contact point for the group's local trading entities when they have questions relating to market risk. The responsibilities of the risk co-ordinators are clearly set out in risk protocols. Local risk management policy and procedures are described in the risk management framework document.

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. During the second half of 2008, KBC also developed stress tests on KBC FP's CDO portfolio, based on the loss assumptions published by rating agencies for ABS and CDOs.

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.

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 of the valuation process is not guaranteed (for instance, when no reliable independent data are available), 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 material 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 Product Committee.

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, but excluding those of KBC Securities and KBC Peel Hunt. KBC Financial Products' VAR is also shown in the table. The calculation is based on a one-day holding period.

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. In the other trading entities, the standardised method is used.

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. This back-test has shown more outliers than the year before, as a consequence of the financial crisis, for both KBC Bank and KBC Financial Products.

An overview of the derivative products is given in the 'Consolidated annual accounts' section, Note 21.

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Market risk (VAR, 1-day holding period) In millions of EUR	KBC Bank[1]	KBC Financial Products[2]
Average, 1 Q 2007	4	10
Average, 2 Q 2007	4	10
Average, 3 Q 2007	4	13
Average, 4 Q 2007	5	15
31-12-2007	5	13
Maximum in 2007	7	19
Minimum in 2007	3	4
Average, 1 Q 2008	5	15
Average, 2 Q 2008	7	11
Average, 3 Q 2008	6	15
Average, 4 Q 2008	12	24
31-12-2008	9	15
Maximum in 2008	15	30
Minimum in 2008	5	9

[1] Excluding 'specific interest rate risk' measured using other techniques.
[2] Excluding Atomium, fund derivatives and insurance derivatives businesses.

Operational risk management

Description

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. The Group CFRO chairs the GORC.

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.

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*: These focus on actual (= residual) key operational risks at critical points in the process/organisation that are not properly mitigated.
- *Group Standards*: Some 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. 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 internal audit reviews.
- *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.

Operational risk and Basel II

KBC uses the Standard Approach to calculate operational risk capital under Basel II. The operational risk capital for KBC Bank totalled 1 billion euros at the end of 2008.

Solvency and economic capital

Description

Solvency risk is the risk that the capital base of the bank 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 calculated according to IFRS figures and the relevant guidelines issued by the Belgian regulator. The regulatory minimum for the CAD ratio is 8% and 4% for the tier-1 ratio. However, KBC Bank has significantly higher solvability targets. Regulatory minimum solvency targets were amply exceeded, not only at year-end, but also throughout the entire year.

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.

Capital-strengthening transaction with the Belgian State and the Flemish Regional Government

In October 2008, KBC and the Belgian government reached an agreement to further strengthen KBC’s financial position. Signed at the end of December 2008, the transaction entailed KBC issuing 3.5 billion euros’ worth of non-transferable, non-voting core-capital securities to the Belgian State. KBC has used the proceeds of the transaction to increase its core tier-1 capital in the banking business by 2.25 billion euros and to bolster the capital base of the insurance business by 1.25 billion euros, resulting in a further and significant strengthening of its banking and insurance solvency ratios. More detailed information on this transaction is provided in the ‘Consolidated annual accounts’ section, Note 30.

In January 2009, KBC’s capital base was further strengthened by a similar transaction with the Flemish Regional Government, this time for 2 billion euros, plus a supplementary stand-by facility of 1.5 billion euros. More detailed information on this transaction is provided in the ‘Consolidated annual accounts’ section, Note 37.

The Belgian Banking, Finance and Insurance Commission has confirmed that the securities issued in both transactions (ad 3.5 billion and 2 billion euros, respectively) qualify as core tier-1 capital.

Solvency

The table shows the tier-1 and CAD ratios calculated under Basel II. It should be noted that Basel II rules have been implemented in all entities throughout the group since 2008 (this was not yet the case at 31 December 2007, the end of the transition year). Primarily the Basel II IRB Foundation approach is being used (for about 74% of the weighted risks), while the weighted risks of the other companies (roughly 26% of such risks) are calculated according to the standardised method.

In order to strengthen the solvency ratios of KBC Bank and with a view to optimising the use of those hybrid instruments allowed by the regulator, KBC Bank issued so-called non-innovative hybrid tier-1 capital instruments worth 2 billion euros in the second quarter of 2008. In Belgium, banks may issue both innovative and non-innovative hybrid capital instruments which qualify for a maximum 25% of tier-1 capital (with additional limits for the innovative hybrid component). To be classified as non-innovative, the instrument must have a number of features, viz. they need to be subordinated, should not provide for any step-up in dividends, should be perpetual (no general redemption right for investors) and may be converted to ordinary shares subject to certain limits and approvals.

In millions of EUR	31-12-2007	31-12-2008
	Basel II	Basel II
Total regulatory capital, after profit appropriation	15 723	17 941
Tier-1 capital[1]	10 942	12 998
Parent shareholders' equity	12 342	10 728
Intangible fixed assets (-)	- 197	- 121
Goodwill on consolidation (-)	- 1 811	- 2 127
Innovative hybrid tier-1 instruments	1 694	1 555
Non-innovative hybrid tier-1 instruments	0	1 793
Minority interests	584	599
Mandatorily convertible bonds and other tier-2 instruments (-)	- 186	0
Revaluation reserve, available-for-sale assets (-)	46	857
Hedging reserve, cashflow hedges (-)	- 73	352
Valuation differences in financial liabilities at fair value – own credit risk (-)	0	- 245
Minority interests in available-for-sale reserve and hedging reserv, cashflow hedges (-)	2	1
Dividend payout (-)	- 876	0
Items to be deducted (-)	- 583	- 394
Tier-2 and tier-3 capital	4 782	4 943
Mandatorily convertible bonds	186	0
Perpetuals (including hybrid tier-1 instruments not used in tier-1 capital)	581	740
Revaluation reserve, available-for-sale shares (at 90%)	154	10
Minority interests in revaluation reserve, available-for-sale shares (at 90%)	2	- 7
IRB provision excess (+)	139	209
Subordinated liabilities	4 285	4 243
Tier-3 capital	18	144
Items to be deducted (-)	-583	-394
Total weighted risks	128 536	135 557
Credit risk	107 461	103 788
Market risk	12 329	19 816
Operational risk[3]	8 747	11 953
Solvency ratios		
Tier-1 ratio	8,5%	9,6% (pro forma[2] 11,2%)
of which core Tier-1 ratio	7,2%	7,1% (pro forma[2] 8,6%)
CAD ratio	12,2%	13,2% (pro forma[2] 14,7%)

1 Audited figures.
2 Includes the impact of the 2-billion-euro transaction concluded with the Flemish Regional Government in January 2009 to strengthen the group's capital base.
3 The substantial increase is due mainly to the fact that, as of 1 January 2008, the scope of Basel II was extended to all KBC group entities, including those that had not previously been subject to Basel II regulations.

Composition of the Board of Directors

The Board of Directors

Composition of the Board of Directors on 31 December 2008

NAME	Position	Period served on the Board in 2008	End of current term of office
HUYGHEBAERT Jan	Chairman	Full year	2010
PHILIPS Luc	Vice Chairman	Full year	2010
BERGEN André	Executive Director	Full year	2010
AGNEESSENS Herman	Executive Director	Full year	2010
DEFRANCQ Chris	Executive Director	Full year	2010
DE RAYMAEKER Danny	Executive Director	8 months	2012
SEGERS Guido	Executive Director	Full year	2009
VANHEVEL Jan	Executive Director	Full year	2010
VERWILGHEN Etienne	Executive Director	Full year	2010
FLORQUIN Frans	Executive Director	4 months	2008
DE WILDE Julien	Independent Director	Full year	2010
DE BECKER Sonja	Non-Executive Director	Full year	2009
DEPICKERE Franky	Non-Executive Director	Full year	2011
KONINGS Pierre	Non-Executive Director	Full year	2009
NONNEMAN Walter	Non-Executive Director	8 months	2012
ORLENT-HEYVAERT Marita	Non-Executive Director	Full year	2009
PEETERS Paul	Non-Executive Director	Full year	2009
SAP Gustaaf	Non-Executive Director	Full year	2009
VANDEN AVENNE Patrick	Non-Executive Director	Full year	2009
VANTIEGHEM Germain	Non-Executive Director	Full year	2010
WAUTERS Dirk	Non-Executive Director	Full year	2009
WITTEMANS Marc	Non-Executive Director	Full year	2010

Auditor: Ernst & Young, Bedrijfsrevisoren BCV, represented by Jean-Pierre Romont and/or Pierre Vanderbeek.

Additional information

- Repurchase of own shares: neither KBC Bank nor its subsidiaries hold any treasury stock.
- Conflicts of interest that fall within the scope of Article 523 or 524 of the Belgian Companies Code: there were no such conflicts of interest in 2008.
- Discharge of the directors and the auditor: in compliance with the law and the articles of association, the General Meeting of Shareholders is requested to grant discharge to the directors and the auditor for the performance of their mandate in the 2008 financial year.
- Appointments and resignations: the terms of office of the directors Sonja De Becker, Marita Orlent-Heyvaert, Pierre Konings, Paul Peeters, Gustaaf Sap, Guido Segers, Patrick Vanden Avenne and Dirk Wauters will end at the General Meeting of Shareholders on 29 April 2009. It will be proposed to the General Meeting that they be re-appointed for a further period of four years. Herman Agneessens will relinquish his seat. The Board of Directors has decided to appoint Luc Philips – whose term of office as director runs until the annual general meeting of 2010 – to replace Herman Agneessens as executive director.
- In compliance with the laws on the incompatibility of offices held by managers of credit institutions, the external offices held by the executive managers and directors of KBC Bank in other companies – with the exception of those functions performed in companies within the meaning of Article 27, §3, para. three of the Act of 22 March 1993 – are listed below.

Company name	Registered office	Sector	Position	Listed	Share of capital held
Luc Philips, Director					
Gemma Frisiusfonds K.U. Leuven	Belgium	financial sector	Director	N	36,00%
Gemma Frisiusfonds K.U. Leuven II	Belgium	financial sector	Director	N	36,00%
Norkom Technologies Ltd	UK	technology software	Director	N	N
Norkom Alchemist Ltd	Ireland	technology software	Director	N	N
Norkom Group Ltd	Ireland	holding company	Director	ISE; AIM	N
Zinner NV	Belgium	real estate	Director	N	13,11%
ThromboGenics NV	Belgium	biopharmaceuticals	Director	Euronext	N
Danny De Raymaeker, Executive Director					
Concert Noble NV	Belgium	conference venues	Chairman of the Board of Directors	N	100,00%
VAB NV	Belgium	road breakdown assistance	Director	N	N
VAB Group NV	Belgium	road breakdown assistance	Director	N	N
Franky Depickere, Director					
Almancora Beheersmaatschappij	Belgium	management	Executive Director	N	N
Cera Beheersmaatschappij	Belgium	management	Executive Director	N	N
Miko NV	Belgium	food/plastics	Independent Director	NYSE Euronext	N
Germain Vantieghem, Director					
Almancora Beheersmaatschappij	Belgium	management	Executive Director	N	N
Cera Beheersmaatschappij	Belgium	management	Executive Director	N	N
Guyro	Belgium	real estate	Director	N	N
Gemapat bvba	Belgium	management	Business Manager	N	N
Decospan nv	Belgium	production	Director	N	N
Delaware Consulting cvba	Belgium	consulting	Director	N	N
Marc Wittemans, Director					
Agro - Services cvba	Belgium	temping agency	Director	N	N
Aktiefinvest cvba	Belgium	real estate	Director	N	N
Arda Immo nv	Belgium	real estate	Chairman	N	N
Maatschappij voor Grondbezit nv	Belgium	real estate	Director	N	N
SBB Accountants en Belastingconsulenten bvcvba	Belgium	accountancy & consulting	Director	N	N
SBB Bedrijfsdiensten bvcvba	Belgium	accountancy & consulting	Director	N	N
M.R.B.B. cvba	Belgium	holding	Executive Director	N	N
Agri Investment Fund cvba	Belgium	holding	Director	N	N
Acerta cvba	Belgium	holding	Director	N	N
Acerta Consulting cvba	Belgium	holding	Director	N	N
Covalis nv	Belgium	abbattoirs & meat processing	Director	N	N
Guido Segers, Executive Director					
Gemma Frisiusfonds K.U. Leuven	Belgium	financial sector	Director	N	36,00%
Gemma Frisiusfonds K.U. Leuven II	Belgium	financial sector	Director	N	N
Novoli Immobiliare	Italy	real estate	Director	N	32,78%
Novoli Investors	Netherlands	real estate	Director	N	60,98%
KBC Real Estate NV	Belgium	real estate	Chairman of the Board of Directors	N	100,00%
KBC Vastgoedportefeuille België NV	Belgium	real estate	Chairman of the Board of Directors	N	100,00%
KBC Verzekeringen Vastgoed Nederland I BV	Netherlands	real estate	Member of the Supervisory Board	N	100,00%
KBC Real Estate Luxembourg	Luxembourg	real estate	Chairman of the Board of Directors	N	100,00%
KBC Internationale Financieringsmaatschappij NV	Netherlands	issuing company	Member of the Supervisory Board	N	100,00%
KBC International Finance NV	Curaçao	issuing company	Member of the Supervisory Board	N	100,00%
Gebema NV	Belgium	investment company	Chairman of the Board of Directors	N	100,00%
KBC Credit Investments NV	Belgium	investment company	Director	N	100,00%
Luc Gijsens, Senior General Manager					
Real Estate Participation n.v.	Belgium	property development	Director	N	50,00%
KBC Vastgoedportefeuille n.v.	Belgium	real estate	Director	N	100,00%
Immo-Basilix n.v.	Belgium	real estate	Director	N	95,00%
Immo-Marcel Thiry n.v.	Belgium	real estate	Director	N	95,00%
Immo-Regentschap n.v.	Belgium	real estate	Chairman of the Board of Directors	N	75,00%
Immo-Zenobe Gramme n.v.	Belgium	real estate	Director	N	100,00%
Immo-Plejaden	Belgium	real estate	Director	N	100,00%
Immo-Kolonel Bourgstraat n.v.	Belgium	real estate	Director	N	50,00%
Vastgoed Ruimte Noord	Belgium	real estate	Director	N	100,00%
KBC Real Estate Luxembourg	Luxembourg	real estate	Director	N	99,99%
KBC Real Estate	Belgium	real estate	Director	N	73,17%
Prague Real Estate	Belgium	real estate	Director	N	36,59%
Wetenschap Real Estate	Belgium	real estate	Director	N	86,59%
Apitri	Belgium	real estate	Chairman of the Board of Directors	N	100,00%
Brussels North Distribution	Belgium	real estate	Chairman of the Board of Directors	N	100,00%
Covent Garden Real Estate	Belgium	real estate	Director	N	50,00%
FM-A Invest	Belgium	real estate	Director	N	50,00%
Immo North-Plaza	Belgium	real estate	Chairman of the Board of Directors	N	100,00%
Immo Antares	Belgium	real estate	Director	N	100,00%
KBC Vastgoedinvesteringen	Belgium	real estate	Chairman of the Board of Directors	N	100,00%
Luxembourg North Distribution	Luxembourg	real estate	Chairman of the Board of Directors	N	100,00%
Luxembourg Offices Securitisations	Luxembourg	real estate	Chairman of the Board of Directors	N	100,00%
Mechelen City Center	Belgium	real estate	Chairman of the Board of Directors	N	73,17%
Immo Lux-Airport NV	Luxembourg	real estate	Chairman of the Board of Directors	N	48,76%
Sonja De Becker, Director					
Aktiefinvest cvba	Belgium	real estate	Executive Director	N	N
SBB Accountants en Belastingconsulenten cvba	Belgium	accountancy & consulting	Chairman of the Board of Directors	N	N
SBB Bedrijfsdiensten cvba	Belgium	accountancy & consulting	Executive Director	N	N
Maatschappij voor Roerend Bezit van de Belgische Boerenbond	Belgium	holding company	Director	N	N
Acerta cvba	Belgium	holding company	Director	N	N
Acerta Consult cvba	Belgium	services sector	Director	N	N
Acerta Middelenbeheer	Belgium	services sector	Director	N	N
Agriflora cvba	Belgium	organisation of fairs	Director	N	N
Stabo cvba	Belgium	products and services	Director	N	N
Agro - Services cvba	Belgium	temping agency	Director	N	N
BB-patrim	Belgium	holding company	Director	N	N
Agri Investment Fund (AIF)	Belgium	investment company	Director	N	N
Julien De wilde, Independent Director					
Agfa Gevaert	Belgium	industry	Chairman of the Board of Directors	Euronext	N
Bank J. Van Breda & Co	Belgium	financial sector	Independent Director	N	N
Bekaert	Belgium	industry	Director	Euronext	N
Metris	Belgium	ICT	Chairman of the Board of Directors	Euronext	N
Nyrstar	Belgium	industry	Chairman of the Board of Directors	Euronext	N
Telenet Group Holding	Belgium	holding company	Independent Director	Euronext	N
Pierre Konings, Director					
BD-World SA	Belgium	distribution	Director	N	N
E-Capital II	Belgium	private equity fund	Chairman of the Board of Directors	N	N
Capricorn Cleantech Fund Investments	Belgium	investment company	Chairman of the Board of Directors	N	N
Control Tab	Belgium	holding company	Chairman of the Board of Directors	N	N
Walter Nonneman, Independent Director					
Cera Beheersmaatschappij	Belgium	management	Independent Director	N	N
Paul Peeters, Director					
Almancora Beheersmaatschappij	Belgium	management	Director	N	N
Cera Beheersmaatschappij	Belgium	management	Director	N	N
Gustaaf Sap, Director					
Cecan NV	Belgium	holding company	Chairman of the Board of Directors	N	N
Cecan Invest NV	Belgium	financial sector	Director	N	N
Patrick Vanden Avenne, Director					
Calibra Poultry NV	Belgium	poultry processing	Chairman of the Board of Directors	N	N
Biopower cvba	Belgium	industry	Vice-Chairman of the Board of Directors	N	N
Bens NV	Belgium	food	Executive Director	N	N
Sininvest NV	Belgium	poultry	Director	N	N
Vanden Avenne Vrieshuis NV	Belgium	holding company + refrigeration	Executive Director	N	N
Vanden Avenne - Ooigem	Belgium	compound feed	Executive Director	N	N
Lacotrans NV	Belgium	transport	Executive Director	N	N
Euro-Silo NV	Belgium	transfer and storage of grain	Director	N	N
Acta NV	Belgium	transport	Director	N	N
Isarick NV	Belgium	management	Director	N	N
Harpaca NV	Belgium	management	Director	N	N
Larinvest NV	Belgium	holding company	Director	N	N
Ispahan NV	Belgium	management	Director	N	N
Bavarco bvba	Belgium	stockbreeding	Business Manager	N	N
Fidex NV	Belgium	transport	Director	N	N
Dirk Wauters, Director					
VRT	Belgium	audio-visual media	Executive Director	N	N
Vlaamse Audiovisuele Regie	Belgium	advertising	Chairman of the Board of Directors	N	N

Consolidated annual accounts

Auditor’s report

Statutory auditor's report to the General Meeting of Shareholders of KBC Bank NV on the consolidated financial statements for the year ended 31 December 2008

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 Bank NV and its subsidiaries (collectively referred to as ‘the Group’) for the year ended 31 December 2008, 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 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow 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 € 318.550 million and the consolidated statement of income shows a loss for the year, share of the Group, of € 1.521 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 2008 give a true and fair view of the Group’s financial position as at 31 December 2008 and of the results of its operations and its cash flows 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, 30 March 2009

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

Jean-Pierre Romont
Partner

Pierre Vanderbeek
Partner

Ref: 09JPR0061

Consolidated income statement

In millions of EUR	Note	2007	2008
Net interest income	3	3 179	4 020
Interest income		13 882	15 883
Interest expense		- 10 703	- 11 863
Dividend income	4	126	131
Net (un)realised gains from financial instruments at fair value through profit or loss	5	1 768	- 2 100
Net realised gains from available-for-sale assets	6	189	- 11
Net fee and commission income	7	1 897	1 769
Fee and commission income		2 666	2 443
Fee and commission expense		- 769	- 674
Other net in s	8	416	538
TOTAL INCOME		7 576	4 349
Operating expenses	9	- 4 140	- 4 411
staff expenses	10	- 2 276	- 2 222
general administrative expenses		- 1 669	- 1 866
depreciation and amortisation of fixed assets		- 222	- 240
provisions for risks and charges		27	- 83
Impairment	11	- 212	- 1 439
on loans and receivables		- 148	- 760
on available-for-sale assets		- 50	- 613
on goodwill		0	- 19
on other		- 14	- 48
Share in results of associated companies	12	59	2
PROFIT BEFORE TAX		3 283	- 1 500
Income tax expense	13	- 750	216
Net post-tax income from discontinued operations		0	0
PROFIT AFTER TAX		2 534	- 1 283
attributable to minority interest		273	238
attributable to equity holders of the parent		**2 261**	**- 1 521**

- The Board of Directors will propose that no dividend be paid out for the 2008 financial year.
- For changes in the presentation of the income statement, see Note 1 a.

Consolidated balance sheet

ASSETS (in millions of EUR)	Notes	31-12-2007	31-12-2008
Cash and cash balances with central banks		2 906	3 410
Financial assets	14-17	299 613	305 657
Held for trading		73 394	73 639
Designated at fair value through profit or loss		36 284	21 759
Available for sale		26 933	26 376
Loans and receivables		152 778	175 252
Held to maturity		9 525	8 356
Hedging derivatives		698	275
Fair value adjustments of hedged items in portfolio hedge of interest rate risk	5	- 223	169
Tax assets	23	659	1 791
Current tax assets		102	224
Deferred tax assets		556	1 566
Non-current assets held for sale and disposal groups		41	625
Investments in associated companies	24	646	44
Investment property	25	448	467
Property and equipment	25	1 760	2 482
Goodwill and other intangible assets	26	2 008	2 248
Other assets	22	1 618	1 659
TOTAL ASSETS		309 476	318 550

LIABILITIES AND EQUITY (in millions of EUR)		31-12-2007	31-12-2008
Financial liabilities	14, 15, 17	289 175	301 072
Held for trading		41 853	44 709
Designated at fair value through profit or loss		37 503	36 942
Measured at amortised cost		209 382	218 544
Hedging derivatives		438	877
Fair value adjustments of hedged items in portfolio hedge of interest rate risk	5	0	0
Tax liabilities	23	467	360
Current tax liabilities		388	306
Deferred tax liabilies		79	54
Non-current liabilities held for sale and liabilities associated with disposal groups		0	0
Provisions for risks and charges	27	401	528
Other liabilities	28, 29	5 519	4 252
TOTAL LIABILITIES		295 562	306 212
Total equity		13 914	12 338
Parent shareholders' equity	30	12 342	10 728
Minority interests		1 572	1 610
TOTAL LIABILITIES AND EQUITY		309 476	318 550

- 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, an associated company in Slovenia.

Consolidated statement of changes in equity

In millions of EUR	Issued and paid up share capital	Share premium	Mandatorily convertible bonds	Treasury shares	Revaluation reserve (AFS assets)	reserve (cashflow hedges)	Reserves	Translation differences	Parent share-holders' equity	Minority interests	Total equity
31-12-2007											
Balance at the beginning of the period	3 763	490	188	0	555	46	5 491	71	10 603	1 565	12 168
Fair value adjustments before tax	0	0	0	0	- 288	82	0	0	- 206	0	- 206
Deferred tax on fair value changes	0	0	0	0	60	- 42	0	0	18	0	18
Transfer from reserve to net profit											
impairment losses	0	0	0	0	0	0	0	0	0	0	0
net gains/losses on disposal	0	0	0	0	- 435	0	0	0	- 435	0	- 435
deferred income tax	0	0	0	0	61	0	0	0	61	0	61
Transfer from hedging reserve to net profit											
gross amount	0	0	0	0	0	- 16	0	0	- 16	0	- 16
deferred income taxes	0	0	0	0	0	4	0	0	4	0	4
Effect of changes in accounting policies	0	0	0	0	0	0	0	0	0	0	0
Corrections of errors	0	0	0	0	0	0	0	0	0	0	0
Currency translation differences	0	0	0	0	1	0	0	0	1	0	1
Other	0	0	- 2	0	0	0	2	- 60	- 60	0	0
Subtotal, recognised directly in equity	0	0	- 2	0	- 601	28	2	- 60	- 634	0	- 634
Net profit for the period	0	0	0	0	0	0	2 261	0	2 261	273	2 534
Total income and expense for the period	0	0	- 2	0	- 601	28	2 263	- 60	1 627	273	1 900
Dividends	0	0	0	0	0	0	- 1 389	0	- 1 389	0	- 1 389
Capital increase	267	1 233	0	0	0	0	0	0	1 500	0	1 500
Purchases of treasury shares	0	0	0	0	0	0	0	0	0	0	0
Sales of tre[2]	0	0	0	0	0	0	0	0	0	0	0
(Results / Derivatives on) treasury shares	0	0	0	0	0	0	0	0	0	0	0
Cancellation of treasury shares	0	0	0	0	0	0	0	0	0	0	0
Change in minority interests	0	0	0	0	0	0	0	0	0	- 266	- 266
Total change	267	1 233	- 2	0	- 601	28	874	- 60	1 738	7	1 745
Balance at the end of the period	4 030	1 723	186	0	- 46	73	6 365	11	12 342	1 572	13 914
of which revaluation reserve for shares					171						
of which revaluation reserve for bonds					- 216						
of which revaluation reserve for other assets than bonds and shares					- 1						
of which relating to non-current assets held for sale and disposal groups	-	-	-	0	0	0	-	0	0	0	0

* Net (un)realised gains from financial instruments at fair value through profit or loss.

In millions of EUR	Issued and paid up share capital	Share premium	Mandatorily convertible bonds	Treasury shares	Revaluation reserve (AFS assets)	Hedging reserve (cashflow hedges)	Reserves	Translation differences	Parent share-holders' equity	Minority interests	Total equity
31-12-2008											
Balance at the beginning of the period	4 030	1 723	186	0	- 46	73	6 365	11	12 342	1 572	13 914
Fair value adjustments before tax	0	0	0	0	- 1 180	- 617	0	0	- 1 797	0	- 1 797
Deferred tax on fair value changes	0	0	0	0	364	199	0	0	563	0	563
Transfer from reserve to net profit											
impairment losses	0	0	0	0	5	0	0	0	5	0	5
net gains/losses on disposal	0	0	0	0	0	0	0	0	0	0	0
deferred income tax	0	0	0	0	0	0	0	0	0	0	0
Transfer from hedging reserve to net profit											
gross amount	0	0	0	0	0	- 10	0	0	- 10	0	- 10
deferred income taxes	0	0	0	0	1	2	0	0	3	0	3
Effect of changes in accounting policies	0	0	0	0	0	0	0	0	0	0	0
Corrections of errors	0	0	0	0	0	0	0	0	0	0	0
Currency translation differences	0	0	0	0	0	0	0	- 220	- 220	0	- 220
Other	0	0	0	0	0	0	2	0	2	0	2
Subtotal, recognised directly in equity	0	0	0	0	- 811	- 426	2	- 220	- 1 454	0	- 1 454
Net profit for the period	0	0	0	0	0	0	- 1 521	0	- 1 521	238	- 1 283
Total income and expense for the period	0	0	0	0	- 811	- 426	- 1 519	- 220	- 2 975	238	- 2 737
Dividends	0	0	0	0	0	0	- 889	0	- 889	0	- 889
Capital increase	1 669	767	- 186	0	0	0	0	0	2 250	0	2 250
Purchases of treasury shares	0	0	0	0	0	0	0	0	0	0	0
Sales of treasury shares	0	0	0	0	0	0	0	0	0	0	0
(Results / Derivatives on) treasury shares	0	0	0	0	0	0	0	0	0	0	0
Cancellation of treasury shares	0	0	0	0	0	0		0	0	0	0
Change in minority interests	0	0	0	0	0	0	0	0	0	- 199	- 199
Total change	1 669	767	- 186	0	- 811	- 426	- 2 408	- 220	- 1 614	38	- 1 576
Balance at the end of the period	5 698	2 490	0	0	- 857	- 352	3 957	- 209	10 728	1 610	12 338
of which revaluation reserve for shares					11						
of which revaluation reserve for bonds					- 868						
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	- 10	0	-	- 4	- 14	0	- 14

* Net (un)realised gains from financial instruments at fair value through profit or loss.

- For information on the total number of shares and the capital-strengthening transaction concluded with the Belgian State, see Note 30.
- At present, KBC does not face any operational or legal constraints to transfer capital, or to repay debt, between parent companies and their subsidiaries, nor are any such constraints expected in the future.

Consolidated cashflow statement

In millions of EUR	31/12/2007	31/12/2008
Profit before tax	3 283	- 1 500
Adjustments for:	- 231	- 1 992
Depreciation, impairment and amortisation of property and equipment, intangible assets, investment property and securities	287	920
Profit/Loss on the disposal of investments	- 71	- 118
Change in impairment on loans and advances	148	760
Change in gross technical provisions - insurance	0	0
Change in the reinsurers' share in the technical provisions	0	0
Change in other provisions	- 27	83
Unrealised foreign currency gains and losses and valuation differences	- 508	- 3 635
Income from associated companies	- 59	- 2
Cash flows from operating profit before tax and before changes in operating assets and liabilities	3 052	- 3 492
Changes in operating assets (excl. cash & cash equivalents) (1)	- 26 188	- 15 274
Changes in operating liabilities (excl. cash & cash equivalents) (2)	13 985	13 628
Income taxes paid	- 672	- 301
Net cash from (used in) operating activities	- 9 822	- 5 439
Purchase of held-to-maturity securities	- 1 108	- 1 143
Proceeds from the repayment of held-to-maturity securities at maturity	1 169	2 063
Acquisition of a subsidiary or a business unit, net of cash acquired (increase in participation intrests included)	- 774	- 172
Proceeds from the disposal of a subsidiary or business unit, net of cash disposed (decrease in participation intrests included)	0	0
Purchase of shares in associated companies	- 69	0
Proceeds from the disposal of shares in associated companies	0	26
Dividends received from associated companies	20	1
Purchase of investment property	- 32	- 9
Proceeds from the sale of investment property	0	1
Purchase of intangible fixed assets (excl. goodwill)	- 72	- 68
Proceeds from the sale of intangible fixed assets (excl. goodwill)	4	8
Purchase of property and equipment	- 317	- 748
Proceeds from the sale of property and equipment	122	252
Net cash from (used in) investing activities	- 1 058	213
Purchase or sale of treasury shares	0	0
Issue or repayment of promissory notes and other debt securities	7 117	- 4 223
Proceeds from or repayment of subordinated liabilities	1 356	2 281
Principal payments under finance lease obligations	0	0
Proceeds from the issuance of share capital	1 500	2 250
Proceeds from the issuance of preference shares	0	0
Dividends paid	- 1 480	- 939
Net cash from (used in) financing activities	8 494	- 631
Net increase or decrease in cash and cash equivalents	- 2 386	- 5 857
Cash and cash equivalents at the beginning of the period	16 706	14 459
Effects of exchange rate changes on opening cash and cash equivalents	140	137
Cash and cash equivalents at the end of the period	14 459	8 740

In millions of EUR	31/12/2007	31/12/2008
Additional information		
Interest paid	- 10 703	- 11 863
Interest received	13 882	15 883
Dividends received (including equity method)	146	133
Components of cash and cash equivalents	14 459	8 740
Cash and cash balances with central banks	2 898	3 403
Loans and advances to banks repayable on demand and term loans to banks < 3 months	24 729	20 659
Deposits from banks repayable on demand and redeemable at notice	- 13 168	- 15 323
of which not available	0	0

1 Including loans and receivables, available-for-sale assets, held-for-trading assets, financial assets designated at fair value through profit or loss, derivative hedging assets, and non-current assets held for sale and disposal groups.

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, and liabilities associated with disposal groups.

- KBC uses the indirect method to report on cashflows from operating activities.
- The main acquisitions and disinvestments of consolidated subsidiariesare set out below. For a more detailed list, see Note 36. All (material) acquisitions and divestments of group companies in 2007 and 2008 were paid for in cash.

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

	2007	2007	2007	2008
In millions of EUR	AKB "Absolut Bank" (ZAO)	CIBANK	KBC Commercial Finance NV	Istrobanka
Acquistion (A) / Disposal (D)	A	A	A	A
Percentage of shares bought or sold	95,00%	75,58%	50%	100%
Segment	Banking	Banking	Banking	Banking
Business Unit	CEE	CEE	MB	CEE
Assets & liabilities bought or sold				
Cash and cash balances with central banks	74	130	0	145
Financial assets				
Held for trading	226	34		0
Designated at fair value through profit or loss	0	0		13
Available for sale	25	5	0	67
Loans and receivables	2 024	668	355	823
Held-to-maturity investments	0	0		117
Hedging derivatives	0	0		0
of which: cash and cash equivalents	74	424	0	181
Financial liabilities				
Held for trading	1	0	0	0
Designated at fair value through profit or loss	0	0	0	0
Measured at amortised cost	1 623	835	315	924
Hedging derivatives	0	0	0	0
of which: cash and cash equivalents	- 12	- 3	0	2
Gross technical provisions, insurance	0	0		
Purchase price or sale price	698	297	36	350
Cashflow for acquiring or selling companies less cash and cash equivalents acquired or sold	- 636	123	- 36	- 172

CEE: Central and Eastern Europe and Russia.
MB: Merchant banking

Notes on the accounting policies

Note 1 a: Statement of compliance

The consolidated annual accounts were authorised for issue on 26 March 2009 by the Board of Directors of KBC Bank 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 and IFRICs were issued but not yet effective at year-end 2008. The KBC group will apply these standards as of their effective date:

- IFRS 8 (Operating Segments): the group will apply this standard from 1 January 2009, its effective date. It replaces IAS 14 (Segment Reporting) and will have an impact on the current segment reporting in Note 2.
- IFRIC 11 (Group and Treasury Share Transactions).
- 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. This standard became effective on 1 January 2009.
- Amendments to IAS 23 (Borrowing Costs): this standard requires the capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. This standard became effective on 1 January 2009.
- Amendment to IFRS 2 (Share-based Payment): the revised version of IFRS 2 clarifies the term ‘*vesting conditions*’ and specifies the treatment of ‘*non-vesting conditions*’ and the cancellation of share-based payment transactions. This standard became effective on 1 January 2009.

KBC has adopted the amendments to IAS 39. These amendments, which were approved by the European Commission in the fourth quarter of 2008, permit the reclassification of certain financial instruments. For more information on the scope and implementation of these amendments, see Note 14.

The following changes have been made in the presentation of the balance sheet and the income statement as of 2008 (adjustments have been made retroactively to the reference figures for 2007):

- Balance sheet: whereas in previous years, '*accrued interest income*' and '*accrued interest expense*' were disclosed separately in the balance sheet, they are as of 2008 included in the corresponding line items of the financial assets and financial liabilities. Total 'accrued interest income' and 'accrued interest expense' is still disclosed in Note 14. Changes have also been made to a number of notes to correspond with the changes made to the way in which the balance sheet is presented.
- Income statement: the ‘*Net interest income*’ heading has been further broken down into ‘Interest income’ and ‘Interest expense’.

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.
As allowed under IAS 28, 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.
    - *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:

1 the amount determined in accordance with IAS 37: Provisions, Contingent Liabilities and Contingent Assets; and
2 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.

- *Day 1 profits.* 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. Day 1 profit is recognised for structuring CDOs and for insurance derivatives businesses. However, a portion is reserved and is released in profit or loss during the life and until the maturity of the CDO.

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 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.

g 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.

h 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.

i 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:

- 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).

j Exchange rates used

	Exchange rate at 31-12-2008		Exchange rate average in 2008	
	1 EUR = … currency	Change from 31-12-2007 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)	1 EUR = … currency	Change relative to average in 2007 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)
CZK	26.88	-1%	25.03	11%
GBP	0.953	-23%	0.793	-14%
HUF	266.7	-5%	250.5	0%
PLN	4.154	-13%	3.504	8%
SKK	30.13	11%	31.35	8%
USD	1.392	6%	1.476	-7%

k Changes made to accounting policies in 2008

No material changes were made to the accounting policies compared with 2007.

Notes on segment reporting

Note 2: Reporting based on the legal structure and by geographic segment

Under IFRS, the primary segment reporting format used by KBC Bank is based on the bank's legal structure. KBC Bank distinguishes between the following primary segments:

- Banking: KBC Bank and its subsidiaries (subsidiary banks);
- Asset management: KBC Asset Management and its subsidiaries;
- Leasing: KBC Lease and its subsidiaries;
- Equity business: KBC Financial Products, KBC Securities and KBC Private Equity;
- Other: Mainly smaller subsidiaries that do not belong to the above segments;

Intersegment eliminations : Intersegment transactions are transactions conducted between the different primary segments at arm's length. As a number of items are reported on a net basis (e.g., Net interest income), the balance of the intragroup transactions for these items is limited. Intersegment transfers are measured on the basis actually used to price the transfers.

The IFRS secondary segment reporting format is based on geographic areas, and reflects 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 the customers are local customers, the location of the branch or subsidiary determines the geographic breakdown of both the balance sheet and income statement.

More detailed geographic segmentation figures for balance sheet items are provided in the various Notes to the balance sheet. The breakdown here is made based on the geographic location of the counterparty.

In millions of EUR	Banking activities	Asset Manage-ment	Leasing activities	Equity activities	Other	Interseg-ment elimina-tions	KBC Bank Consolida-ted
INCOME STATEMENT 12M 2007							
Net interest income	3 335	23	116	- 473	180	- 2	3 179
Dividend income	40	7	0	76	3	0	126
Net (un)realised gains from financial instruments at fair value through profit or loss	537	1	- 1	1 228	3	0	1 768
Net realised gains from available-for-sale assets	183	4	0	0	1	0	189
Net fee and commission income	1 249	469	- 10	151	44	- 6	1 897
Other net income	319	5	30	34	81	- 54	416
TOTAL INCOME	5 663	510	136	1 017	313	- 62	7 576
Operating expenses*	- 3 279	- 99	- 81	- 645	- 99	62	- 4 140
Impairment	- 189	0	- 1	- 2	- 19	0	- 212
on loans and receivables	- 135	0	- 1	- 2	- 9	0	- 148
on available-for-sale assets	- 50	0	0	0	0	0	- 50
on goodwill	0	0	0	0	0	0	0
on other	- 4	0	0	0	- 10	0	- 14
Share in results of associated companies	57	0	0	2	0	0	59
PROFIT BEFORE TAX	2 253	411	54	371	195	0	3 283
Income tax expense	- 533	- 94	- 18	- 99	- 6	0	- 750
Net post-tax income from discontinued operations	0	0	0	0	0	0	0
PROFIT AFTER TAX	1 720	317	36	272	189	0	2 534
attributable to minority interests	28	153	0	2	90	0	273
attributable to equity holders of the parent	1 692	164	36	269	99	0	2 261
* of which non-cash expenses	- 165	- 1	- 1	- 16	- 13	0	- 195
depreciation and amortisation of fixed assets	- 191	- 1	- 2	- 15	- 12	0	- 222
other	26	0	1	0	0	0	27

In millions of EUR	Banking activities	Asset Manage-ment	Leasing activities	Equity activities	Other	Interseg-ment elimina-tions	KBC Bank Consolida-ted
INCOME STATEMENT 12M 2008							
Net interest income	4 274	10	56	- 468	150	- 1	4 020
Dividend income	49	32	0	50	1	0	131
Net (un)realised gains from financial instruments at fair value through profit or loss	- 1 419	- 3	- 2	- 684	9	0	- 2 100
Net realised gains from available-for-sale assets	- 11	2	0	0	- 2	0	- 11
Net fee and commission income	1 129	405	6	134	96	- 1	1 769
Other net income	367	9	68	141	50	- 98	538
TOTAL INCOME	4 389	455	128	- 827	303	- 100	4 349
Operating expenses*	- 3 769	- 105	- 81	- 461	- 94	100	- 4 411
Impairment	- 1 205	- 9	- 41	- 176	- 7	0	- 1 439
on loans and receivables	- 680	0	- 41	- 31	- 7	0	- 760
on available-for-sale assets	- 507	- 9	0	- 97	0	0	- 613
on goodwill	0	0	0	- 19	0	0	- 19
on other	- 18	0	0	- 29	0	0	- 48
Share in results of associated companies	14	0	0	- 12	- 1	0	2
PROFIT BEFORE TAX	- 571	341	6	- 1 477	201	0	- 1 500
Income tax expense	279	- 74	- 2	35	- 22	0	216
Net post-tax income from discontinued operations	0	0	0	0	0	0	0
PROFIT AFTER TAX	- 292	268	4	- 1 442	179	0	- 1 283
attributable to minority interests	23	129	0	2	84	0	238
attributable to equity holders of the parent	- 314	139	4	- 1 444	95	0	- 1 521
* of which non-cash expenses	- 238	- 1	- 3	- 69	- 12	0	- 324
depreciation and amortisation of fixed assets	- 197	- 1	- 2	- 23	- 18	0	- 240
other	- 41	- 1	- 2	- 46	6	0	- 83

In millions of EUR	Banking activities	Asset Manage-ment	Leasing activities	Equity activities	Other	KBC Bank Consolida-ted
BALANCE SHEET 31-12-2007						
Cash and cash balances with central banks	2 881	0	0	25	0	2 906
Financial assets	243 981	680	4 245	42 999	7 707	299 613
Held for trading	38 656	0	0	34 421	317	73 394
Designated at fair value through profit or loss	35 365	3	0	336	580	36 284
Available for sale	24 400	547	1	1 852	133	26 933
Loans and receivables	135 343	130	4 244	6 391	6 671	152 778
Held to maturity	9 520	0	0	0	5	9 525
Hedging derivatives	697	0	0	0	1	698
Fair value adjustments of hedged items in portfolio hedge of interest rate risk	- 223	0	0	0	0	- 223
Tax assets	493	1	13	126	25	659
Current tax assets	50	0	11	33	8	102
Deferred tax assets	443	1	2	94	17	556
Non-current assets held for sale and disposal groups	1	0	0	40	0	41
Investments in associated companies	603	0	0	40	3	646
Investment property	94	0	0	0	354	448
Property and equipment	1 681	4	4	64	7	1 760
Goodwill and other intangible assets	1 733	1	59	197	18	2 008
Other assets	758	41	221	573	25	1 618
Total assets	252 004	727	4 542	44 065	8 139	309 476
Financial liabilities	233 337	11	25	30 538	25 265	289 175
Held for trading	20 293	0	0	21 308	251	41 853
Designated at fair value through profit or loss	32 314	0	0	1 851	3 338	37 503
Measured at amortised cost	180 292	11	25	7 379	21 676	209 382
Hedging derivatives	438	0	0	0	0	438
Fair value adjustments of hedged items in portfolio hedge of interest rate risk	0	0	0	0	0	0
Tax liabilities	377	16	18	45	12	467
Current tax liabilities	323	16	5	34	11	388
Deferred tax liabilies	54	0	13	11	1	79
Non-current liabilities held for sale and liabilities associated with disposal groups	0	0	0	0	0	0
Provisions for risks and charges	390	0	3	6	1	401
Other liabilities	4 272	45	125	982	95	5 519
Total liabilities	238 375	72	171	31 571	25 373	295 562
Acquisitions of property and equipment and intangible assets, including goodwill	1 217	0	60	158	32	1 467

In millions of EUR	Banking activities	Asset Manage-ment	Leasing activities	Equity activities	Other	KBC Bank Consolida-ted
BALANCE SHEET 31-12-2008						
Cash and cash balances with central banks	3 407	0	0	2	0	3 410
Financial assets	244 318	804	4 050	44 313	12 172	305 657
Held for trading	42 628	0	0	29 656	1 355	73 639
Designated at fair value through profit or loss	20 013	7	0	1 048	691	21 759
Available for sale	25 478	711	1	63	123	26 376
Loans and receivables	147 567	86	4 048	13 546	10 003	175 252
Held to maturity	8 356	0	0	0	0	8 356
Hedging derivatives	275	0	0	0	0	275
Fair value adjustments of hedged items in portfolio hedge of interest rate risk	169	0	0	0	0	169
Tax assets	1 289	5	9	470	18	1 791
Current tax assets	76	4	5	135	3	224
Deferred tax assets	1 212	1	4	334	15	1 566
Non-current assets held for sale and disposal groups	605	0	0	19	0	625
Investments in associated companies	40	0	0	2	3	44
Investment property	89	0	0	0	378	467
Property and equipment	1 660	3	623	72	123	2 482
Goodwill and other intangible assets	1 918	1	51	262	16	2 248
Other assets	846	57	344	384	29	1 659
Total assets	254 341	871	5 077	45 523	12 738	318 550
Financial liabilities	241 344	0	29	35 119	24 579	301 072
Held for trading	20 853	0	0	23 818	38	44 709
Designated at fair value through profit or loss	31 771	0	0	30	5 141	36 942
Measured at amortised cost	187 844	0	29	11 271	19 401	218 544
Hedging derivatives	877	0	0	0	0	877
Fair value adjustments of hedged items in portfolio hedge of interest rate risk	0	0	0	0	0	0
Tax liabilities	295	16	14	25	9	360
Current tax liabilities	256	16	8	19	7	306
Deferred tax liabilies	39	0	6	6	2	54
Non-current liabilities held for sale and liabilities associated with disposal groups	0	0	0	0	0	0
Provisions for risks and charges	462	1	3	55	7	528
Other liabilities	3 397	65	173	518	100	4 252
Total liabilities	245 498	82	220	35 717	24 696	306 212
Acquisitions of property and equipment and intangible assets, including goodwill	586	1	322	137	153	1 199

In millions of EUR	Belgium	Central and Eastern Europe and Russia	Rest of the world	Inter-segment eliminations	KBC Bank Consolidated
2007					
Gross income	3 788	2 168	1 619	0	7 576
Total assets (period-end)	169 734	48 952	90 790		309 476
Total liabilities (period-end)	165 311	44 650	85 601		295 562
Acquisitions of property and equipment and intangible assets, including goodwill (period-end)	233	1 179	55		1 467
2008					
Gross income	2 200	2 459	- 309	0	4 349
Total assets (period-end)	193 315	55 355	69 879		318 550
Total liabilities (period-end)	177 436	50 635	78 142		306 212
Acquisitions of property and equipment and intangible assets, including goodwill (period-end)	763	245	191		1 199

Notes to the income statement

Note 3: Net interest income

In millions of EUR	2007	2008
Total	3 179	4 020
Interest income	13 882	15 883
Available-for-sale assets	1 306	1 285
Loans and receivables	7 737	9 681
Held-to-maturity investments	384	361
Other assets not at fair value	134	271
Subtotal, interest income from financial assets not measured at fair value through profit or loss	9 560	11 598
of which : impaired financial assets	10	9
Financial assets held for trading	1 605	1 625
Hedging derivatives	685	817
Other financial assets at fair value through profit or loss	2 031	1 843
Interest expense	- 10 703	- 11 863
Financial liabilities measured at amortised cost	- 7 704	- 8 587
Other liabilities not at fair value	- 12	- 7
Subtotal, interest expense for financial assets not measured at fair value through profit or loss	- 7 715	- 8 594
Financial liabilities held for trading	- 484	- 336
Hedging derivatives	- 630	- 714
Other financial liabilities at fair value through profit or loss	- 1 873	- 2 218

Note 4: Dividend income

In millions of EUR	2007	2008
Total	126	131
Breakdown by type	126	131
Held-for-trading shares	81	62
Shares initially recognised at fair value through profit or loss	0	0
Available-for-sale shares	45	69

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

In millions of EUR	2007	2008
Total	1 768	- 2 100
Breakdown by type		
Trading instruments (including interest and fair value changes in trading derivatives)	1 549	- 4 521
Other financial instruments initially recognised at fair value through profit or loss	59	2 023
Foreign exchange trading	154	397
Fair value adjustments in hedge accounting	6	1
Microhedge	2	- 6
Fair value hedges	2	- 3
Changes in the fair value of the hedged item	- 15	103
Changes in the fair value of the hedging derivatives (including discontinuation)	17	- 106
Cashflow hedges	0	- 3
Changes in the fair value of the hedging derivatives - ineffective portion	0	- 3
Hedges of net investments in foreign operation - ineffective portion	0	0
Portfolio hedge of interest rate risk	4	7
Fair value hedges of interest rate risk	0	0
Changes in the fair value of the hedged item	- 48	391
Changes in the fair value of the hedging derivatives (including discontinuation)	48	- 391
Cashflow hedges of interest rate risk	4	7
Changes in the fair value of the hedging instrument - ineffective portion (including discontinuation)	4	7

- 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 35 and a positive 33 million euros in 2007 and 2008, 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 103 million euros for 2007 and to 397 million euros for 2008. These are included in the 154 and 397 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. Day 1 profit is recognised for structuring CDOs and for insurance derivatives businesses. Movements in deferred day 1 profit can be summarised as follows (in millions of euros):
  - Deferred day 1 profits, opening balance on 1 January 2007 — 72
  - New deferred day 1 profits — 134
  - Day 1 profits recognised in profit or loss during the period
    - Amortisation of day 1 profits — -32
    - Financial instruments no longer recognised — -63
    - Exchange differences — -7
  - Deferred day 1 profits, closing balance on 31 December 2007 — 104
  - New deferred day 1 profits — 70
  - Day 1 profits recognised in profit or loss during the period
    - Amortisation of day 1 profits — -72
    - Financial instruments no longer recognised — -20
    - Exchange differences — 4
  - Deferred day 1 profits, closing balance on 31 December 2008 — 86

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

In millions of EUR	2007	2008
Total	189	- 11
Breakdown by portfolio		
Fixed-income securities	- 145	- 6
Shares	335	- 5

Note 7: Net fee and commission income

In millions of EUR	2007	2008
Total	1 897	1 769
Breakdown by type		
Fee and commission income	2 666	2 443
Securities and asset management	1 646	1 242
Commitment credit	181	232
Payments	419	522
Other	420	447
Fee and commission expense	- 769	- 674
Commission paid to intermediaries	- 81	- 74
Other	- 688	- 600

- 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	2007	2008
Total	416	538
Net realised gain on loans and receivables	18	- 2
Net realised gain on held-to-maturity investments	1	0
Net realised gain on financial liabilities measured at amortised cost	0	- 1
Other	397	541
of which: realised gain on sale of shares Prague Stock Exchange	0	40
of which: Belgian Deposit Guarantee Agency - KBC Bank	44	0
of which: impact of sale GBC - K&H Bank	35	0
of which: impact ownership percentage NLB	0	54
of which: income concerning leasing at the KBC Lease-group	12	46
of which: income from consolidated private equity participations	24	94
of which: income from Groep VAB	48	64

- The amount reported under 'Other net income' includes income from operating leases, amounts recovered under guarantees, rental income, realised gains or losses on property and equipment and investment property, and amounts recovered on loans that have been written off in full and realised gains or losses on the sale of held-to-maturity investments, loans and receivables and financial liabilities measured at amortised cost.

Note 9: Operating expenses

In millions of EUR	2007	2008
Total	- 4 140	- 4 411
Breakdown by type		
Staff expenses	- 2 276	- 2 222
of which share based payment: equity settled	- 1	0
of which share based payment: cash settled	- 25	30
General administrative expenses	- 1 669	- 1 866
Depreciation and amortisation of fixed assets	- 222	- 240
Provisions for risks and charges	27	- 83

- 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 (KBC FP) 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 can be issued under the plan, all new participants must acquire shares from existing members of the plan. The shares are valued based on the profit before tax of the KBC Financial Products group. The plan was terminated in 2005 and all employees will be paid out over a four-year period ending in March 2009. At the end of 2008, KBC Financial Products recognised an outstanding liability of 7 million euros in this regard (88 million euros at year-end 2007).

  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 members of staff of the company and various subsidiaries. There were share option plans for all members of staff and plans reserved for particular members of staff. 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 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 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 2008, there was a capital increase reserved for KBC group employees, who could buy shares at 29.12 euros per share. This did not result in the recognition of an employee benefit (in 2007, this employee benefit came to 1.3 million euros and was recognised as a staff expense).
- An overview of the number of stock options for staff is shown in the table. The average price of the KBC share came to 65.20 euros during 2008. In 2008, no new KBC share options for personnel were issued.

	2007		2008	
Options	Number of options[1]	Average exercise price	Number of options[1]	Average exercise price
Outstanding at beginning of period	2 223 824	43,31	1 018 188	47,12
Granted during period	7 300	97,94	0	-
Exercised during period	-1 137 286	40,80	- 133 613	42,29
Expired during period	- 75 650	34,50	- 16	37,50
Forfeited during period	0	0,00	0	0,00
Outstanding at end of period [2]	1 018 188	47,12	884 558	47,83
Exercisable at end of period	813 358	42,24	728 111	43,59

1 In share equivalents.
2 2007: Range of exercise prices 28,3-97,94 euros; weighted average residual term to maturity: 46 months.
2008: Range of exercise prices 28,3-97,94 euros; weighted average residual term to maturity: 35 months.

Note 10: Personnel

	2007	2008
Total average number of persons employed (in full-time equivalents)	41 059	43 784

	2007	2008
Breakdown by type	41 059	43 784
Blue-collar staff	525	582
White-collar staff	39 967	42 349
Senior management	567	853

Note 11: Impairment (income statement)

In millions of EUR	2007	2008
Total	- 212	- 1 439
Impairment on loans and receivables	- 148	- 760
Breakdown by type		
Specific impairments for on-balance-sheet lending	- 168	- 737
Specific impairments for off-balance-sheet credit commitments	- 18	- 4
Portfolio-based impairments	39	- 18
Impairment on available-for-sale assets	- 50	- 613
Breakdown by type		
Shares	- 42	- 290
Other	- 8	- 323
Impairment on goodwill	0	- 19
Impairment on other	- 14	- 48
Intangible assets, other than goodwill	- 2	- 27
Property and equipment	- 9	- 5
Held-to-maturity assets	1	- 15
Associated companies (goodwill)	0	0
Other	- 4	- 1

- 'Impairment on loans and receivables' was accounted for primarily by loans and advances to customers (mainly term loans).
- Impairment on available-for-sale assets. The sharp increase in impairment on shares was, of course, related to plummeting share prices, but also to tighter rules for recognising impairment on the portfolio of listed shares. The much higher level of impairment in the 'Other' category was accounted for mainly by bonds that had been issued by Washington Mutual, Lehman Brothers and the Icelandic banks.
- Impairment on goodwill. In 2007, 0 million euros had been posted under this heading. In 2008, it included *inter alia* an amount of 15 million euros for a KBC Financial Products group company (Merchant Banking Business Unit). In most cases, the impairment reflects the difference between the carrying value before impairment and the value in use.
- Impairment on other. In 2007, this heading had included primarily a 2-million-euro allocation to impairment for various intangible assets and an addition of 9-million-euro to impairment for property and equipment. In 2008, it included primarily impairment charges on intangible fixed assets (27 million euros), on property and equipment (5 million euros) and on held-to-maturity securities (15 million euros), due to the lower creditworthiness of the issuers of these securities. 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 12: Share in results of associated companies

In millions of EUR	2007	2008
Total	59	2
of which Nova Ljubljaska Banka	48	8

- 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 13: Income tax expense

In millions of EUR	2007	2008
Total	- 750	216
Breakdown by type	- 750	216
Current taxes on income	- 672	- 301
Deferred taxes on income	- 78	517
Tax components		
Profit before tax	3 283	- 1 500
Income tax at the Belgian statutory rate	33,99%	33,99%
Income tax calculated	- 1 116	510
Plus/minus tax effects attributable to	366	- 293
Differences in tax rates, Belgium - abroad	160	75
Tax-free income	361	298
Adjustments related to prior years	0	21
Adjustments, opening balance of deffered taxes due to change in tax rate	- 3	- 1
Unused tax losses and unused tax credits to reduce current tax expense	4	42
Unused tax losses and unused tax credits to reduce deferred tax expense	0	- 1
Reversal of previously recognised deferred tax due to tax losses		- 30
Other (mainly non-deductible expenses)	- 157	- 699
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 recognized	462	475

- For information on tax assets and tax liabilities, see Note 23.

Notes to the balance sheet

Note 14: 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
31-12-2007								
Loans and advances to credit institutions and investment firms [a]	16 098	16 014	0	15 417	-	-	-	47 529 [2]
Loans and advances to customers [b]	2 067	8 756	0	135 887	-	-	-	146 710
Discount and acceptance credit	0	0	0	717	-	-	-	717
Consumer credit	0	0	0	3 885	-	-	-	3 885
Mortgage loans	0	3 254	0	43 513	-	-	-	46 767
Term loans	2 067	5 322	0	65 796	-	-	-	73 185
Finance leasing	0	0	0	6 883	-	-	-	6 883
Current account advances	0	0	0	7 162	-	-	-	7 162
Securitised loans	0	0	0	264	-	-	-	264
Other	0	181	0	7 667	-	-	-	7 848
Equity instruments	16 992	15	939	-	-	-	-	17 947
Investment contracts (insurance)	-	0	-	-	-	-	-	0
Debt instruments issued by	16 391	11 199	25 604	-	9 296	-	-	62 491
Public bodies	5 218	8 581	13 889	-	8 737	-	-	36 425
Credit institutions and investment firms	4 059	741	3 575	-	279	-	-	8 654
Corporates	7 114	1 878	8 140	-	280	-	-	17 412
Derivatives	21 503	-	-	-	-	524	-	22 026
Total carrying value excluding accrued intrest income	73 051	35 985	26 543	151 304	9 296	524	-	296 702
Accrued interest income [2]	344	299	390	1 475	229	175	-	2 910
Total carrying value including accrued interest income	73 394	36 284	26 933	152 778	9 525	698	-	299 613
Total fair value	73 394	36 284	26 933	151 955	9 404	698		298 668
[a] Of which reverse repos								*29 919*
[b] Of which reverse repos								*7 298*
31-12-2008								
Loans and advances to credit institutions and investment firms [a]	8 288	4 544	0	23 763	-	-	-	36 595 [2]
Loans and advances to customers [b]	4 596	4 509	0	147 057	-	-	-	156 163
Discount and acceptance credit	0	0	0	153	-	-	-	153
Consumer credit	0	0	0	4 618	-	-	-	4 618
Mortgage loans	0	3 215	0	51 938	-	-	-	55 154
Term loans	4 596	1 160	0	72 303	-	-	-	78 059
Finance leasing	0	0	0	6 728	-	-	-	6 728
Current account advances	0	0	0	5 994	-	-	-	5 994
Securitised loans	0	0	0	0	-	-	-	0
Other	0	134	0	5 323	-	-	-	5 457
Equity instruments	5 494	10	1 014	-	-	-	-	6 518
Investment contracts (insurance)	-	0	-	-	-	-	-	0
Debt instruments issued by	16 194	12 325	24 889	3 805	8 149	-	-	65 362
Public bodies	8 918	10 732	19 738	20	7 656	-	-	47 063
Credit institutions and investment firms	3 793	224	3 214	21	271	-	-	7 522
Corporates	3 484	1 369	1 938	3 765	221	-	-	10 776
Derivatives	38 670	-	-	-	-	236	-	38 906
Total carrying value excluding accrued interest income	73 242	21 388	25 903	174 625	8 149	236	-	303 544
Accrued interest income [2]	397	370	472	627	208	39	-	2 113
Total carrying value including accrued interest income	73 639	21 759	26 376	175 252	8 356	275	-	305 657
Total fair value	73 639	21 759	26 376	177 967	8 381	275		308 397
[a] Of which reverse repos								*11 171*
[b] Of which reverse repos								*4 087*

[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 13 168 million euros in 2007 and 15 323 million euros in 2008.

FINANCIAL LIABILITIES (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
31-12-2007								
Deposits from credit institutions and investment firms [a]	8 210	15 156	-	-	-	-	46 373	69 738 [2]
Deposits from customers and debt certificates [b]	2 452	21 927	-	-	-	-	158 188	182 567
Deposits from customers	0	14 139	-	-	-	-	114 698	128 837
Demand deposits	0	1 415	-	-	-	-	36 343	37 758
Time deposits	0	12 723	-	-	-	-	46 913	59 636
Savings deposits	0	0	-	-	-	-	27 079	27 079
Special deposits	0	0	-	-	-	-	3 444	3 444
Other deposits	0	0	-	-	-	-	919	919
Debt certificates	2 452	7 788	-	-	-	-	43 490	53 730
Certificates of deposit	0	2 245	-	-	-	-	15 697	17 942
Customer savings certificates	0	0	-	-	-	-	2 950	2 950
Convertible bonds	0	0	-	-	-	-	0	0
Non-convertible bonds	2 452	4 497	-	-	-	-	19 037	25 986
Convertible subordinated liabilities	0	0	-	-	-	-	0	0
Non-convertible subordinated liabilities	0	1 046	-	-	-	-	5 806	6 852
Liabilities under investment contracts	-	0	-	-	-	-	-	0
Derivatives	25 828	-	-	-	-	118	-	25 946
Short positions	4 809	-	-	-	-	-	-	4 809
in equity instruments	3 723	-	-	-	-	-	-	3 723
in debt instruments	1 085	-	-	-	-	-	-	1 085
Other	243	0	-	-	-	-	3 867	4 110
Total carrying value excluding accrued interest expense	41 542	37 082	-	-	-	118	208 427	287 170
Accrued interest expense [2]	311	420	-	-	-	320	954	2 006
Total carrying value including accrued interest expense	41 853	37 503	0	0	0	438	209 382	289 175
Total fair value	41 853	37 503	0	0	0	438	208 948	288 741
[a] *Of which repos*								*21 006*
[b] *Of which repos*								*8 489*
31-12-2008								
Deposits from credit institutions and investment firms [a]	461	18 973	-	-	-	-	42 491	61 926 [2]
Deposits from customers and debt certificates [b]	1 354	17 681	-	-	-	-	171 119	190 153
Deposits from customers	0	10 786	-	-	-	-	130 111	140 898
Demand deposits	0	847	-	-	-	-	39 526	40 373
Time deposits	0	9 927	-	-	-	-	57 038	66 966
Savings deposits	0	0	-	-	-	-	28 951	28 951
Special deposits	0	0	-	-	-	-	3 546	3 546
Other deposits	0	12	-	-	-	-	1 050	1 062
Debt certificates	1 354	6 894	-	-	-	-	41 007	49 255
Certificates of deposit	0	1 632	-	-	-	-	13 656	15 287
Customer savings certificates	0	0	-	-	-	-	3 072	3 072
Convertible bonds	0	0	-	-	-	-	0	0
Non-convertible bonds	1 354	4 426	-	-	-	-	15 983	21 763
Convertible subordinated liabilities	0	0	-	-	-	-	0	0
Non-convertible subordinated liabilities	0	836	-	-	-	-	8 297	9 133
Liabilities under investment contracts	-	0	-	-	-	-	-	0
Derivatives	39 577	-	-	-	-	653	-	40 230
Short positions	2 907	-	-	-	-	-	-	2 907
in equity instruments	356	-	-	-	-	-	-	356
in debt instruments	2 551	-	-	-	-	-	-	2 551
Other	244	0	-	-	-	-	3 760	4 004
Total carrying value excluding accrued interest expense	44 543	36 654	-	-	-	653	217 371	299 220
Accrued interest expense [2]	167	288	-	-	-	224	1 174	1 852
Total carrying value including accrued interest expense	44 709	36 942	-	-	-	877	218 544	301 072
Total fair value	44 709	36 942	-	-	-	877	220 319	302 846
[a] *Of which repos*								*18 260*
[b] *Of which repos*								*7 855*

[1] Designated at fair value through profit or loss (fair value option).
[2] Of which deposits from banks repayable on demand amounted to: 14 564 million euros in 2007 and 15 885 million euros in 2008.

- 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.
- Changes in 2008: As of 1 January 2008, full service car leases have qualified as operational leases instead of finance leases. As a result, 529 million euros has been reclassified out of loans and advances to customers (finance leasing) to property and equipment. Depreciation related to this leasing activity amounted to 125 million euros in 2008 (recorded under 'Other movements' in Note 25).
- 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 relate to additional disclosure requirements if the reclassification option is used. Following the implementation of these amendments, KBC Bank 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.

In millions of EUR, 31-12-2008	Carrying value	Fair value
Financial assets reclassified out of 'available for sale' to 'loans and receivables'	3 633	3 633

  In 2007 and 2008, unrealised losses of 107 million euros and 1 338 million euros, respectively, on these positions were recognised in equity. In the same period, impairment of 0 million euros and 85 million euros was recognised in the income statement for these positions. 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%. Since the assets were only reclassified on 31 December 2008, solely the way they are presented has changed, not their value.
- Fair value is defined 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 at fair value (available for sale, held for trading, designated at fair value through profit or loss) are valued according to the valuation hierarchy provided in IAS 39. This hierarchy serves as a basis for considering market participant assumptions in fair value measurements.
  1. '*Level 1 inputs*' are prices that are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency (and that are quoted in active markets accessible to KBC). They represent actual and regularly occurring market transactions on an arm's length basis. Revaluation is obtained by comparing prices; no model is involved.
  2. If the market for a financial instrument is not active, an entity establishes fair value by using a valuation technique, based on directly observable or unobservable parameters:
     a. Observable inputs are also referred to as '*level 2 input*s' 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. Examples of observable valuation parameters are the risk-free rate, exchange rates, stock prices and implied volatility. Valuation techniques based on observable inputs can include using discounted cashflow analysis, reference to the current fair value of another instrument that is substantially the same and 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). For example, proxies and correlation factors can be considered to be unobservable in the market.

The fair value measurement of commonly used financial instruments is 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, range floaters, bond future options, interest rate future options	Discounted cash flow 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 parameters
		Credit default swaps (CDS)	CDS model based on credit spreads
	Linear financial instruments (without optional features)	Loans & deposits, simple cash flows, repo transactions, commercial paper	Discounted cash flow analysis based on cash and derivative curves
	Illiquid bonds, structured notes	Illiquid bonds, structured notes	Third-party pricing or valuation model based on observable parameters
	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 parameters
	Illiquid credit-linked instruments	Collateralised Debt Obligations (CDO)	Valuation model based on relative weighted movements of credit spread indices
	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 2008, using a level 3 valuation technique, was almost entirely accounted for by CDOs held in portfolio at group level and amounted to a negative 2.4 billion euros in 2008 (-0.2 billion euros in 2007). Stress tests performed on the current model for CDOs originated by KBC Financial Products – in which it is assumed that credit spreads will widen by another 25% (and all non-super-senior notes have been written down to zero) – result in an additional negative fair value adjustment of 186 million euros.
- Fair value adjustments (*market value adjustments*) are recognised on all positions that are measured at fair value, with fair value changes being reported in the income statement 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.
- 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. In 2008, the effect on fair value of such changes amounted to 371 million euros (the amount in 2007 was negligible).
  - The fair value of demand and savings deposits (which both are repayable on demand) is presumed to be equal to their carrying value.
  - If the effect of changes in own credit spreads is disregarded, the difference between the carrying value and the repayment price of the financial liabilities designated at fair value through profit or loss was minor.
  - 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 is for KBC. The amount of the repos is virtually identical to the amount of the underlying assets (that have been lent out).

Note 15: 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
31-12-2007								
Belgium	3 046	7 021	7 299	70 167	2 893	435	-	90 860
Central and Eastern Europe and Russia	8 977	839	4 635	33 256	5 348	67	-	53 122
Rest of the world	61 028	28 125	14 609	47 881	1 055	22	-	152 720
Total carrying value, excluding accrued interest income	73 051	35 985	26 543	151 304	9 296	524	-	296 702
Accrued interest income	344	299	390	1 475	229	175	-	2 910
Total carrying value, including accrued interest income	73 394	36 284	26 933	152 778	9 525	698	-	299 613
31-12-2008								
Belgium	5 954	6 511	9 988	71 391	1 712	141	-	95 698
Central and Eastern Europe and Russia	9 901	1 037	7 019	39 045	5 471	120	-	62 593
Rest of the world	57 387	13 840	8 896	64 189	965	- 25	-	145 252
Total carrying value, excluding accrued interest income	73 242	21 388	25 903	174 625	8 149	236	-	303 544
Accrued interest income	397	370	472	627	208	39	-	2 113
Total carrying value, including accrued interest income	73 639	21 759	26 376	175 252	8 356	275	-	305 657

* 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
31-12-2007								
Belgium	3 025	3 980	-	-	-	77	77 267	84 349
Central and Eastern Europe and Russia	667	3 031	-	-	-	38	39 499	43 235
Rest of the world	37 849	30 072	-	-	-	3	91 662	159 586
Total carrying value, excluding accrued interest expense	41 542	37 082	-	-	-	118	208 427	287 170
Accrued interest expense	311	420	-	-	-	320	954	2 006
Total carrying value, including accrued interest expense	41 853	37 503	-	-	-	438	209 382	289 175
31-12-2008								
Belgium	2 831	7 230	-	-	-	558	82 858	93 476
Central and Eastern Europe and Russia	1 548	3 422	-	-	-	27	40 963	45 961
Rest of the world	40 164	26 002	-	-	-	68	93 549	159 783
Total carrying value, excluding accrued interest expense	44 543	36 654	-	-	-	653	217 371	299 220
Accrued interest expense	167	288	-	-	-	224	1 174	1 852
Total carrying value, including accrued interest expense	44 709	36 942	-	-	-	877	218 544	301 072

* Designated at fair value through profit or loss.

Note 16: Financial assets, breakdown by portfolio and quality

In millions of EUR	Held for trading	Designated at fair value *	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	TOTAL
31-12-2007							
Unimpaired assets	73 394	36 284	26 786	151 372	9 525	698	298 060
Impaired assets	-	-	284	3 427	0	-	3 711
Impairment	-	-	- 138	- 2 020	0	-	- 2 158
Total carrying value	73 394	36 284	26 933	152 778	9 525	698	299 613
31-12-2008							
Unimpaired assets	73 639	21 759	26 569	174 034	8 561	275	304 837
Impaired assets	-	-	914	4 303	22	-	5 239
Impairment	-	-	- 635	- 2 458	- 19	-	- 3 112
Total carrying value	73 639	21 759	26 376	175 252	8 356	275	305 657

* Designated at fair value through profit or loss.

Past due, but not impaired assets *

In millions of EUR	less then 30 days past due	more, but less then 90 days past due
31-12-2007		
Loans & advances	3 642	573
Debt instruments	0	0
Derivatives	18	0
Total	3 659	573
31-12-2008		
Loans & advances	4 663	1 136
Debt instruments	0	0
Derivatives	32	1
Total	4 695	1 137

* 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	31-12-2007	31-12-2008
Maximum credit exposure		
Equity	17 947	6 518
Debt instruments	62 491	65 362
Loans & advances	194 239	192 758
Of which designated at fair value through profit or loss	24 770	9 054
Derivatives	22 026	38 906
Other (including accrued interest)	48 443	53 891
Total	345 145	357 435
Carrying value of financial assets pledged as collateral for		
Liabilities	40 383	50 206
Contingent liabilities	1 534	5 966

- 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 trustee in bankruptcy. 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 owners) in its original form, or, where necessary, in cash.

Collateral held (which may be sold or repledged in the absence of default by the owner)

	Fair value of collateral held		Fair value of collateral sold/repledged	
	31-12-2007	31-12-2008	31-12-2007	31-12-2008
Financial assets	41 830	18 585	15 472	6 352
Equity instruments	245	75	0	0
Debt instruments	41 207	18 129	15 472	6 352
Loans & advances	197	206	0	0
Cash	182	175	0	0
Non-financial assets	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 17: 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
31-12-2007								
Not more than one year	24 075	23 970	3 386	60 052	2 252	-	-	113 735
More than one but not more than five year	3 353	5 875	11 952	24 320	3 891	-	-	49 391
More than five years	7 472	6 423	10 655	67 341	3 382	-	-	95 273
Without maturity	38 495	15	939	1 066	0	698	-	41 214
Total carrying value	73 394	36 284	26 933	152 778	9 525	698	-	299 613
31-12-2008								
Not more than one year	20 078	8 033	5 199	68 919	1 634	-	-	103 864
More than one but not more than five year	6 717	5 583	11 542	27 715	3 104	-	-	54 661
More than five years	4 641	8 137	8 535	74 525	3 618	-	-	99 455
Without maturity	42 202	6	1 100	4 093	0	275	-	47 677
Total carrying value	73 639	21 759	26 376	175 252	8 356	275	-	305 657

* 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
31-12-2007								
Not more than one year	10 831	31 707	-	-	-	-	150 808	193 346
More than one but not more than five year	3 038	1 472	-	-	-	-	21 105	25 615
More than five years	1 968	4 308	-	-	-	-	9 574	15 850
Without maturity	26 016	16	-	-	-	438	27 894	54 364
Total carrying value	41 853	37 503	-	-	-	438	209 382	289 175
31-12-2008								
Not more than one year	3 905	31 265	-	-	-	-	154 552	189 722
More than one but not more than five year	877	1 096	-	-	-	-	24 688	26 661
More than five years	269	4 581	-	-	-	-	9 104	13 954
Without maturity	39 657	0	-	-	-	877	30 201	70 735
Total carrying value	44 709	36 942	-	-	-	877	218 544	301 072

* Designated at fair value through profit or loss.

Note 18: Impairment on financial assets that are available for sale

	2007		2008	
in millions of EUR	Fixed-income securities	Shares	Fixed-income securities	Shares
Opening balance	7	55	13	124
Movements with an impact on results				
Impairment recognised	8	43	328	290
Impairment reversed	0	0	- 5	0
Movements without an impact on results				
Write-offs	0	0	0	0
Change in the scope of consolidation	0	6	0	- 2
Other	- 1	21	- 101	- 13
Closing balance	13	124	235	400

Note 19: Impairment on financial assets held to maturity

Fixed-income securities	2007	2008
In millions of EUR		
Opening balance	1	0
Movements with an impact on results		
Impairment recognised	0	15
Impairment reversed	- 1	0
Movements without an impact on results		
Write-offs	0	0
Changes in the scope of consolidation	0	0
Other	0	4
Closing balance	0	19

Note 20: Impairment on loans and receivables (balance sheet)

In millions of EUR	31-12-2007	31-12-2008
Total	2 128	2 567
Breakdown by type		
Specific impairment, on-balance-sheet lending	1 859	2 216
Specific impairment, off-balance-sheet credit commitments	84	89
Portfolio-based impairment	185	262
Breakdown by counterparty		
Impairment for loans and advances to banks	6	127
Impairment for loans and advances to customers	2 015	2 331
Specific and portfolio based impairment, off-balance-sheet credit commitments	108	109

MOVEMENTS	Specific impairment, on-balance-sheet lending	Specific impairment, off-balance-sheet credit commitments	Portfolio-based impairments	Total
Opening balance 1-1-2007	1 866	67	222	2 155
Movements with an impact on result				
Loan loss expenses	643	62	173	878
Loan loss recoveries	- 475	- 44	- 211	- 730
Movements without an impact on result				
Write-offs	- 235	- 1	0	- 235
Changes in the scope of consolidation	59	0	0	59
Other	1	0	2	2
Closing balance 31-12-2007	1 859	84	185	2 128
Opening balance 1-1-2008	1 859	84	185	2 128
Movements with an impact on result				
Loan loss expenses	1 262	43	156	1 461
Loan loss recoveries	- 524	- 39	- 138	- 702
Movements without an impact on result				
Write-offs	- 249	- 2	0	- 251
Changes in the scope of consolidation	9	0	15	25
Other	- 140	3	43	- 95
Closing balance 31-12-2008	2 216	89	262	2 567

Note 21: Derivative financial instruments

	Held for trading				Fair value hedge				Cash flow hedge *				Portfolio hedge			
	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
31-12-2007																
Total	21 503	25 828	1 051 666	1 039 677	32	20	1 933	1 927	269	89	11 912	11 749	223	9	11 862	11 862
Breakdown by type																
Interest rate contracts	5 403	7 467	648 680	643 737	31	15	1 804	1 804	197	81	10 451	10 451	223	9	11 862	11 862
Interest rate swaps	4 815	6 943	554 908	554 314	31	15	1 804	1 804	197	81	10 451	10 451	223	9	11 862	11 862
Forward rate agreements	49	43	33 957	29 042	0	0	0	0	0	0	0	0	0	0	0	0
Futures	25	2	9 722	9 626	0	0	0	0	0	0	0	0	0	0	0	0
Options	514	471	47 538	50 371	0	0	0	0	0	0	0	0	0	0	0	0
Forwards	0	9	2 555	384	0	0	0	0	0	0	0	0	0	0	0	0
Foreign exchange contracts	1 360	1 356	209 568	211 222	0	5	129	122	73	8	1 461	1 299	0	0	0	0
Forward foreign exchange operations/Currency forwards	443	445	116 667	118 195	0	0	7	0	0	0	20	20	0	0	0	0
Currency and interest rate swaps	659	656	64 890	65 239	0	5	122	122	66	8	1 276	1 134	0	0	0	0
Futures	0	0	14	14	0	0	0	0	0	0	0	0	0	0	0	0
Options	259	255	27 998	27 774	0	0	0	0	6	1	166	145	0	0	0	0
Equity contracts	9 452	13 826	60 965	58 375	0	0	0	0	0	0	0	0	0	0	0	0
Equity swaps	1 911	290	32 363	32 368	0	0	0	0	0	0	0	0	0	0	0	0
Forwards	8	1	10	184	0	0	0	0	0	0	0	0	0	0	0	0
Futures	21	31	1 098	338	0	0	0	0	0	0	0	0	0	0	0	0
Options	7 277	12 909	26 628	25 028	0	0	0	0	0	0	0	0	0	0	0	0
Warrants	234	594	867	457	0	0	0	0	0	0	0	0	0	0	0	0
Credit contracts	5 060	3 165	132 287	126 148	0	0	0	0	0	0	0	0	0	0	0	0
Credit default swaps	5 060	3 165	132 287	126 148	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	228	15	166	195	0	0	0	0	0	0	0	0	0	0	0	0

* Including hedges of net investments in foreign operations.

In millions of EUR	Held for trading				Fair value hedge				Cash flow hedge *				Portfolio hedge			
	Carrying value		Notional amount		Carrying value		Notional amount		Carrying value		Notional amount		Carrying value		Notional amount	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
31-12-2008																
Total	38 670	39 577	1 073 775	1 045 499	106	88	1 604	1 604	111	396	15 333	15 271	19	169	9 647	9 647
Breakdown by type																
Interest rate contracts	13 045	12 727	664 261	664 638	106	88	1 604	1 604	44	385	14 901	14 888	19	169	9 647	9 647
Interest rate swaps	12 143	12 037	572 287	572 037	106	88	1 604	1 604	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	11 508	12 581	0	0	0	0	1	0	24	0	0	0	0	0
Options	717	490	49 943	51 337	0	0	0	0	0	0	0	0	0	0	0	0
Forwards	0	5	5	622	0	0	0	0	0	0	0	0	0	0	0	0
Foreign exchange contracts	2 981	2 741	221 433	222 792	0	0	0	0	67	12	431	383	0	0	0	0
Forward foreign exchange operations/Currency forwards	861	894	110 492	111 852	0	0	0	0	2	0	30	29	0	0	0	0
Currency and interest rate swaps	1 370	1 294	79 096	79 679	0	0	0	0	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	553	31 845	31 261	0	0	0	0	1	8	50	57	0	0	0	0
Equity contracts	9 552	11 742	47 994	52 636	0	0	0	0	0	0	0	0	0	0	0	0
Equity swaps	2 654	3 500	31 257	31 387	0	0	0	0	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	3	10	285	147	0	0	0	0	0	0	0	0	0	0	0	0
Options	6 863	7 842	16 414	20 201	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	12 988	12 257	138 912	104 230	0	0	0	0	0	0	0	0	0	0	0	0
Credit default swaps	12 988	12 257	138 912	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	104	109	1 176	1 204	0	0	0	0	0	0	0	0	0	0	0	0

* Including hedges of net investments in foreign operations.

- The carrying values given in the tables are dirty prices for derivatives held for trading and clean prices for hedging derivatives. The accrued interest income on hedging derivatives amounted to 175 million euros in 2007 and 39 million euros in 2008, while the accrued interest expense came to 320 million euros in 2007 and 224 million euros in 2008.
- 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: KBC uses this technique 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 so-called 'fair value' option): KBC uses this option 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 with embedded derivatives.

    Moreover, the fair value option is used for certain financial liabilities with embedded derivatives whose economic risk and characteristics are closely related to those of the host contract (some 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. This type of hedge accounting is 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. This technique is 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, the decision was taken to make use 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 euro):

	Inflow	Outflow
o Not more than three months:	59	-21
o More than three but not more than six months:	104	-70
o More than six months but not more than one year:	144	-193
o More than one but not more than two years:	331	-479
o More than two but not more than five years:	950	-1 069
o More than five years:	2 437	-2 689

Note 22: Other assets

In millions of EUR	31-12-2007	31-12-2008
Total	1 618	1 659
Breakdown by type	1 618	1 659
Income receivable (other than interest income from financial assets)	134	148
Other	1 484	1 511

Note 23: Tax assets and tax liabilities

In millions of EUR	31-12-2007	31-12-2008
CURRENT TAXES		
Current tax assets	102	224
Current tax liabilities	388	306
DEFERRED TAXES	477	1 512
Tax assets by type of temporary difference	1 341	2 718
Employee benefits	237	196
Losses carried forward	17	134
Tangible and intangible fixed assets	61	67
Provisions for risks and charges	42	47
Impairment for losses on loans and advances	218	257
Financial instruments at fair value through profit or loss and fair value hedges	275	765
Fair value adjustments, available-for-sale assets, cash flow hedges and hedges of net investments in foreign entities	397	1 126
Technical provisions	0	0
Other	94	127
Unused tax losses and unused tax credits	0	188
Deferred tax liabilities by type of temporary difference	864	1 206
Employee benefits	5	7
Losses carried forward	2	- 1
Tangible and intangible fixed assets	78	100
Provisions for risks and charges	19	20
Impairment for losses on loans and advances	105	126
Financial instruments at fair value through profit or loss and fair value hedges	174	366
Fair value adjustments, available-for-sale assets, cash flow hedges and hedges of net investments in foreign entities	373	475
Technical provisions	0	0
Other	107	112
Recognised in the balance sheet as follows:		
Deferred tax assets	556	1 566
Deferred tax liabilities	79	54

- The total net increase in deferred taxes (1 035 million euros) breaks down as follows:
  - increase in deferred tax assets: 1 378 million euros;
  - increase in deferred tax liabilities: 343 million euros.

- The increase in deferred tax assets with 1 378 millions euros is accounted for primarily by:
  - the increase via the income statement: +743 million euros, made up primarily by the following:
    - losses carried forward: +127 million euros,
    - impairment for losses on loans and advances: +38 million euros,
    - financial instruments at fair value through profit or loss and fair value hedges: +553 million euros;
  - the increase in deferred tax assets consequent on the drop in the market value of available-for-sale securities: +483 million euros;
  - the increase in negative fair value changes in cashflow hedges: +212 million euros;
  - the remaining decrease (-59 million euros) is accounted for primarily by changes in the scope of consolidation, translation differences and other items.

- The increase in deferred tax liabilities with 343 million euros is made up primarily of the following:
  - the increase via the income statement: +226 million euros, made up primarily by the following:
    - tangible and intangible fixed assets (+21 million euros),
    - impairment for losses on loans and advances (+20 million euros),
    - financial instruments at fair value through profit or loss and fair value hedges (+178 million euros);
  - the increase in deferred tax liabilities due to the rise in the market value of available-for-sale securities: +117 million euros;
  - the increase in positive fair value changes in cashflow hedges: +11 million euros;
  - the remaining decrease (-11 million euros) is accounted for primarily by changes in the scope of consolidation, translation differences and other items.

Note 24: Investments in associated companies

In millions of EUR	31-12-2007	31-12-2008
Total	646	44
Overview of investments including goodwill		
Nova Ljubljanska banka	568	0
Other	78	44
Goodwilll on associated companies		
Gross amount	210	0
Accumulated impairment	0	0
Breakdown by type		
Unlisted	646	44
Listed	0	0
Fair value of investments in listed associated companies	0	0

MOVEMENTS	31-12-2007	31-12-2008
Opening balance (1 January)	535	646
Acquisitions	69	- 26
Carrying value, transfers	0	0
Share in the result for the period	59	2
Dividends paid	- 20	- 1
Share of gains and losses not recognized in the income statement	1	0
Translation differences	1	0
Changes in goodwill	0	0
Transfer to or from non-current assets held for sale and disposal groups	0	- 576
Other movements	0	0
Closing balance (31 December)	646	44

- 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 2008, the shareholding in Nova Ljubljanska banka (NLB) was transferred to 'Non-current assets held for sale and disposal groups', due to the start of the structured process to sell this shareholding.

Note 25: Property and equipment and investment property

In millions of EUR	31-12-2007	31-12-2008
Property and equipment	1 760	2 482
Investment property	448	467
Rental income	29	37
Direct operating expenses from investments generating rental income	3	2
Direct operating expenses from investments not generating rental income	14	5

MOVEMENTS TABLE	Land and buildings	IT equipment	Other equipment	Total property and equipment	Investment property
2007					
Opening balance	1 017	37	490	1 544	225
Acquisitions	116	45	156	317	32
Disposals	- 29	- 2	- 86	- 118	0
Depreciation	- 60	- 30	- 75	- 166	- 10
Impairment					
recognised	0	0	0	0	- 9
reversed	0	0	0	0	0
Transfer to or from non-current assets held for sale and disposal groups	0	0	0	0	59
Translation differences	10	0	5	15	4
Changes in the scope of consolidation	85	5	8	98	55
Other movements	144	6	- 82	69	91
Closing balance	1 283	62	415	1 760	448
Of which: accumulated depreciation and impairment	774	246	174	1 194	21
Of which expenditure on items in the course of construction	25	0	17	42	-
Of which finance lease as a lessee	4	0	0	4	-
Fair value 31-12-2007	-	-	-	-	449
2008					
Opening balance	1 283	62	415	1 760	448
Acquisitions	246	61	441	748	9
Disposals	- 30	- 6	- 198	- 233	- 1
Depreciation	- 69	- 37	- 66	- 172	- 14
Impairment					
recognised	- 2	- 1	- 3	- 6	- 1
reversed	1	0	0	1	0
Transfer to or from non-current assets held for sale and disposal groups	0	0	0	0	0
Translation differences	- 41	- 4	- 12	- 57	- 8
Changes in scope of consolidation	37	3	13	54	32
Other movements	- 12	2	399	389	0
Closing balance	1 412	81	989	2 482	467
Of which: accumulated depreciation and impairment	864	236	204	1 304	51
Of which expenditure on items in the course of construction	17	0	13	30	-
Of which finance lease as a lessee	2	0	0	2	-
Fair value 31-12-2008	-	-	-	-	518

- 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.).
- For changes in 2008 regarding full service car leasing, see Note 14.

Note 26: Goodwill and other intangible assets

In millions of EUR	Goodwill	Software developed inhouse	Software developed externally	Other	Total
2007					
Opening balance	709	17	79	27	832
Acquisitions	1 045	1	40	31	1 118
Disposals	0	0	- 3	0	- 4
Adjustment resulting from subsequent identification	0	0	0	0	0
Amortisation	0	- 3	- 38	- 5	- 46
Impairment					
recognised	0	- 1	0	- 1	- 2
reversed	0	0	0	0	0
Transfer to or from non-current assets held for sale and disposal groups	0	0	0	0	0
Translation differences	- 12	- 1	1	- 1	- 13
Changes in the scope of consolidation	0	0	1	53	53
Other movements	68	- 4	- 8	15	70
Closing balance	1 810	9	71	117	2 008
Of which: accumulated amortisation and impairment	0	6	262	23	291
2008					
Opening balance	1 810	9	71	117	2 008
Acquisitions	375	2	54	12	442
Disposals	0	0	- 5	- 4	- 9
Adjustment resulting from subsequent identification	0	0	0	0	0
Amortisation	0	- 2	- 44	- 7	- 54
Impairment					
recognised	- 19	0	0	- 27	- 46
reversed	0	0	0	0	0
Transfer to or from non-current assets held for sale and disposal groups	0	0	0	0	0
Translation differences	- 89	0	- 1	- 1	- 91
Changes in the scope of consolidation	0	0	4	2	5
Other movements	50	0	1	- 58	- 7
Closing balance	2 127	9	79	33	2 248
Of which: accumulated amortisation and impairment	19	10	341	24	394

- 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).
- 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 cash flow analysis) and the fair value (calculated based on multiple analysis, regression analysis, etc.) less costs to sell.
  - The discounted cash flow method calculates the recoverable amount of an investment as the present value of all future free cash flows of the business. This method is based on long-term projections about the company’s business and the resulting cashflows. The present value of these future cashflows is calculated using an annual discount rate. Free cashflows of banks and insurance companies are the dividends that can be paid out to the company’s shareholders, account taken of the minimum capital requirements.
  - The multiple-analysis method calculates the recoverable amount of an investment relative to the value of comparable companies. The value is determined on the basis of relevant ratios between the value of the comparable company and the carrying value, or profit, for instance, of that company. For the purposes of comparison, account is taken of listed companies (where value is equated to market capitalisation) and of companies involved in mergers or acquisitions (where the value is equated to the sales price).
  - The regression analysis method calculates the recoverable amount of an investment using a regression analysis of comparable listed companies. For banks, account is taken primarily of the relationship between market capitalisation, net asset value and profitability. Statistical analysis has shown that a strong correlation exists between these parameters. It is assumed that a company with a comparable net asset value and comparable profitability is comparable in value.
- At the end of 2008, goodwill was accounted for primarily by (in each case, the consolidated entity, i.e. including subsidiaries) Absolut Bank (457 million euros), ČSOB (305 million euros), K&H Bank (258 million euros), CIBANK (290 million euros), Kredyt Bank (93 million euros), KBC Asset Management NV (114 million euros) and Istrobanka (243 million euros). At the end of 2007, goodwill was accounted for primarily by (in each case, the consolidated entity, i.e. including subsidiaries) Absolut Bank (516 million euros), ČSOB (308 million euros), K&H

Bank (271 million euros), CIBANK (281 million euros), KBC Asset Management NV (115 million euros) and Kredyt Bank (94 million euros).

Note 27: 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
2007						
Opening balance	12	215	99	327	80	407
Movements with an impact on result						
Amounts allocated	1	64	13	78	79	157
Amounts used	- 2	- 18	- 64	- 85	0	- 85
Unused amounts reversed	0	- 18	- 2	- 21	- 53	- 74
Other movements	- 3	10	- 14	- 6	2	- 5
Closing balance	7	253	32	293	108	401
2008						
Opening balance	7	253	32	293	108	401
Movements with an impact on result						
Amounts allocated	56	146	8	210	57	267
Amounts used	- 1	- 10	- 16	- 28		- 28
Unused amounts reversed	- 6	- 91	- 2	- 98	- 55	- 154
Other movements	1	32	9	43	0	43
Closing balance	57	329	32	419	110	528

- Restructuring provisions were set aside mainly for a number of companies in the KBC Financial Products group (45 million euros at year-end 2008) and in certain Central and Eastern European subsidiaries (9 million euros in total at year-end 2008).
- In 2008, the provision for taxes and pending legal disputes went up by 76 million euros, largely on account of the amounts set aside for commercial disputes involving activities in Central and Eastern European and the merchant banking business. The main provisions for legal disputes are discussed below.
- ‘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 Bank 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. On balance, 90 million euros’ worth of provisions have been set aside for the claims still outstanding (including 84 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 28 cases. Besides KB Consult (placed under suspicion by an investigating magistrate in 2004), KBC Bank was also summoned to appear in the proceedings before the Bruges court sitting in chambers (*Raadkamer*). The hearing has been adjourned until 27 May 2009. A provision of 50 million euros has been constituted to deal with the potential impact of claims for damages in this respect. The

transfer of a cash company is in principle completely legitimate. Nevertheless, it later transpired that certain purchasers were acting in bad faith since they did not make any investments at all and did not file tax returns for the cash companies they had purchased. KBC Bank and KB Consult immediately took the necessary measures to preclude any further involvement with these parties.

- 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 2009.
- Remotely probable outflow:
  - On 11 January 2008, the Brussels court sitting in chambers (*Raadkame*r) rendered its decision on the inquiry instituted in mid-1996 relating to the alleged co-operation by (former) directors and members of staff of KBC Bank and KBL European Private Bankers (formerly Kredietbank SA Luxembourgeoise) in tax evasion committed by customers of KBC Bank and KBL, ultimately deciding to refer only eleven of the people who had previously been placed under suspicion in the case to the criminal court for trial. All the other persons placed under suspicion have had charges dismissed against them because the evidence was insufficient or the period of prescription had expired. On 24 September 2008, the Indictment Division confirmed the decision rendered by the court sitting in chambers. The case will be heard on 3 April 2009 in the Brussels criminal court, which – based on the merits of the case – will decide whether these persons are guilty or whether they should be acquitted.
  - 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 62 million euros plus interest. The Czech government has filed a counterclaim, provisionally estimated at 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.

Note 28: Other liabilities

In millions of EUR	31-12-2007	31-12-2008
Total	5 519	4 252
Breakdown by type	5 519	4 252
Retirement benefit plans or other employee benefits	1 420	1 197
Accrued charges (other than from interest expenses on financial liabilities)	1 969	1 210
Other	2 130	1 846

- For more information on retirement benefit plans or other employee benefits, see Note 29.

Note 29: Retirement benefit obligations

In millions of EUR	31-12-2007	31-12-2008
DEFINED BENEFIT PLANS		
Reconciliation of defined benefit obligations		
Defined benefit obligations at the beginning of the period	1 484	1 528
Current service Cost	85	90
Interest cost	71	79
Plan amendments	8	35
Actuarial gain/(loss)	- 83	- 23
Benefits paid	- 88	- 96
Exchange differences	- 5	- 8
Curtailment	0	0
Changes in the scope of consolidation	0	0
Other	56	6
Defined benefit obligation at end of the period	1 528	1 612
Reconciliation of the fair value of plan assets		
Fair value of plan assets at the beginning of the period	1 261	1 252
Actual return on plan assets	0	- 226
Employer contributions	55	86
Plan participant contributions	16	18
Benefits paid	- 85	- 92
Exchange differences	- 4	- 6
Settlements	0	0
Changes in the scope of consolidation	0	0
Other	9	5
Fair value of plan assets at the end of the period	1 252	1 037
of which financial instruments issued by the bank	10	9
Reconciliation of the fair value of reimbursement rights		
Fair value of reimbursement rights at the beginning of the period	37	55
Actual return on reimbursement rights	2	2
Employer contributions	17	2
Plan participant contributions	0	0
Benefits paid	- 3	- 3
Exchange differences	0	0
Settlements	0	- 2
Changes in the scope of consolidation	0	0
Other	2	0
Fair value of plan assets at the end of the period	55	54
Funded Status		
Plan assets in excess of defined benefit obligations	- 222	- 510
Unrecognised net actuarial gains	- 243	45
Unrecognised transaction amount	0	0
Unrecognised past service cost	0	0
Unrecognised assets	- 10	- 11
Unfunded accrued/prepaid pension cost	- 475	- 476
Movement in net liabilities or net assets		
Unfunded accrued/prepaid pension cost at the beginning of the period	- 451	- 475
Net periodic pension cost	- 100	- 98
Employer contributions	72	88
Exchange differences	3	0
Changes in the scope of consolidation	0	0
Other	1	10
Unfunded accrued/prepaid pension cost at the end of the period	- 475	- 476
Amounts recognised in the balance sheet		
Prepaid pension cost	9	32
Reimbursement right	- 7	- 11
Accrued pension liabilities	- 477	- 496
Unfunded accrued/prepaid pension cost	- 475	- 476

In millions of EUR	31-12-2007	31-12-2008
DEFINED BENEFIT PLANS		
Amounts recognised in the income statement		
Current service cost	85	90
Interest cost	71	79
Expected return on plan assets	- 72	- 78
Expected return on reimbursement rights	- 2	- 3
Adjustments to limit prepaid pension cost	2	0
Amortisation of unrecognized prior service costs	64	35
Amortisation of unrecognized net (gains)/losses	- 32	- 9
Employee contributions	- 17	- 18
Curtailments	0	0
Settlements	0	2
Changes in the scope of consolidation	0	0
Actuarially determined net periodic pension cost *	100	98
Actual return on plan assets (in %)	0%	-18,0%
Actual return on reimbursement rights (in %)	4,6%	4,3%
Principal actuarial assumptions used (based on weighted averages)		
Discount rate	4,6%	5,1%
Expected rate of return on plan assets	5,3%	5,9%
Expected rate of salary increase	3,3%	3,5%
Rate of pension increase	0,4%	0,5%

DEFINED CONTRIBUTION PLANS		
Expenses for defined contribution plans	2	0

* Included under staff expenses (see Note 12, 'Operating expenses').

- The pension claims of the staff of various KBC group companies are covered by pension funds and group insurance schemes, most of which are defined benefit plans. The main defined benefit plans are the KBC pension fund which covers KBC Bank, KBC Insurance (since 2007) and most of their Belgian subsidiaries, the KBC Insurance group insurance scheme (for staff employed prior to 1 January 2007) and KBL EPB's pension plans (which include both group insurance and pension funds). 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 2006, 2007 and 2008, in millions of euros):
  - Defined benefit obligations: 1 484, 1 528, 1 612;
  - Fair value of plan assets: 1 298, 1 307, 1 090;
  - Unfunded accrued or prepaid pension cost: -451, -475, -476.
- The actual 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 2008, the assets of the KBC pension fund were as follows:
  33% shares, 54% bonds, 10% real estate and 3% cash (in 2007 51% shares, 39% bonds, 8% real estate and 2% cash);
- For the KBC pension fund, a contribution of 70 million euros is expected for 2009.
- 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): +1 million euros in 2004, +2 million euros in 2005, +1 million euros in 2006, -1 million euros in 2007, and 0 million euros in 2008. The impact on pension liabilities came to +9 million euros, +16 million euros, -40 million euros, -7 million euros, and -86 million euros, respectively.

Note 30: Parent shareholders' equity

In number of shares	31-12-2007	31-12-2008
Total number of shares issued and fully paid up	417 232 809	582 917 643
Breakdown by type		
Ordinary shares	412 331 794	582 917 643
Mandatory convertible bonds	4 901 015	0
of which ordinary shares that entitle the holder to a dividend payment	*417 232 809*	*582 917 643*
of which treasury shares	*0*	*0*
Other information		
Par value per ordinary share (in euros)	9,77	9,78
Number of shares issued but not fully paid up	0	0

MOVEMENTS TABLE In number of shares	Ordinary shares	Other equity instruments	Total
2007			
Opening balance	385 054 107	4 901 015	389 955 122
Issue of shares	27 277 687	0	27 277 687
Conversion of convertible bonds into shares	0	0	0
Other movements	0	0	0
Closing balance	412 331 794	4 901 015	417 232 809
2008			
Opening balance	412 331 794	4 901 015	417 232 809
Issue of shares	165 684 834	0	165 684 834
Conversion of convertible bonds into shares	4 901 015	- 4 901 015	0
Other movements	0	0	0
Closing balance	582 917 643	0	582 917 643

- The share capital of KBC Bank NV consists of ordinary shares of no nominal value and mandatorily convertible bonds (MCBs – see 'Other equity instruments' in the table). All ordinary shares carry voting rights and each share represents one vote. No participation certificates or non-voting shares have been issued.
- At 31 December 2008, there were 582 917 643 ordinary shares in circulation. Of these, KBC Group NV and KBC Insurance NV respectively hold 582 917 642 shares and 1 share.
- At 31 December 2008, there were no freely convertible bonds outstanding.
- Preference shares are not included in 'Parent shareholders' equity', but in 'Minority interests'.
- For information on stock option plans, see Note 9.
- Non-voting core-capital securities: on 19 December 2008, KBC signed an agreement with the Belgian Federal Government to bolster the group's financial position. Under the agreement, KBC issued 3.5 billion euros' worth of non-transferable core-capital instruments with no voting rights to the Belgian State, with the proceeds of the transaction being used to strengthen the core (tier-1) capital of its banking activities by 2.25 billion euros (converted into a capital increase carried out by KBC Group NV at KBC Bank in the same amount) and to increase the solvency margin of its insurance activities by 1.25 billion euros. Features of the transaction:
  - Issuer: KBC Group NV.
  - Subscriber: Belgian State (Federale Participatie- en Investeringsmaatschappij).
  - Type of securities: fully paid-up new type of non-transferable, non-voting securities qualifying as core capital.
  - Classification: equal ranking (pari passu) with ordinary shares.
  - 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 and 125% for 2010 and subsequent years. No coupon will be paid if there is no dividend.
  - Term: perpetual.
  - 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.

- o Exchange option: after three years, 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%).
  - o The issued securities will constitute part of parent shareholders' equity, as recorded in the balance sheet under IFRS.
- On 22 January 2009, KBC signed an agreement with the Flemish Regional Government to further strengthen the group's financial position. For more information on this transaction, see Note 37.

Other notes

Note 31: Commitments and contingent liabilities

In millions of EUR	31-12-2007	31-12-2008
CREDIT COMMITMENTS - undrawn amount		
– given	41 403	43 153
1) irrevocable	34 634	36 247
2) revocable	6 769	6 905
– received	273	88
FINANCIAL GUARANTEES		
– given	13 734	15 051
– guarantees received / collateral	166 160	155 385
1) for impaired and past due assets	4 617	5 189
non-financial assets	4 304	4 011
financial assets	313	1 179
2) for assets that are not impaired or past due assets	161 543	150 196
non-financial assets	100 967	111 392
financial assets	60 577	38 805
OTHER COMMITMENTS		
– given	93	481
1) irrevocable	75	479
2) revocable	18	1
– received	0	153

- 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 Bank NV irrevocably and unconditionally guarantees all sums, indebtedness, obligations and liabilities outstanding on 31 December 2008 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 32: Leasing

In millions of EUR	31-12-2007	31-12-2008
Finance lease receivables		
Gross investment in finance leases, receivable	7 873	8 004
At not more than one year	2 385	2 416
At more than one but not more than five years	4 087	4 204
At more than five years	1 401	1 384
Unearned future finance income on finance leases	988	1 200
Net investment in finance leases	6 883	6 765
At not more than one year	2 101	2 057
At more than one but not more than five years	3 726	3 704
At more than five years	1 055	1 004
Of which: unguaranteed residual values accruing to the benefit of the lessor	9	7
Accumulated impairment for uncollectable lease payments receivable	35	108
Contingent rents recognised in income	17	16
Operating lease receivables		
Future aggregate minimum rentals receivable under non-cancellable leases :	91	715
Not more than one year	26	217
More than one but not more than five years	55	465
More than five years	9	33
Contingent rentals recognised in income	0	3

- 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 Western and Central and Eastern Europe. KBC offers finance lease products ranging from equipment and rolling stock leasing, to real estate leasing and vendor finance. While equipment and rolling stock leasing is typically commercialised in Belgium through KBC group’s branch network, vendor finance is designed for producers and suppliers.
- 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 and Eastern Europe, too.

Note 33: Related-party transactions

In millions of EUR	31-12-2007 Parent	Subsidiaries	Associates	Other related parties	Total	31-12-2008 Parent	Subsidiaries	Associates	Other related parties	Belgian Government	Total
TRANSACTIONS WITH RELATED PARTIES, EXCLUDING DIRECTORS											
Assets	88	815	733	2 186	3 822	58	215	565	1 506	19 249	21 594
Loans and advances	77	40	679	1 176	1 972	1	109	554	878	304	1 845
Current accounts	0	0	0	122	122	0	0	13	84	0	97
Term loans	77	40	678	1 054	1 850	1	109	540	795	304	1 748
Finance leases	0	0	0	0	0	0	0	0	0	0	0
Consumer credit	0	0	0	0	0	0	0	0	0	0	0
Mortgage loans	0	0	0	0	0	0	0	0	0	0	0
Equity instruments	9	114	6	145	274	0	63	5	20	109	197
Trading securities	7	0	6	133	145	0	0	5	0	0	5
Investment securities	3	114	0	12	129	0	63	0	20	109	192
Other Receivables	2	661	48	865	1 576	58	43	6	608	18 836	19 552
Liabilities	178	548	7	5 284	6 017	318	198	142	10 051	1 467	12 176
Deposits	146	532	7	4 663	5 347	31	197	137	9 198	138	9 702
deposits	146	531	4	4 516	5 197	10	196	13	9 165	138	9 523
other borrowings	0	0	3	147	150	21	1	124	33	0	179
Other financial liabilities	0	2	0	347	349	250	1	1	249	0	501
Debt certificates	0	2	0	347	349	0	1	1	249	0	250
Subordinated liabilities	0	0	0	0	0	250	0	0	0	0	250
Share based payments	0	0	0	0	0	0	0	0	0	0	0
Granted	0	0	0	0	0	0	0	0	0	0	0
Exercised	0	0	0	0	0	0	0	0	0	0	0
Other liabilities	32	14	0	274	321	37	0	4	604	1 328	1 974
Income statement	- 275	- 36	32	- 236	- 366	- 31	26	28	- 713	562	- 129
Net interest income	- 40	- 30	31	- 130	- 170	- 20	21	27	- 272	562	319
Gross earned premiums	0	0	0	0	0	0	0	0	0	0	0
Dividend income	17	4	2	0	23	15	2	2	9	0	28
Net fee and commission income	2	- 8	0	147	141	1	4	- 1	176	0	179
Other income	17	0	0	18	36	0	20	1	51	0	72
General administrative expenses	- 271	- 3	0	- 272	- 396	- 27	- 20	- 1	- 678	0	- 727
Guarantees											
Guarantees issued by the group	0	0	0	0	0	0	0	0	0	0	0
Guarantees received by the group	0	0	0	0	0	0	0	0	0	0	0

	31-12-2007	31-12-2008
TRANSACTIONS WITH DIRECTORS		
Amount of 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 in respect of retirement pensions granted to former directors or partners on that basis	10	8
Short-term employee benefits	6	5
Post-employment benefits	4	3
Defined benefit plans	4	3
Defined contribution plans	0	0
Other long-term employee benefits	0	0
Termination benefits	0	0
Share-based payments	0	0
Share options, in units		
At the beginning of the period	128 200	124 700
Granted	4 600	7 300
Exercised	- 8 100	- 6 400
Change in composition of directors	0	- 14 000
At the end of the period	124 700	111 600
Advances and loans granted to the directors and partners	3	3

- After the elimination of transactions with consolidated subsidiaries, the transactions that remain are primarily with associated companies (including with NLB for around 0.5 billion euros in receivables and around 4 million euros in debt), transactions with non-consolidated special purpose vehicles, transactions with KBC Ancora, Cera CVBA, MRBB, the pension funds and the directors of the group, and – since 2008 – the transaction with the Belgian State (see Note 30).
- All related-party transactions occur 'at arm's length'.
- There were no material transactions with associated companies other than shown in the table.

Note 34: Auditor's remuneration

In 2008, KBC Bank NV and its subsidiaries paid Ernst & Young Bedrijfsrevisoren fees amounting to a total of 9 968 019 euros for standard audit services. Remuneration paid for other services came to 2 161 249 euros, viz:

- o other certifications: 1 064 731 euros;
- o tax advice: 309 759 euros;
- o other non-audit assignments: 786 759 euros.

Note 35: List of significant subsidiaries and associated companies

KBC Bank: complete list of companies included in or excluded from the scope of consolidation and the associated companies, situation as at 31-12-2008

Name	Registered office	National identification number	Share of capital held at group (%)
KBC Bank: subsidiaries that are fully consolidated			
KBC Bank NV	Brussels - BE	0462.920.226	100,00
AKB "Absolut Bank" (ZAO)	Moscow - RU	--	95,00
Absolut Capital (Luxembourg) SA	Luxembourg - LU	--	95,00
Absolut Capital Trust Limited	Limasol - CY	--	95,00
Absolut Finance SA	Luxembourg - LU	--	95,00
OOO "Absolut Lizing"	Moscow - RU	--	95,00
Antwerpse Diamantbank NV	Antwerp - BE	0404.465.551	100,00
ADB Asia Pacific Limited	Singapore - SG	--	100,00
ADB Private Equity Limited	Jersey - GB	--	80,00
ADB Private Equity Research BVBA	Antwerp - BE	0894.314.363	80,00
Banque Diamantaire (Suisse) SA	Geneva - CH	--	100,00
Radiant Limited Partnership	Jersey - GB	--	80,00
CBC BANQUE SA	Brussels - BE	0403.211.380	100,00
CENTEA NV	Antwerp - BE	0404.477.528	99,56
Ceskoslovenska Obchodna Banka a.s.	Bratislava - SK	--	100,00
Business Center s.r.o.	Bratislava - SK	--	100,00
CSOB Asset Management a.s.	Bratislava - SK	--	100,00
CSOB Distribution a.s.	Bratislava - SK	--	100,00
CSOB d.s.s. a.s.	Bratislava - SK	--	100,00
CSOB Factoring a.s.	Bratislava - SK	--	100,00
CSOB Leasing a.s.	Bratislava - SK	--	100,00
CSOB Leasing Poist'ovaci Maklér s.r.o.	Bratislava - SK	--	100,00
CSOB Stavebni Sporitelna a.s.	Bratislava - SK	--	100,00
Ceskoslovenska Obchodni Banka a.s.	Prague - CZ	--	100,00
Auxilium a.s.	Prague - CZ	--	100,00
AXA, 1 SPEC OPF, AXA Invest, spol a.s.	Prague - CZ	--	100,00
Bankovni Informacni Technologie s.r.o.	Prague - CZ	--	100,00
Centrum Radlická a.s.	Prague - CZ	--	100,00
CSOB Asset Management a.s.	Prague - CZ	--	100,00
CSOB Factoring a.s.	Prague - CZ	--	100,00
CSOB Investicni Spolecnost a.s.	Prague - CZ	--	90,81
CSOB Investment Banking Service a.s.	Prague - CZ	--	100,00
CSOB Leasing a.s.	Prague - CZ	--	100,00
CSOB Leasing Pojist'ovaci Maklér s.r.o.	Prague - CZ	--	100,00
CSOB Penzijní fond Progres a.s.	Prague - CZ	--	100,00
CSOB Penzijní fond Stabilita a.s.	Prague - CZ	--	100,00
Hypotecni Banka a.s.	Prague - CZ	--	99,90
CIBANK AD	Sofia - BG	--	77,09
Fin-Force NV	Brussels - BE	0472.725.639	90,00
IIB Finance Ireland	Dublin - IE	--	100,00
KBC Finance Ireland	Dublin - IE	--	100,00
Istrobanka a.s.	Bratislava - SK	--	100,00
Istro Asset Management sprav.spol.a.s.	Bratislava - SK	--	100,00
Istrofinance s.r.o.	Bratislava - SK	--	100,00
Istro recovery s.r.o.	Bratislava - SK	--	100,00
Istrorent s.r.o.	Bratislava - SK	--	100,00
K & H Bank Zrt.	Budapest - HU	--	100,00
K & H Alkusz Kft.	Budapest - HU	--	100,00
K & H Csoportszolgáltató Központ Kft.	Budapest - HU	--	100,00
K & H Equities Rt.	Budapest - HU	--	100,00
K & H Ertékpapir Befektetési Alapkezelö Rt.	Budapest - HU	--	100,00
K & H Lízingadminisztrációs Rt.	Budapest - HU	--	100,00
K & H Eszközfinanszirozó Rt.	Budapest - HU	--	100,00
K & H Eszközlizing Gép-és Thrgj. Bérleti Kft.	Budapest - HU	--	100,00
K & H Lizingház Rt.	Budapest - HU	--	100,00
K & H Pannonlizing Rt.	Budapest - HU	--	100,00
K & H Autófinanszirozó Pénzügyl Szolgátató Rt.	Budapest - HU	--	100,00
K & H Autópark Bérleti és Szolg Kft.	Budapest - HU	--	100,00
K & H Ingatlanlizing Kft.	Budapest - HU	--	100,00
K & H Lizing Rt..	Budapest - HU	--	100,00
Kvantum Követeléskezelõ és Befektetési Rt.	Budapest - HU	--	100,00

KBC Bank: complete list of companies included in or excluded from the scope of consolidation and the associated companies, situation as at 31-12-2008

Name	Registered office	National identification number	Share of capital held at group (%)
KBC Asset Management NV	Brussels - BE	0469.444.267	51,86
Bemab NV	Brussels - BE	0403.202.670	51,86
Eperon Asset Management Limited	Dublin - IE	--	51,86
KBC Access Fund Conseil Holding SA	Luxembourg - LU	--	51,86
KBC Asset Management Limited	Dublin - IE	--	51,86
KBC Asset Management International Limited	Dublin - IE	--	51,86
KBC Asset Management (UK) Limited	London - GB	--	51,86
KBC Fund Managers Limited	Dublin - IE	--	51,86
KBC Asset Management SA	Luxembourg - LU	--	51,86
KBC Bonds Conseil Holding SA	Luxembourg - LU	--	51,86
KBC Cash Conseil Holding SA	Luxembourg - LU	--	51,86
KBC Conseil Service SA	Luxembourg - LU	--	51,86
KBC Districlick Conseil Holding SA	Luxembourg - LU	--	51,86
KBC Equity Fund Conseil Holding SA	Luxembourg - LU	--	51,86
KBC Fund Partners Conseil Holding SA	Luxembourg - LU	--	51,86
KBC Invest Conseil Holding SA	Luxembourg - LU	--	51,86
KBC Life Invest Fund Conseil Holding SA	Luxembourg - LU	--	51,86
KBC Money Conseil Holding SA	Luxembourg - LU	--	51,86
KBC Renta Conseil Holding SA	Luxembourg - LU	--	51,86
KBC Towarzystwo Funduszy Inwestycyjnych a.s.	Warsawa - PL	--	47,56
KBC Bank Deutschland AG	Bremen - DE	--	100,00
KBC Bank Funding LLC II	New York - US	--	100,00
KBC Bank Funding LLC III	New York - US	--	100,00
KBC Bank Funding LLC IV	New York - US	--	100,00
KBC Bank Funding Trust II	New York - US	--	100,00
KBC Bank Funding Trust III	New York - US	--	100,00
KBC Bank Funding Trust IV	New York - US	--	100,00
KBC Bank Ireland Plc.	Dublin - IE	--	100,00
Bencrest Properties Limited	Dublin - IE	--	100,00
Boar Lane Nominee (Number 1) Limited	Dublin - IE	--	100,00
Boar Lane Nominee (Number 2) Limited	Dublin - IE	--	100,00
Boar Lane Nominee (Number 3) Limited	Dublin - IE	--	100,00
Danube Holdings Limited	Dublin - IE	--	100,00
Dunroamin Properties Limited	Dublin - IE	--	100,00
Glare Nominee Limited	Dublin - IE	--	100,00
Homeloans and Finance Limited	Dublin - IE	--	100,00
IIB Finance Limited	Dublin - IE	--	100,00
IIB Asset Finance Limited	Dublin - IE	--	100,00
IIB Commercial Finance Limited	Dublin - IE	--	100,00
IIB Leasing Limited	Dublin - IE	--	100,00
Khans Holdings Limited	Dublin - IE	--	100,00
Lease Services Limited	Dublin - IE	--	100,00
IIB Homeloans and Finance Limited	Dublin - IE	--	100,00
Cluster Properties Company	Dublin - IE	--	100,00
Demilune Limited	Dublin - IE	--	100,00
IIB Homeloans Limited	Dublin - IE	--	100,00
KBC Homeloans and Finance Limited	Dublin - IE	--	100,00
Premier Homeloans Limited	Surrey - GB	--	100,00
Staple Properties Limited	Dublin - IE	--	100,00
Intercontinental Finance	Dublin - IE	--	100,00
Irish Homeloans and Finance Limited	Dublin - IE	--	100,00
Kalzari Limited	Dublin - IE	--	100,00
KBC Nominees Limited	Dublin - IE	--	100,00
Stepstone Mortgage Services Limited	Dublin - IE	--	100,00
Linkway Developments Limited	Dublin - IE	--	100,00
Maurevel Investment Company Limited	Dublin - IE	--	100,00
Meridian Properties Limited	Dublin - IE	--	100,00
Merrion Commercial Leasing Limited	Surrey - GB	--	100,00
Merrion Equipment Finance Limited	Surrey - GB	--	100,00
Merrion Leasing Assets Limited	Surrey - GB	--	100,00
Merrion Leasing Finance Limited	Surrey - GB	--	100,00
Merrion Leasing Industrial Limited	Surrey - GB	--	100,00
Merrion Leasing Limited	Surrey - GB	--	100,00
Merrion Leasing Services Limited	Surrey - GB	--	100,00
Monastersky Limited	Dublin - IE	--	100,00
Needwood Properties Limited	Dublin - IE	--	100,00
Perisda Limited	Dublin - IE	--	100,00
Phoenix Funding 2 Limited	Dublin - IE	--	100,00
Quintor Limited	Dublin - IE	--	100,00
Rolata Limited	Douglas - IM	--	100,00
Wardbury Properties Limited	Dublin - IE	--	100,00
KBC Bank Nederland NV	Rotterdam - NL	--	100,00
Westersingel Holding BV	Rotterdam - NL	--	100,00

Name	Registered office	National identification number	Share of capital held at group (%)
KBC Clearing NV	Amsterdam - NL	--	100,00
KBC Commercial Finance NV	Brussels - BE	0403.278.488	100,00
KBC Consumer Finance IFN sa	Bucarest - RO	--	99,99
KBC Credit Invesments NV	Brussels - BE	0887.849.512	100,00
KBC Financial Products UK Limited	London - GB	--	100,00
Atomium Funding Corporation SPV	George Town - KY	--	100,00
Baker Street Finance Limited	Jersey - GB	--	100,00
Dorset Street Finance Limited	Jersey - GB	--	100,00
Hanover Street Finance Limited	Jersey - GB	--	100,00
KBC Asia Fund of Funds	George Town - KY	--	98,73
KBC Financial Products Hong Kong Limited	Hong Kong - HK	--	100,00
KBC Financial Products Trading Hong Kong Limited	Hong Kong - HK	--	100,00
Pembridge Square Limited	Jersey - GB	--	100,00
Picaros Funding Plc.	Dublin - IE	--	100,00
Picaros Purchasing no.3 Limited	Dublin - IE	--	100,00
Progress Capital Fund Limited	George Town - KY	--	92,85
Regent Street Finance Limited	Jersey - UK	--	100,00
Sydney Street Finance Limited	Jersey - UK	--	100,00
KBC Alternative Investment Management Belgium NV	Brussels - BE	0883.054.940	100,00
KBC Alternative Investment Management Limited	London - UK	--	100,00
KBC Alternative Investment Management HK Limited	Hong Kong - HK	--	100,00
KBC Financial Holding Inc.	Wilmington - US	--	100,00
KBC Financial Products (Cayman Islands) Limited "Cayman I"	George Town - KY	--	100,00
KBC Financial Products International Limited "Cayman III"	George Town - KY	--	100,00
KBC FP International VI Limited "Cayman VI"	George Town - KY	--	100,00
Corona Delaware LLC	Wilmington - US	--	100,00
KBC Financial Products USA Inc.	Wilmington - US	--	100,00
KBC Structured Investment Management LLC	Delaware - US	--	100,00
Nebula Holdings LLC	Wilmington - US	--	100,00
Pulsar Holdings LLC	Wilmington - US	--	100,00
Pacifica Group LLC	Wilmington - US	--	100,00
Certo Insurance Services LLC	Wilmington - US	--	100,00
Churchill Finance LLC	Saint Paul, MN - US	--	100,00
Clevedon Insurance Services LLC	New York - US	--	100,00
Dorato Insurance Services LLC	Wilmington - US	--	100,00
Equity Key LLC	Wilmington - US	--	100,00
Equity Key Real Estate Option LLC	San Diego, CA - US	--	100,00
EK002 LLC	San Diego, CA - US	--	100,00
EK003 LLC	San Diego, CA - US	--	100,00
EK045 LLC	San Diego, CA - US	--	100,00
Estate Planning LLC	Wilmington - US	--	100,00
Londsdale LLC	Wilmington - US	--	100,00
Oceanus LLC	Wisconsin - US	--	100,00
PFG Loans Funding LLC	New York - US	--	100,00
Pinnacle Financing LLC	New York - US	--	100,00
Seaboard LLC	Madison, WI - US	--	100,00
Stone River Life LLC	Wilmington - US	--	100,00
Stratford Services LLC	Wisconsin - US	--	100,00
Upright RM Holdings LLC	New York - US	--	100,00
Reverse Mortgage Trust I	New York - US	--	100,00
Upright Holdings FP Inc.	New York - US	--	100,00
World Alliance Financial Corporation	New York - US	--	100,00
KBC Investments Hong Kong Limited	Hong Kong - HK	--	100,00
KBC Consultancy Services (Shenzhen) Limited	Shenzhen - CN	--	100,00
KBC Investments Cayman Islands Limited "Cayman IV"	George Town - KY	--	100,00
KBC Investments Cayman Islands V Limited	George Town - KY	--	100,00
KBC Investments Cayman Islands VII Limited	George Town - KY	--	100,00
KBC Investments Cayman Islands VIII Limited	George Town - KY	--	100,00
KBC Investments Limited	London - GB	--	100,00
KBC International Portfolio SA	Luxembourg - LU	--	99,98
KBC Internationale Financieringsmaatschappij NV	Rotterdam - NL	--	100,00
KBC International Finance NV	Rotterdam - NL	--	100,00

Name	Registered office	National identification number	Share of capital held at group (%)
KBC Lease Holding NV	Diegem - BE	0403.272.253	100,00
Dala Property Holding III BV	Amsterdam - NL	--	100,00
Sicalis BV	Amsterdam - NL	--	100,00
Fitraco NV	Antwerp - BE	0425.012.626	100,00
INK Consultanta - Broker de Asigurare SRL	Bucharest - RO	--	100,00
KBC Autolease NV	Diegem - BE	0422.562.385	100,00
KBC Bail Immobilier France sas	Paris - FR	--	100,00
KBC Lease Belgium NV	Leuven - BE	0426.403.684	100,00
KBC Autolease Polska Sp z.o.o.	Warsawa - PL	--	100,00
KBC Lease France SA	Lyon - FR	--	100,00
KBC Bail France sas	Lyon - FR	--	100,00
KBC Lease (Nederland) BV	Bussum - Nl	--	100,00
Cathar BV	Bussum - Nl	--	100,00
Gooieen BV	Bussum - Nl	--	100,00
Hospiveen BV	Bussum - Nl	--	100,00
Mercala 1 BV	Bussum - Nl	--	100,00
Mercala 2 BV	Bussum - Nl	--	100,00
KBC Lease (UK) Limited	Surrey - GB	--	100,00
KBC Lease (Deutschland) GmbH & Co. KG	Kronberg - DE	--	92,00
KBC Autolease (Deutschland) GmbH	Kronberg - DE	--	92,00
KBC Immobilienlease (Deutschland) GmbH	Kronberg - DE	--	92,00
KBC Lease (Deutschland) Vermietungs GmbH	Kronberg - DE	--	92,00
KBC Vendor Lease (Deutschland) Service GmbH	Kronberg - DE	--	92,00
KBC Vendor Finance (Deutschland) GmbH	Kronberg - DE	--	92,00
KBC Vendor Lease (Deutschland) GmbH	Kronberg - DE	--	92,00
Protection One Service GmbH	Kronberg - DE	--	92,00
SCS Finanzdienstleistungs- GmbH	Kronberg - DE	--	92,00
KBC Lease (Deutschland) Verwaltungs GmbH	Kronberg - DE	--	76,00
KBC Lease España SA	Madrid - ES	--	100,00
KBC Lease Italia S.p.A.	Verona - IT	--	100,00
KBC Lease (Luxembourg) SA	Strassen - LU	--	100,00
KBC Lizing Magyarország Kereskedelmi és Szolgátató Kft.	Budapest - HU	--	100,00
KBC Vendor Lease NV	Diegem - BE	0444.058.872	100,00
Romstal Leasing IFN SA	Bucharest - RO	--	99,34
Securitas sam	Nandrin - MC	--	100,00
KBC Peel Hunt Limited	London - GB	--	99,99
KBC Peel Hunt CFD Limited	London - GB	--	99,99
Peel Hunt Nominees Limited	London - GB	--	99,99
P.H. Nominees Limited	London - GB	--	99,99
P.H. Trustees Limited	London - GB	--	99,99
KBC Pinto Systems NV	Brussels - BE	0473.404.540	60,00
KBC Private Equity NV	Brussels - BE	0403,226,228	100,00
Actief Construct NV	Lummen - BE	0476.577.628	58,20
Actief NV	Lummen - BE	0447.394.880	58,20
Actief Interim NV	Lummen - BE	0433.344.035	58,20
Boxco NV	Harelbeke - BE	0874.529.234	71,88
Allbox NV	Harelbeke - BE	0417.348.339	71,88
Verkoopkantoor Allbox en Desouter NV	Harelbeke - BE	0419.278.540	71,88
Descar NV	Harelbeke - BE	0405.322.613	71,88
Dynaco Group NV	Moorsel - BE	0893.428.495	89,54
Dynaco Europe NV	Moorsel - BE	0439.752.567	89,54
Dynaco International NV	Moorsel - BE	0444.223.079	89,54
Dynaco USA Inc.	Northbrook - US	--	89,54
KBC ARKIV NV	Brussels - BE	0878.498.316	52,00
Lenaerts-Blommaert Verhuur NV	Temse - BE	0421.561.505	70,00
Container & Machine Repair NV	Temse - BE	0467.062.423	70,00
Lenimmo NV	St Niklaas - BE	0425.543.849	70,00
Lenaerts-Blommaert NV	Temse - BE	0421.561.406	70,00
Lenatrans NV	Temse - BE	0432.856.424	70,00
Mezzafinance NV	Brussels - BE	0453.042.260	100,00
Novaservis a.s.	Brno - CZ	--	94,57
2 B Delighted NV	Roeselare - BE	0891.731.886	52,78
Wever & Ducré NV	Roeselare - BE	0412.881.191	52,78
Asia Pacific Trading & Investment Co Limited	Hong Kong - HK	--	52,78
Dark NV	Adegem - BE	0472.730.389	52,78
Wever & Ducré Asia Pacific Limited	Hong Kaog - HK	--	52,78
Wever & Ducré BV	Den Haag - NL	--	52,78
Wever & Ducré GmbH	Herzogenrath - DE	--	52,78
Wever & Ducré Iluminacion SL	Madrid - ES	--	52,78

KBC Bank: complete list of companies included in or excluded from the scope of consolidation and the associated companies, situation as at 31-12-2008

Name	Registered office	National identification number	Share of capital held at group (%)
KBC Real Estate Luxembourg SA	Luxembourg - LU	--	100,00
KBC Real Estate NV	Zaventem - BE	0404.040.632	100,00
Almafin Real Estate NV	Brussels - BE	0403.355.494	100,00
Immo Arenberg NV	Brussels - BE	0471.901.337	100,00
KBC Vastgoedinvesteringen NV	Brussels - BE	0455.916.925	99,00
KBC Vastgoedportefeuille België NV	Brussels - BE	0438.007.854	87,90
Habit Invest NV	Brussels - BE	0859.830.863	87,96
KBC Rusthuisvastgoed NV	Brussels - BE	0864.798.253	87,96
Novoli Investors BV	Amstelveen - NL	--	83,33
Poelaert Invest NV	Zaventem - BE	0478.381.531	99,99
Vastgoed Ruimte Noord NV	Brussels - BE	0863.201.515	100,00
KBC Securities NV	Brussels - BE	0437.060.521	100,00
KBC Equitas LLC	Budapest - HU	--	100,00
KBC Securitas a.d. Beograd	Belgrade - RS	--	100,00
KBC Securities Baltic Investment Company sia	Riga - LV	--	51,05
KBC Securities Ukraine LLC	Kiev - UA	--	51,05
KBC Securities Romania SA	Bucarest - RO	--	100,00
SAI Swiss Capital Asset Management SA	Bucarest - RO	--	100,00
Ligeva NV	Mortsel - BE	0437.002.519	100,00
Patria Finance a.s.	Prague - CZ	--	100,00
Patria Finance CF a.s.	Prague - CZ	--	100,00
Patria Finance Slovakia a.s.	Bratislava - SK	--	100,00
Patria Online a.s.	Prague - CZ	--	100,00
Patria Direct a.s.	Prague - CZ	--	100,00
Kredyt Bank SA	Warsawa - PL	--	80,00
Kredyt Lease SA	Warsawa - PL	--	80,00
Kredyt Trade Sp z.o.o.	Warsawa - PL	--	80,00
Reliz SA	Katowice - PL	--	80,00
Zagiel SA	Warsawa - PL	--	80,00
Loan Invest NV "Institutionele VBS naar Belgisch recht"	Brussels - BE	0889.054.884	100,00
Old Broad Street Invest NV	Brussels - BE	0871.247.565	100,00
111 OBS Limited Partnership	London - GB	--	100,00
111 OBS (General Partenr) Limited	London - GB	--	100,00
Quasar Securitisation Company NV	Brussels - BE	0475.526.860	100,00
KBC Bank: subsidiaries that are not fully consolidated			
111 OBS (Nominee) Limited (1)	London - GB	--	100,00
Absolut Capital LLC (1)	Moscow - RU	--	95,00
Aldersgate Finance Limited (1)	Jersey - GB	--	100,00
Almafin Real Estate Services NV (1)	Zaventem - B	0416.030.525	100,00
Almaloisir & Immobilier sas (1)	Nice - FR	--	100,00
Apicinq NV (1)	Machelen - BE	0469.891.457	50,00
Apitri NV (1)	Diegem - BE	0469.889.873	100,00
Applied Maths Inc. (1)	Austin - US	--	50,83
Applied Maths NV (1)	St Martens Latem - BE	0453.444.712	50,83
Atomium Funding LLC (1)	Delaware - US	--	100,00
Avebury Limited (1)	Dublin - IE	--	100,00
Baker Street USD Finance Limited (1)	Jersey - GB	--	100,00
Bankowy Fundusz Inwestycyjny Serwis Sp z.o.o. (1)	Warsawa - PL	--	80,00
Brussels North Distribution NV (1)	Brussels - BE	0476.212.887	100,00
Chiswell Street Finance Limited (1)	Jersey - GB	--	100,00
City Hotels NV (1)	Zaventem - BE	0416.712.394	85,51
City Hotels International NV (1)	Zaventem - BE	0449.746.735	85,51
Clifton Finance Street Limited (1)	Jersey - GB	--	100,00
Dala Beheer BV (1)	Amsterdam - NL	--	100,00
Dala Property Holding XV BV (1)	Amsterdam - NL	--	100,00
Di Legno Interiors NV (1)	Genk - BE	0462.681.783	62,50
Distienen NV (1)	Zaventem - BE	0452.312.285	100,00
DLI International NV (1)	Genk - BE	0892.881.535	62,50
Eurincasso s.r.o. (1)	Prague - CZ	--	100,00
Fulham Road Finance Limited (1)	Jersey - GB	--	100,00
Gie Groupe KBC Paris (1)	Paris - FR	--	100,00
Immo-Antares NV (2)	Brussels - BE	0456.398.361	95,00
Immo-Basilix NV (2)	Brussels - BE	0453.348.801	95,00
Immo-Beaulieu NV (2)	Brussels - BE	0450.193.133	50,00
Immobilière Distri-Land NV (2)	Brussels - BE	0436.440.909	87,52
Immo-Duo NV (1)	Zaventem - BE	0435.573.154	100,00
Immo Genk-Zuid NV (1)	Zaventem - BE	0464.358.497	100,00
Immo Kolonel Bourgstraat NV (2)	Brussels - BE	0461.139.879	50,00
Immolease-Trust NV (1)	Zaventem - BE	0406.403.076	100,00
Immo-Llan NV (2)	Brussels - BE	0448.079.820	99,56

Name	Registered office	National identification number	Share of capital held at group (%)
Immo Lux-Airport SA (2)	Luxembourg - LU	--	66,64
Immo Marcel Thiry NV (2)	Brussels - BE	0450.997.441	95,00
Immo-North Plaza NV (2)	Brussels - BE	0462.118.688	99,99
IMMO PARIJSSTRAAT NV (1)	Leuven - BE	0439.655.765	100,00
Immo-Plejaden NV (2)	Brussels - BE	0461.434.344	99,99
Immo-Quinto NV (1)	Zaventem - BE	0466.000.470	100,00
Immo-Regentschap NV (2)	Brussels - BE	0452.532.714	75,00
Immo-Tres NV (1)	Zaventem - BE	0465.755.990	100,00
Immo Zenobe Gramme NV (2)	Brussels - BE	0456.572.664	100,00
Investool Sp.z.o.o. (1)	Przasnysz - PL	--	100,00
IPCOS BV (1)	Boxtel - NL	--	60,00
IPCOS NV (1)	Heverlee - BE	0454.964.840	60,00
K & H Feltörekvö Piaci Alapok Nyíltvégü Befektetési Alapja (1)	Budapest - HU	--	84,82
K & H Institutional Money Market Nyíltvégü Befektetési Alap (1)	Budapest - HU	--	99,96
KB-Consult NV (1)	Brussels - BE	0437.623.220	100,00
KBC Alternative Investment Management (USA) Inc. (1)	Delaware - US	--	100,00
KBCAM Australia Limited (1)	Sydney - AU	--	26,45
KBC Asia Pacific LP (1)	George Town - KY	--	92,19
KBC Bank (Singapore) Limited (1)	Singapore - SG	--	100,00
KBC Broker a.d. (1)	Belgrade - RS	--	100,00
KBC Concord Asset Management Co.Limited (1)	Tapei - TW	--	54,00
KBC Credit Arbitrage (1)	George Town - KY	--	100,00
KBC Diversified Fund (part of KBC AIM Master Fund) (1)	George Town - KY	--	100,00
KBC Dublin Capital Limited (1)	Dublin - IE	--	100,00
KBC Financial Services (Ireland) Limited (1)	Dublin - IE	--	100,00
KBC North American Finance Corporation (1)	Delaware - US	--	100,00
KBC Pacific Fund of Funds (1)	George Town - KY	--	100,00
KBC Private Equity Advisory Services d.o.o. (1)	Belgrade - RS	--	100,00
KBC Private Equity Advisory Services Limited Liability Company (1)	Budapest - HU	--	100,00
KBC Private Equity Advisory Services s.r.o. (1)	Prague - CZ	--	100,00
KBC Private Equity Advisory Services Sp.z.o.o. (1)	Warsawa - PL	--	100,00
KBC Private Equity Consulting S.R.L. (1)	Bucarest - RO	--	100,00
KBC Securities B-H a.d. Banja Luka (1)	Banjaluka - BA	--	100,00
KBC Securities Baltic Investment Company Russia (1)	Moscow - RU	--	100,00
KBC Securities Corporate Finance LLC (1)	Belgrade - RS	--	60,00
KBC Securities Investment Company Cyprus Lim (1)	Nicosia - CY	--	100,00
KBC Securities LLC (1)	Moscow - RU	--	100,00
KBC Securities Montenegro a.d. Potgorica (1)	Montenegro - CS	--	100,00
KBC Securities Skopje a.d. Skopje (1)	Skopje - MK	--	100,00
KBC Special Opportunities Fund (1)	George Town - KY	--	100,00
KBC Structured Finance Limited (1)	Sydney - AU	--	100,00
KBC Vastgoed Portefeuille Nederland (1)	Rotterdam - NL	--	100,00
Kredietfinance Corporation (June) Limited (1)	Surrey - GB	--	100,00
Kredietfinance Corporation (September) Limited (1)	Surrey - GB	--	100,00
Kredietlease (UK) Limited (1)	Surrey - GB	--	100,00
Kredyt International Finance BV (1)	Rotterdam - Nl	--	80,00
Kredyt Bank SA i TUiR WARTA SA (1)	Warsawa - PL	--	50,00
Lancaster Place Finance Limited (1)	Jersey - GB	--	100,00
Lancier LLC (1)	Delaware - US	--	100,00
Limis NV (1)	Roeselare - BE	0806.059.310	52,78
Liontamer Investment Management Pty Limited (1)	Sydney - AU	--	26,45
Liontamer Investment Services Limited (1)	Auckland - NZ	--	26,45
LIZAR Sp z.o.o. (1)	Warsawa - PL	--	80,00
Lombard Street Limited (1)	Dublin - IE	--	100,00
Luxembourg North Distribution SA (1)	Luxembourg - LU	--	100,00
Luxembourg Offices Securitisations SA (1)	Luxembourg - LU	--	99,99
Mechelen City Center NV (1)	Heffen - BE	0471.562.332	100,00
Motokov a.s. (1)	Prague - CZ	--	69,10
Net Banking Sp z.o.o. (1)	Warsawa - PL	--	80,00
Newcourt Street Finance Limited (1)	Jersey - GB	--	100,00
OOO Lizingovaya Kompaniya "Absolut" (1)	Moscow - RU	--	95,00
Oxford Street Finance Limited (1)	Jersey - GB	--	100,00
Parkeergarage De Panne NV (1)	Brussels - BE	0881.909.548	90,00
Pericles Invest NV (1)	Zaventem - BE	0871.593.005	50,00
Picaros Funding LLC (1)	Wilmington - US	--	100,00
Picaros Purchasing No.1 Limited (1)	Dublin - IE	--	100,00
Picaros Purchasing No.2 Limited (1)	Dublin - IE	--	100,00
PLC Development Sp.z.o.o. (1)	Warsawa - PL	--	100,00
Quercus Scientific NV (1)	St Martens Latem - BI	0884.920.310	50,83

KBC Bank: complete list of companies included in or excluded from the scope of consolidation and the associated companies, situation as at 31-12-2008

Name	Registered office	National identification number	Share of capital held at group (%)
Residentie Spanjeberg NV (1)	Brussels - BE	0460.892.629	100,00
Risk Kft. (1)	Budapest - HU	--	99,96
Servipolis Management Company NV (1)	Zaventem - BE	0442.552.206	70,00
SM Vilvoorde NV (1)	Zaventem - BE	0425.859.197	100,00
TEE Square Limited (1)	Road Town - VG	--	100,00
Ter Bake NV (1)	Brussels - BE	0431.795.005	100,00
Tormenta Investments Sp.z.o.o. (1)	Warsawa - PL	--	100,00
Toy Group (1)	Budapest - HU	--	100,00
Trustimmo NV (1)	Zaventem - BE	0413.954.626	100,00
Vastgoedmaatschappij NV Dorlick (1)	Zaventem - BE	0434.885.345	100,00
Vastgoedmaatschappij Manhattan-Kruisvaarten NV (1)	Zaventem - BE	0419.336.938	100,00
Vermögensverwaltungsgesellschaft Merkur mbH (1)	Bremen - DE	--	99,76
Wever & Ducré Shanghai Limited (1)	Shanghai - CY	--	52,78
Weyveld Vastgoedmaatschappij NV (1)	Zaventem - BE	0425.517.818	100,00
Willowvale Company (1)	Dublin - IE	--	100,00
ZIPP Sp.z.o.o. (1)	Przasnysz - PL	--	100,00
KBC Bank: joint subsidiaries that are proportionally consolidated			
Ceskomaravská Stavebni Sporitelna a.s.	Prague - CZ	--	55,00
Covent Garden Real Estate NV	Zaventem - BE	0872.941.897	50,00
Immobiliare Novoli S.p.A.	Firenze - IT	--	44,80
KBC Goldstate Fund Management Co. Limited	Sjanghai - CN	--	49,00
KBC Bank: joint subsidiaries that are not proportionally consolidated (1)			
Atrium Development SA	Luxembourg - LU	--	25,00
Barbarahof NV	Zaventem - BE	0880.789.197	30,00
Consorzio Sandonato Est	Firenze - IT	--	22,80
Covent Garden Development NV	Brussels - BE	0892.236.187	25,00
Eagle Capital Partners cjsc	Moscow - RU	--	50,00
Flex Park Prague s.r.o.	Prague - CZ	--	50,00
FM-A Invest NV	Diegem - BE	0460.902.725	50,00
Immocert t'Serclaes NV	Zaventem - BE	0433.037.989	50,00
IPF Conseil SA	Luxembourg - LU	--	50,00
Jesmond Amsterdam NV	Amsterdam - NL	--	50,00
Miedziana Sp z.o.o.	Warsawa - PL	--	47,75
Panton Kortenberg Vastgoed NV "Pako Vastgoed"	St Niklaas - BE	0437.938.766	50,00
Amdale Holdings Limited NV	Diegem - BE	0452.146.563	50,00
Pakobo NV	Diegem - BE	0474.569.526	50,00
Rumst Logistics NV	Machelen - BE	0862.457.583	50,00
Perifund NV	Brussels - BE	0465.369.673	50,00
Prague Real Estate NV	Zaventem - B	0876.309.678	50,00
Real Estate Administration a.s.	Prague - CZ	--	30,05
Real Estate Participation NV	Zaventem - BE	0473.018.817	50,00
Resiterra NV	Zaventem - BE	0460.925.588	50,00
Rumst Logistics II NV	Machelen - BE	0880.830.076	50,00
Rumst Logistics III NV	Machelen - BE	0860.829.383	50,00
Sandonato Parcheggi Srl	Firenze - IT	--	44,70
Sandonato Srl	Firenze - IT	--	44,70
KBC Bank: companies accounted for using the equity method			
Budatrend III. Ingatlanhasznosító Rt.	Budapest - HU	--	34,33
Foxhill Opportunity Offshore Fund	Princeton - GB	--	23,80
Giro Elszámolásforgáltátó Rt.	Budapest - HU	--	20,99
HAGE Hajdúsági Agráripari Résvényatársaság	Budapest - HU	--	25,00
Isabel NV	Brussels - BE	0455.530.509	25,33
Nova Ljubljanska Banka d.d.	Ljubljana - SI	--	30,57
KBC Bank: companies not accounted for using the equity method (1)			
Banking Funding Company NV	Brussels - BE	0884.525.182	22,90
BCC Corporate NV	Brussels - BE	0883.523.807	23,95
Bedrijvencentrum Noordoost-Antwerpen NV	Antwerp - BE	0455.474.485	21,28
Bedrijvencentrum Rupelstreek NV	Aartselaar - BE	0427.329.936	33,33
Brand and Licence Company NV	Brussels - BE	0884.499.250	20,00
Czech Banking Credit Bureau a.s.	Prague - CZ	--	20,00
Etoiles d'Europe sas	Paris - FR	--	45,00
Justinvest Antwerpen NV	Antwerp - BE	0476.658.097	33,33
Kattendijkdok NV	Antwerp - BE	0863.854.482	39,00
Prvni Certifikacni Autorita a.s.	Prague - CZ	--	23,25
Rabot Invest NV	Antwerp - BE	0479.758.733	25,00
Sea Gate Logistics NV	Aalst - BE	0480.040.627	25,00

Reason for exclusion: (1) exclusion based on limited importance
(2) real estate companies and certificates where the result is not allocated to the Group

Companies qualifying for consolidation are also effectively included in the consolidated accounts if two of the following criteria are met:
- if the Group interest in capital and reserves exceed 2,5 million euro
- if the Group interest in the result exceeds 1 million euro
- if the balance sheet total exceed 100 miliion euro

The aggregated total balance sheet of the companies excluded from consolidation may not exceed 1% of the consolidated balance sheet total.

Note 36: Main changes in the scope of consolidation

Company	Consolidation method	Ownership percentage at KBC Group level		Comments
		31-12-2007	31-12-2008	
ADDITIONS				
Absolut Bank	Full	95,00%	95,00%	Recognised in income statement from 2H 2007
CIBANK AD (ex-Economic and Investment Bank AD)	Full	75,58%	77,09%	Recognised in income statement from 1Q 2008
CSOB a.s. (Slovak Republic)	Full	-	100,00%	Demerger from CSOB (Czech Republic) as of 1Q08
Istrobanka a.s.	Full	-	100,00%	Recognised in income statement from 2H 2008
CHANGES IN OWNERSHIP PERCENTAGE				
Nova Ljubljanska banka d.d. (group)	Equity	34,00%	30,57%	Reduced shareholding percentage follow ing capital increase in w hich KBC did not participate

Note 37: Post-balance-sheet events

Events after balance sheet date are those events, favourable and unfavourable, that occur between the balance sheet date 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:

- 22 January 2009: the further strengthening of the capital base of KBC Bank through the issue of 2-billion-euros' worth of non-dilutive securities qualifying as core capital (subject to the issue being recognised as core capital by the Belgian financial sector regulator). The Flemish Regional Government will subscribe to the entire issue and has also undertaken to provide an additional standby facility of 1.5 billion euros, which may be used to bolster the capital base of either the group's banking activities or its insurance activities. Features of the 2-billion-euro transaction:
  - Issuer: KBC Group NV.
  - Subscriber: Flemish Region (or a legal entity controlled by the Flemish Regional Government).
  - Type of securities: fully paid up, non-transferable, non-voting debt securities *sui generis* that qualify as core capital.
  - Classification: equal ranking (*pari passu*) with ordinary shares and with the issue of 3.5 billion euros' worth of core-capital securities to the Federale Participatie- en Investeringsmaatschappij in December 2008.
  - 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 financial year 2009 (coupon payment in 2010) and 125% of the dividend paid on ordinary shares for financial year 2010 and subsequent financial years (coupon payments in 2011 and later). No coupon will be paid if there is no dividend.
  - Term: perpetual.
  - Buyback option: subject to the approval of the financial regulator, KBC Group NV may at any time repurchase all or some of the securities at 150% of the issue price (44.25 euros), payable in cash.
  - The issued securities will constitute part of the equity of KBC Group NV, as recorded in the balance sheet under IFRS.

Note 38: General information (IAS 1)

Name	KBC Bank NV
Incorporated	17 March 1998
Country of incorporation	Belgium
Registered office	2 Havenlaan, 1080 Brussels, Belgium
VAT	BE 0462.920.226
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 bank registered with the Belgian Banking, Finance and Insurance Commission.
Life	Indefinite
Object	In Belgium or abroad, for its own account or for account of third parties, the company has as object the execution of all banking operations in the widest sense, as well as the exercise of all other activities which banks are or shall be permitted to pursue (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 annual accounts 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. 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 indicated in the convening notice, at 11 a.m. on the Wednesday immediately preceding the last Thursday of April, or, if this day is a public holiday, on the business day immediately before it.
In order to be admitted to the General Meeting, the holders of 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 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 bonds and warrants are entitled to attend the General Meeting, but they have only advisory voting capacity.
Holders of book-entry 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 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.

Company annual accounts

This section contains the company (non-consolidated) annual accounts of KBC Bank, as filed with the National Bank of Belgium.

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NAT.	Date of filing	No.	PP.	9 B.	EUR D.		1.

ANNUAL ACCOUNTS

FIRM OR NAME : KBC BANK
Legal form : NV
Address : Havenlaan Nr : 2 Box :
Postal code : 1080 Municipality : Brussels
Register of corporate bodies - Chamber of Commerce : Brussels
Internetaddress : http://www.kbc.be

Company number 0462.920.226

DATE 15/12/2008 of filing of the deed op incorporation OR the most recent document stating the date on which the deed of incorporation and the deed amending the articles of association were published

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ANNUAL ACCOUNT approved by the General Meeting of 29/04/2009

concerning the financial year covering the period from 01/01/2008 till 31/12/2008

Preceding period from 01/01/2007 till 31/12/2007

The amounts for the preceding period are identical to those previously published yes / ~~no~~

COMPLETE LIST with name, first names,occupation place of residence(address, number, postal code and municipality) of both the DIRECTORS OR MANAGERS of the enterprise and of the AUDITORS who audited the accounts.

CHAIRMAN OF THE BOARD OF DIRECTORS		Period on the Board in 2008	End, current term of office
Mr. Jan HUYGHEBAERT	Copernicusstraat 12, 1180 UKKEL	full year	2010
PRESIDENT OF THE EXECUTIVE COMMITTEE			
Mr. André BERGEN	Zeedijk 769/61, 8300 Knokke	full year	2010
MEMBERS:			
Mr. Herman AGNEESSENS	Edelweisslaan 47, 3080 TERVUREN	full year	2010
Mr. Franky DEPICKERE	Izegemstraat 203, 8770 INGELMUNSTER	full year	2011
Mr. Danny DE RAYMAEKER	Brabançonnestraat 84, 3000 LEUVEN	8 months	2012
Mr. Luc PHILIPS	Platanenlaan 14, 1820 PERK	full year	2010
Dhr. Frans FLORQUIN	Dewittelaan 7 bus 202, 8670 KOKSIJDE	4 months	2008
Mr. Guido SEGERS	Torenstraat 114, 3110 ROTSELAAR	full year	2009
Mr. Jan VANHEVEL	Max Hermanlei 8, 2930 BRASSCHAAT	full year	2010
Mr. Germain VANTIEGHEM	Dalemstraat 9, 3078 KORTENBERG	full year	2010
Mr. Marc WITTEMANS	Beatrijslaan 91, 3110 ROTSELAAR	full year	2010
Mr. Paul PEETERS	Molenstraat 2 A , 2811 MECHELEN	full year	2009
Mrs. Sonja DE BECKER	Meerbeekstraat 20, 3071 ERPS-KWERPS	full year	2009
Mrs. Marita ORLENT-HEYVAERT	Richard Orlentstraat 5, 2070 ZWIJNDRECHT	full year	2009
Mr. Gustaaf SAP	Stationsstraat 70, 8730 BEERNEM	full year	2009
Mr. Pierre KONINGS	Prins Van Oranjelaan 178, 1180 BRUSSEL	full year	2009
Mr. Patrick VANDEN AVENNE	Desselgemsestraat 15, 8710 OOIGEM	full year	2009
Mr. Dirk WAUTERS	Bovenbosstraat 17, 3052 BLANDEN	full year	2009
Mr. Julien DE WILDE	Jabekestraat 49, 9230 WETTEREN	full year	2010
Mr. Christian DEFRANCQ	Zonnelaan 23, 3070 KORTENBERG	full year	2010
Mr. Etienne VERWILGHEN	Rue des Foyers 3, LU 1537 LUXEMBOURG	full year	2010
Mr. Walter NONNEMAN	Molenstraat 245, 9150 KRUIBEKE	8 months	2012

AUDITOR
Ernst & Young Bedrijfsrevisoren c.v., Moutstraat 54, 9000 GENT, represented by Jean-Pierre ROMONT and/or Pierre VANDERBEEK

Total number of pages filed :
Number of pages of the standardform not being filed becouse they are not relevant :

These annual accounts include:
- the report of the statutory auditor
- annual report of the Board of Directors to the ordinary General Meeting of shareholders

A. BERGEN
President of the executive committee

J. HUYGHEBAERT
President of the board of directors

	Codes	Period	Preceding Period
		(in thousands of EUR)	
		05	10
1. BALANCE SHEET AFTER PROFIT APPROPRIATION			
ASSETS			
I. Cash in hand, balances at central banks and post office banks	101.000	1,306,922	511,437
II. Treasury bills eligible for refinancing at the central bank	102.000	446,343	180,795
III. Loans and advances to credit institutions	103.000	38,674,606	51,388,559
A. Repayable on demand	103.100	2,721,015	4,516,606
B. Other loans and advances (with agreed maturity dates or periods of notice)	103.200	35,953,591	46,871,953
IV. Loans and advances to customers	104.000	94,013,018	99,587,943
V. Bonds and other fixed-income securities	105.000	39,143,031	33,250,049
A. Issued by public bodies	105.100	27,974,086	21,541,742
B. Issued by other borrowers	105.200	11,168,945	11,708,307
VI. Shares and other variable-yield securities	106.000	619,507	449,845
VII. Financial fixed assets	107.000	15,821,175	16,229,745
A. Participating interests in affiliated enterprises	107.100	13,921,192	14,265,987
B. Particpating interests in other enterprises linked by participating interests	107.200	488,697	489,115
C. Other shares constituting financial fixed assets	107.300	97,823	185,316
D. Subordinated loans and advances to affiliated enterprises and other enterprises linked by participating interests	107.400	1,313,463	1,289,327
VIII. Formation expenses and intangible fixed assets	108.000	1,061	241
IX. Tangible fixed assets	109.000	724,023	769,715
X. Own shares	110.000		
XI. Other assets	111.000	1,905,023	1,830,031
XII. Deferred charges and accrued income	112.000	17,361,692	15,373,557
TOTAL ASSETS	199.000	210,016,401	219,571,917

LIABILITIES	Codes	Period (in thousands of EUR) 05	Preceding Period (in thousands of EUR) 10
I. Amounts owed to credit institutions	201.000	48,359,379	64,846,411
A. Repayable on demand	201.100	8,444,047	11,872,474
B. Amounts owed as a result of the rediscounting of trade bills	201.200		
C. Other debts (with agreed maturity dates or periods of notice)	201.300	39,915,332	52,973,937
II. Amounts owed to customers	202.000	113,990,243	110,170,708
A. Saving deposits	202.100	22,466,578	20,556,389
B. Other debts	202.200	91,523,665	89,614,319
1) Repayable on demand	202.201	26,857,564	26,322,928
2) With agreed maturity dates or periods of notice	202.202	64,666,101	63,290,552
3) As a result of the rediscounting of trade bills	202.203		839
III. Debts represented by securities	203.000	5,039,369	8,473,059
A. Bonds and other fixed-income securities in circulation	203.100	1,077,456	1,076,723
B. Other debt instruments	203.200	3,961,913	7,396,336
IV. Other liabilities	204.000	1,602,602	2,409,934
V. Accrued charges and deferred income	205.000	19,890,564	16,875,144
VI. A. Provisions for liabilities and charges	206.100	667,729	236,096
1. Pensions and similar commitments	206.101	52,017	48,848
2. Taxation	206.102	6,179	6,136
3. Other liabilities and charges	206.103	609,533	181,112
B. Deferred taxes	206.200		
VII. Fund for General Banking Risks	207.000		
VIII. Subordinated liabilities	208.000	9,699,357	7,557,458
CAPITAL AND RESERVES	290.000	10,767,158	9,003,107
IX. Capital	209.000	5,698,440	4,030,110
A. Subscribed capital	209.100	5,698,440	4,030,110
B. Uncalled capital (-)	209.200		
X. Share premium account	210.000	2,490,814	1,723,224
XI. Revaluation reserve	211.000		
XII. Reserves	212.000	2,577,904	3,249,751
A. Legal reserve	212.100	403,011	403,011
B. Reserves not available for distribution	212.200		
1. Own	212.201		
2. Other	212.202		
C.Untaxed reserves	212.300	15,312	78,834
D.Reserves available for distribution	212.400	2,159,581	2,767,906
XIII. Profit brought forward	213.000		22
TOTAL LIABILITIES	299.000	210,016,401	219,571,917

OFF-BALANCE-SHEET HEADINGS	Codes	Period (in thousands of EUR) 05	Preceding Period (in thousands of EUR) 10
I. Contingent liabilities	301.000	55,180,631	40,850,573
A. Non-negotiated acceptances	301.100	157,287	125,263
B. Guarantees in the nature of direct credit substitutes	301.200	4,283,203	6,166,019
C. Other guarantees	301.300	49,272,111	33,025,078
D. Documentary credits	301.400	1,468,026	1,534,209
E. Assets charged as collateral security on behalf of third parties	301.500	4	4
II. Commitments carrying a potential credit risk	302.000	41,453,581	46,339,054
A. Firm credit commitments	302.100	2,404,912	7,498,336
B. Commitments arising from spot purchases of securities	302.200	84,085	506,960
C. Undrawn margin on confirmed credit lines	302.300	38,957,219	38,274,089
D. Underwriting and placing commitments	302.400	7,365	59,669
E. Commitments as a result of open-ended sale and repurchase agreements	302.500		
III. Assets lodged with the credit institution	303.000	223,092,601	249,770,142
A. Assets held for fiduciary purposes	303.100	2,402,879	3,138,839
B. Safe custody and equivalent items	303.200	220,689,722	246,631,303
IV. Uncalled share capital	304.000	36,635	36,621

2. PROFIT AND LOSS ACCOUNT

	Codes	Period	Preceding Period
		(in thousands of EUR)	
		05	10
I. Interest receivable and similar income	401.000	10,094,066	8,753,950
of which income from fixed-income securities	401.001	2,385,760	2,064,003
II. Interest payable and similar charges	502.000	(8,695,418)	(7,456,840)
III. Income from variable-yield securities	403.000	1,247,007	1,085,378
A. From shares and other variable-yield securities	403.100	12,936	23,474
B. From participating interests in affiliated enterprises	403.200	1,209,554	1,037,471
C. From participating interests in other enterprises linked by participating interests	403.300	16,290	15,901
D. Other shares constituing financial fixed assets	403.400	8,227	8,532
IV. Commission receivable	404.000	772,260	939,980
V. Commission payable (-)	505.000	(222,475)	(238,762)
VI. Profit (loss) on financial transactions	506.000	(34,442)	229,809
A. On the trading of securities and other financial instruments	506.100	(12,826)	161,273
B. On the disposal of investment securities	506.200	(21,616)	68,536
VII. General administrative expenses (-)	507.000	(1,635,032)	(1,506,125)
A. Remuneration, social security costs and pensions	507.100	894,742	822,085
B. Other administrative expenses	507.200	740,290	684,040
VIII. Depreciation and write-downs on formation expenses and on intangible and tangible fixed assets (-)	508.000	(46,397)	(52,063)
IX. Adjustments to write-downs (Write-downs (-)) on receivables and write-back of provisions (Provisions (-)) for Off-balance-sheet headings 'I. Contingent liabilities' and 'II. Commitments carrying a potential credit risk'	509.000	(255,338)	(38,621)
X. Adjustments to write-downs (Write-downs (-)) on the investment portfolio in bonds, shares and other fixed-income and variable-yield securities	510.000	(156,765)	(7,387)
XI. Utilization and write-back of provisions for liabilities and charges other than those referred to in Off-balance-sheet headings 'I. Contingent liabilities' and 'II. Commitments carrying a potential credit risk'	411.000	35,204	101,541
XII. Provisions for liabilities and charges other than those referred to in Off-balance-sheet headings 'I. Contingent liabilities' and 'II. Commitments carrying a potential credit risk'	512.000	(463,150)	(57,543)
XIII. Transfer from (Transfer to) the Fund for General Banking Risks	513.000		
XIV. Other operating income	414.000	137,394	162,532
XV. Other operating charges (-)	515.000	(48,002)	(85,750)
XVI. Profit (Loss) on ordinary activities before tax	416.000	728,912	1,830,099

	Codes	Period	Preceding Period
		(in thousands of EUR)	
	Codes	05	10
2. PROFIT AND LOSS ACCOUNT			
XVII. Extraordinary income	417.000	5,520	115,191
A. Adjustment to depreciation and write-downs on intangible and tangible fixed assets	417.100		68
B. Adjustments to write-dows on financial fixed assets	417.200		
C. Adjustments to provisions for extraordinary liabilities and charges	417.300	2,318	1,990
D. Gains on the disposal of fixed assets	417.400	3,119	113,094
E. Other extraordinary income	417.500	83	39
XVIII. Extraordinary charges (-)	518.000	(1,361,015)	(58,919)
A. Extraordinary depreciation and write-downs on formation expenses, and on intangible and tangible fixed assets	518.100		
B. Write-downs on financial fixed assets	518.200	1,351,515	40,913
C. Provisions for extraordinary liabilities and charges	518.300		
D. Losses on the disposal of fixed assets	518.400	7,570	15,800
E. Other extraordinary charges	518.500	1,930	2,206
XIX. Profit (Loss(-)) for the financial year, before tax	419.000	(626,583)	1,886,371
XIX.bis A. Transfer to deferred taxes (-)	519.100		
B. Transfer from deferred taxes	419.200		
XX. Income taxes	520.000	(45,286)	(199,514)
A. Income taxes (-)	520.000	(69,469)	(205,150)
B. Adjustments to income taxes and amounts written back from tax provisions	420.200	24,183	5,636
XXI. Profit (Loss(-)) for the financial year	421.000	(671,869)	1,686,857
XXII. Transfer to untaxed reserves (-)	522.000	(35)	(66)
(+)	422.000	63,557	2,613
XXIII. Profit (Loss(-)) for the financial year, to be appropriated	423.000	(608,347)	1,689,404

APPROPRIATION ACCOUNT	Codes	Period 05 (in thousands of EUR)	Preceding Period 10 (in thousands of EUR)
A. Profit (Loss (-)) to be appropriated	600.100	(608,325)	1,689,426
1. Profit (Loss (-)) for the period available for appropriation	600.101	(608,347)	1,689,404
2. Profit (Loss (-)) brought forward from the previous financial year	600.102	22	22
B. Transfers from capital and reserves	600.200	(608,325)	
1. From capital and share premium account	600.201		
2. From reserves	600.202	(608,325)	
C. Appropriation to capital and reserves (-)	600.300		(50,005)
1. To capital and share premium account	600.301		
2. To the legal reserve	600.302		50,005
3. To others reserves	600.303		
D. Result to be carried froward	600.400		(22)
1. Profit to be carried forward (-)	600.401		(22)
2. Loss to be carried forward	600.402		
E. Shareholders' contribution in respect of losses	600.500		
F. Profit for distribution (-)	600.600		(1,639,399)
1. Dividends (a)	600.601		1,590,817
2. Directors' entitlements (a)	600.602		725
3. Other allocations	600.603		47,857

(a) only for companies with restricted liability governed by Belgian law

3. ANNEX

I. STATEMENT OF LOANS AND ADVANCES TO CREDIT INSTITUTIONS (in thousands of EUR)
(Assets heading III.)
A. For the heading as a whole :

	Codes	Period 05	Preceding Period 10
1. - Loans and advances to affiliated enterprises	010	20,732,687	21,195,347
- Loans and advances to other enterprises linked by participating interests	020	369,220	634,589

	Codes	Period 05	Preceding Period 10
2. - Subordinated loans and advances	030	83,789	

B. Other loans and advances (with agreed maturity dates or periods of notice) to credit institutions
(Assets sub-heading III.B.)

	Codes	Period 05	Preceding Period 10
1. Trade bills eligible for refinancing at the central banks of the credit institution's countries of establishment	040		147

2. Analysis of loans and advances according to remaining maturity :

	Codes	Period 05
. up to three months	050	28,661,645
. more than three months and up to one year	060	2,849,264
. more than one year and up to five years	070	3,585,779
. more than five years	080	777,457
. undated	090	79,445

II. STATEMENT OF LOANS AND ADVANCES TO CUSTOMERS
(Assets heading IV.)

(in thousands of EUR)

1. Loans and advances to

		Period	Preceding Period
	Codes	05	10
- affiliated enterprises	010	24,917,086	26,002,521
- other enterprises linked by participating interests	020	100,778	8,928

		Period	Preceding Period
	Codes	05	10
2. Subordinated loans and advances	030	580,002	524,567

		Period	Preceding Period
	Codes	05	10
3. Trade bills eligible for refinancing at the central banks of the credit institution's countries of establishment	040		

4. Analysis of loans and advances according to remaining maturity :

		Period
	Codes	05
. up to three months	050	46,654,564
. more than three months and up to one year	060	5,637,203
. more than one year and up to five years	070	9,819,688
. more than five years	080	27,185,188
. undated	090	4,716,375

5. Analysis of loans and advances according to type:

		Period
	Codes	05
. trade bills (including own acceptances)	100	210,486
. loans and advances arising from leasing and similar claims	110	612,596
. fixe-rate loans	120	1,054,437
. mortgage loans	130	13,815,931
. other loans at terms of more than one year	140	33,135,355
. other loans and advances	150	45,184,213

6. Geographical analysis of loans and advances * :

		Period
	Codes	05
. loans and advances in respect of Belgium	160	54,304,986
. loans and advances in respect of other countries	170	39,708,032

7. Breakdown of mortgage loans, with reconstitution at the institution or linked to which there are life assurance and capitalization agreements

		Period
	Codes	05
a) . Capital borrowed initially	180	
b) . Reconstitution and actuarial reserves for these loans	190	
c) . Net amount outstanding for these loans (a-b)	200	

* Amount for trade bills is broken down according to beneficiary of the credit.

III. STATEMENT OF BONDS AND OTHER FIXED-YIELD SECURITIES

(Assets heading V.)

(in thousands of EUR)

1. Bonds and other securities issued by :

	Codes	Period 05	Preceding Period 10
- affiliated enterprises	010	6,818,321	2,256,124
- enterprises linked by participating interests	020	4,947	5,308

2. Bonds and other securities representing subordinated loans

	Codes	Period 05	Preceding Period 10
2. Bonds and other securities representing subordinated loans	030	71,579	47,388

3. Geographical analysis of the following sub-headings :

		Belgian issuers	Foreign issuers
V.A. . issued by public bodies	040	14,289,818	13,684,268
V.B. . issued by other borrowers	050	5,168,852	6,000,093

4. Listing and maturity

		Carrying value	Market value
a) . Listed securities	060	38,358,326	38,488,896
. Unlisted securities	070	784,705	

	Codes	Period 05
b) . Remaining maturity of up to one year	080	6,226,148
. Remaining maturity of more than one year	090	32,916,883

5. Analysis of bonds and other securities classified according to :

	Codes	Period 05
a) . Trading portfolio	100	11,675,572
b) . Investment portfolio	110	27,467,459

6. Trading portfolio :

	Codes	Period 05
. the positive difference between the higher market value and acquisition value of the bonds and other securities valued at market value	120	194,328
. the positive difference between the higher market value and the acquisition value of the bonds and securities valued in accordance with Article 35 ter, §2, paragraph two of the Royal Decree of 23 September 1992 on the annual accounts of credit institutions	130	

7. Investment portfolio :

	Codes	Period 05
. the positive difference in respect of all securities whose redemption value is greater than their carrying value	140	561,077
. the negative difference in respect of all securities whose redemption value is less than their carrying value	150	737,864

8. Detailed statement of the carrying value of the investment portfolio :
(in continuation of Assets heading V.)

(in thousands of EUR)

	Codes	Period 05
a) ACQUISITION VALUE		
As at the end of the previous financial year	010	22,136,164
Movements during the financial year :		
. acquisitions	020	10,107,790
. transfers (-)	030	(4,536,523)
. adjustments pursuant to Art. 35 ter, §4 and 5 (+/-) of the royal decree of September 23, 2992 concerning the annual accounts of credit institutions	040	76,988
. price difference (+/-)	050	(144,491)
As at the end of the financial year	099	27,639,928
b) TRANSFERS BETWEEN PORTFOLIOS		
1. Transfers		
. from the investment portfolio to the trading portfolio (-)	110	
. from the trading portfolio to the investment portfolio (+)	120	
2. Repercussion on the result	130	
c) WRITE-DOWNS		
As at the end of the financial year	200	14,060
Movements during the financial year		
. recorded	210	163,593
. written back as being redundant	220	(5,095)
. written off	230	(88)
. transfer from one heading to another	240	
. price difference (+/-)	250	
As at the end of the financial year	299	172,470
d) CARRYING VALUE AS AT THE END OF THE FINANCIAL YEAR (a) + b)1. - c))	399	27,467,458

IV. STATEMENT OF SHARES AND OTHER VARIABLE-YIELD SECURITIES
(Assets heading VI.)

(in thousands of EUR)

1. Geographical analysis of issuers :

	Codes	Period 05
- Belgian issuers	010	1,317
- foreign issuers	020	618,190

2. Listing :

		Carrying value	Market value
- listed securities	030	613,692	613,691
- unlisted securities	040	5,815	

3. Analysis of shares and other securities classified according to :

	Codes	Period 05
. Trading portfolio	050	613,673
. Investment portfolio	060	5,834

4. Trading portfolio :

	Codes	Period 05
. the positive difference between the higher market value and acquisition value of the shares and other securities valued at market value	070	8,722
. the positive difference between the market value and carrying value of securities valued in accordance with Article 35 ter, §2, paragraph two of the royal decree of 23 September 1992on the annual accounts of credit institutions	080	

5. Detailed statement of the carrying value of the investment portfolio :
(in continuation of Assets heading VI.)

	Codes	Period 05
a) ACQUISITION VALUE		
As at the end of the previous financial year	100	26,000
Movements during the financial year :		
. acquisitions	110	
. transfers (-)	120	(11,534)
. other changes	130	(561)
As at the end of the financial year	199	13,905
b) TRANSFERS BETWEEN PORTFOLIOS		
1. Transfers		
. from the investment portfolio to the trading portfolio (-)	200	
. from the trading portfolio to the investment portfolio (+)	210	
2. Repercussion on the result	220	
c) WRITE-DOWNS		
As at the end of the financial year	300	9,772
Movements during the financial year		
. recorded	310	71
. written back as being redundant	320	(1,804)
. written off	330	
. transfer from one heading to another	340	(127)
. price differences	350	159
As at the end of the financial year	399	8,071
d) CARRYING VALUE AS AT THE END OF THE FINANCIAL YEAR (a) + b)1. - c))	499	5,834

V. STATEMENT OF FINANCIAL FIXED ASSETS

(Assets heading VII)

A1. Analysis of assets sub-headings VII.A,B,C :

(in thousands of EUR)

a) Economic sector of the following holdings

	Codes	Credit institutions Period 05	Credit institutions Preceding Period 10	Other companies Period 15	Other companies Preceding Period 20
A. participating interests in affiliated enterprises	010	7,036,257	6,188,312	6,884,935	8,077,675
B. participating interests in other enterprises linked by participating interests	020	467,451	467,451	21,246	21,664
C. Other shares constituting financial fixed assets	030	25,067	101,955	72,756	83,361

b) Listing

	Codes	Listed 05	Unlisted 10
A. participating interests in affiliated enterprises	040	836,345	13,084,847
B. participating interests in other enterprises linked by participating interests	050	10,799	477,898
C. Other shares constituting financial fixed assets	060	82,246	15,577

A2. Detailed statement of carrying value as at the end of the financial year of assets headings VII.A, B and C

		Companies		
		Affiliated enterprises (VII.A.)	Other enterprises linked by particip interests (VII.B.)	Other (VII.C.)
A. ACQUISITION VALUE				
As at the end of the previous financial year	100	14,311,668	513,400	226,571
Movements during the financial year:				
. Acquisitions	110	1,009,332	317	672
. Transfers and asset retirements (-)	120	(87,086)	(4,900)	(6,760)
. Transfers from one heading to another (+/-)	130			
As at the end of the financial year	199	15,233,914	508,817	220,483
B. SURPLUS VALUES	200			
Movements during the financial year:				
. Recorded	210			
. Acquired from third parties	220			
. Written off (-)	230			
. Transfers from one heading to another (+/-)	240			
As at the end of the financial year	299			
C. WRITE-DOWNS				
As at the end of the previous financial year	300	45,681	24,285	41,255
Movements during the financial year:				
. Recorded	310	1,267,041		84,474
. Written back as being redundant (-)	320			
. Acquired from third parties	330			
. Written off (-)	340			(3,069)
. Transfers from one heading to another (+/-)	350			
As at the end of the financial year	399	1,312,722	20,120	122,660
E. NET CARRYING VALUE AS AT THE END OF THE FINANCIAL YEAR (A + B - C)	499	13,921,192	488,697	97,823

ARTICLE 29. 1 UNCLAIMED AMOUNTS ON PARTICIPATIONS AND SHARES

	Companies			
	Affiliated enterprises (VII.A.)	Other enterprises linked by particip interests (VII.B.)	Other (VII.C.)	TOTAL
IIB Finance Ireland	1,293			
KBC Dublin Capital Plc	30			
KBC Private Equity	34,876			
African Export-Import Bank			431	
Mode Natie			0	
Mts Belgium			5	
Total	36,199		436	36,635

B. Analysis of Assets sub-heading VII D.

	Codes	Credit institutions Period	Credit institutions Preceding Period	Other enterprises Period	Other enterprises Preceding Period
		05	10	15	20
1. Subordinated loans and advances to:					
. Affiliated enterprises	010	817,291	831,110	421,172	383,217
. Participating interests in other enterprises linked by participating interests	020	75,000	75,000		
2. Amount of noted shares represented by subordinated loans and advances	030				

3. Detailed statement of subordinated loans and advances

	Codes	affiliated enterprises	other enterprises linked by participating interests
		10	15
NET CARRYING VALUE AS AT THE END OF THE PREVIOUS FINANCIAL YEAR	100	1,214,327	75,000
Movements during the financial year			
. Additions	110	154,641	
. Repayments (-)	120	(140,296)	
. Recorded write downs (-)	130		
. Written back write downs	140		
. Exchange rate difference (+/-)	150	9,791	
. Other (+/-)	160		
NET CARRYING VALUE AS AT THE END OF THE FINANCIAL YEAR	199	1,238,463	75,000
CUMULATED WRITE DOWNS AS AT THE END OF THE FINANCIAL YEAR	200		

C. Declaration concerning the consolidated annual accounts

A. Information that must be supplied by all credit institutions:
Pursuant to the provisions of the Royal Decree of 23 September 1992 concerning the consolidated annual accounts of credit institutions, the credit institution draws up annual accounts and a consolidated annual report: YES / ~~NO~~*

B. Information that need only be supplied by the credit institution if it is a subsidiary or a joint subsidiary
. Name, complete address of the registered office and, if the company concerned is incorporated under Belgian law, the VAT number or the national identification number of the parent company(companies), and whether the parent company(companies) draws(draw) up and publishes(publish) consolidated annual accounts in which the annual accounts of the company are included via consolidation*:
- KBC Group NV, Havenlaan 2, 1080 Brussels, BE 403.227.515
. If the parent company(companies) is(are) incorporated under foreign law, where the above-mentioned annual accounts can be obtained*:

* If the annual accounts of the institution are consolidated at various levels, this information must be provided for the largest grouping and and for the smallest grouping of companies to which the institution belongs in its capacity as a subsidiary and for which consolidated annual accounts are drawn up and published.

VI. ART.1. LIST OF ENTERPRISES IN WHICH THE CREDIT INSTITUTION HOLDS A PARTICIPATING INTEREST

Mentioned below are those enterprises in which the credit institution has a participating interest in the sense of the Royal Decree of 23 September 1992, as well as the other enterprises in which the credit institution has shareholder rights representing at least 10 % of issued capital.

Name, registerd office, VAT number or national registration number	Shareholder rights				Data on the latest financial year for which annual accounts are available ('000)			
	Direct			via sub-sidiary	Annual accounts as at	Currency	Own Funds	Net result
	Type	Number	%	%			(+) of (-)	(+) of (-)
A. Affiliated entreprices :								
AKB Absolut Bank Moskou RU -	Ordinary	175,255,720	95.00	0.00				
Antwerpse Diamantbank NV Antwerpen BE,0404.465.551	Ordinary	7,686,400	100.00	0.00				
CBC Banque SA Brussels BE,0403.211.380	Ordinary	1,838,956	100.00	0.00				
CENTEA NV Antwerpen BE,0404.477.528	Ordinary	184,561	99.56	0.00				
Ceskoslovenska Obchodna Banka a.s. BratislavaSK,-	Ordinary	1,990	39.80	61.20				
Ceskoslovenska Obchodni Banka a.s. (CSOB) Prague CZ,-	Ordinary	5,855,000	100.00	0.00				
Covent Garden Real Estate NV Zaventem BE,0872.941.897	Ordinary	750	50.00	0.00				
CIBANK AD Sofia, BG -	Gewone	5,374,552	77.09	0.00				
Fidabel NV Brussels BE,0417.309.044	Ordinary	1	0.80	0.00	31-dec-07	EUR	143	-1
Fin-Force NV Brussels BE,0472.725.639	Ordinary	3,033	90.00	0.00				
IIB Finance Ireland Dublin IE,-	Ordinary Ordinary AUD Ordinary EUR Ordinary GBP Ordinary USD	2,166,999 700,000 440,000,000 104,000,000 116,000,000	99.99 100.00 100.00 100.00 100.00	0.00 0.00 0.00 0.00 0.00				
IMMO PARIJSSTRAAT NV Leuven BE,0439.655.765	Ordinary	54,381	100.00	0.00	31-dec-07	EUR	13,776	877
Istrobanka a.s. Bratislava SK,	Gewone	21,750	100.00	0.00				
K & H Bank Zrt. Budapest HU,	Reg. Sh. HUF 2000	66,307,204,412	100.00	0.00				
KB Consult NV Brussels BE,0437.623.220	Ordinary	364,543	99.95	0.00	31-dec-07	EUR	963	-65
KBC Alternative Investment Management Belgium NV Brussels BE, 0883.054.940	Ordinary	4,699,530	99.99	0.01				

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Name, registerd office, VAT number or national registration number	Shareholder rights				Data on the latest financial year for which annual accounts are available ('000)			
	Direct			via sub-sidiary	Annual accounts as at	Currency	Own Funds	Net result
	Type	Number	%	%			(+) of (-)	(+) of (-)
KBC Asset Management NV Brussels BE,0469.444.267	Cat. A shares	2,580,644	44.75	7.11				
KBC Bank Deutschland AG Bremen DE,-	Ordinary Genusrechte	567,300 97,791,500	100.00 100.00	0.00 0.00				
KBC Bank Funding LLC II New York US,-	Common Shares	1,000	100.00	0.00				
KBC Bank Funding LLC III New York US,-	Common Shares	1,000	100.00	0.00				
KBC Bank Funding LLC IV New York US,-	Common Shares	1,000	100.00	0.00				
KBC Bank Funding Trust II New York US,-	Common Shares	1,000	100.00	0.00				
KBC Bank Funding Trust III New York US,-	Common Shares	1,000	100.00	0.00				
KBC Bank Funding Trust IV New York US,-	Common Shares	1,000	100.00	0.00				
KBC Bank Ireland Limited Dublin IE,-	Ordinary	372,038,509	100.00	0.00				
KBC Bank Nederland NV Rotterdam NL,-	Ordinary	115,360	100.00	0.00				
KBC Bank (Singapore) Ltd. Singapore SG,-	Ordinary SGD Ordinary USD	10,000,000 35,000,000	100.00 100.00	0.00 0.00	31-dec-07	SGD	63,436	2,825
KBC Clearing NV Amsterdam NL,-	Ordinary	30,491	100.00	0.00				
KBC Commercial Finance NV Brussels BE,0403.278.488	Ordinary	120,000	100.00	0.00				
KBC Consumer Finance IFN sa Boekarest BG,-	Ordinary	134,001	99.95	0.00				
KBC Credit Investments NV Brussels BE 0887.849.512	Ordinary	4,999,999	99.99	0.00				
KBC Dublin Capital Plc Dublin IE,-	Ordinary	40,000	100.00	0.00	31-dec-07	USD	173	51
KBC Financial Holding Inc. Wilmington US,-	Ordinary	1,000	100.00	0.00				
KBC Financial Products UK Limited London GB,-	Ordinary	350,100,000	100.00	0.00				

VI. ART.1. LIST OF ENTERPRISES IN WHICH THE CREDIT INSTITUTION HOLDS A PARTICIPATING INTEREST

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Name, registerd office, VAT number or national registration number	Shareholder rights				Data on the latest financial year for which annual accounts are available ('000)			
	Direct			via sub-sidiary	Annual accounts as at	Currency	Own Funds	Net result
	Type	Number	%	%			(+) of (-)	(+) of (-)
KBC Groep NV Brussels BE,0403.227.515	Ordinary	3,917,845	1.08	0.00				
KBC Ifima NV Rotterdam NL,-	Ordinary	10,585	100.00	0.00				
KBC International Portfolio SA Luxembourg LU,-	Ordinary	16,990	86.49	13.51				
KBC Investments Hong Kong Limited Hong Kong HK, -	Ordinary	130,000,000	100.00	0.00				
KBC Investments Limited London GB,-	Ordinary	170,000,000	100.00	0.00				
KBC Lease Holding NV Leuven BE,0403.272.253	Ordinary	167,595	99.99	0.01				
KBC Lease (UK) Limited Guildford GB,	Ord. Shares of 1 GBP	7,327,865	34.00	66.00				
KBC North American Finance Corporation Delaware US,-	Ordinary	1,000	100.00	0.00	31-dec-07	USD	25	0
KBC Peel Hunt Limited London GB,-	Ordinary	26,303,595	51.27	48.73				
KBC Pinto Systems NV Brussels BE,0473.404.540	Ordinary	2,793	49.42	10.60				
KBC Private Equity NV Brussels BE,0403.226.228	Ordinary Ordinary - 25% fully paid-up	445,416 73,502	100.00 100.00	0.00 0.00				
KBC Real Estate Luxembourg SA Luxemburg LU, -	Ordinary	99,947	99.95	0.05				
KBC Real Estate NV Brussels BE, 0404.040.632	Ordinary	638,358	100.00	0.00				
KBC Securities NV Brussels BE,0437.060.521	Ordinary	1,898,517	99.95	0.05				
KBC Structured Finance Limited Melbourne AU,-	Ordinary	500,000	100.00	0.00	31-dec-07	AUD	365	101
KBC Vastgoedportefeuille België NV Brussels BE, 0438.007.854	Ordinary	3,000	5.19	94.81				
KBC Verzekeringen NV Leuven BE,0403.552.563	Ordinary	1	0.00	0.00	31-dec-07	EUR	1,613,428	623,864
Kredyt Bank SA Warschau PL,-	Ordinary PLN	217,327,103	80.00	0.00				

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Name, registerd office, VAT number or national registration number	Shareholder rights				Data on the latest financial year for which annual accounts are available ('000)			
	Direct			via sub-sidiary	Annual accounts as at	Currency	Own Funds	Net result
	Type	Number	%	%			(+) of (-)	(+) of (-)
Ligeva NV Mortsel BE,0437.002.519	Ordinary	1	0.02	99.98				
Luxembourg Offices Securitisations SA Luxemburg LU,-	Ordinary	99	99.00	1.00	31-dec-07	EUR	-1	-10
Mezzafinance NV Brussels BE,0453.042.260	Ordinary	1	0.02	99.98				
Old Broad Street Invest NV Brussels, BE, 0871.247.565	Gewone	503,000	99.41	0.59				
Omnia CVBA Leuven BE,0413.646.305	Ordinary	1	0.01	0.00	31-dec-07	EUR	1,047	264
Real Estate Participations NV Zaventem BE, 0473.018.817	Ordinary	500	50.00	0.00				
Valuesource NV Brussels BE,0472.685.453	Ordinary	1	0.01	0.00	31-dec-07	EUR	1,526	662
B. Enterprises linked by participating interests >20% and <= 50%								
Banking Funding Company NV Brussels BE, 0884.525.182	Ordinary	12,870	20.93	0.00	31-dec-07	EUR	589	527
BCC Corporate NV Brussels BE, 0883.523.807	Ordinary	5,747	23.95	0.00	31-dec-07	EUR	2,194	154
Bedrijvencentrum Rupelstreek NV Aartselaar BE,0427.329.936	Ordinary	5,000	33.33	0.00	31-dec-07	EUR	429	-153
Brand and Licence Company NV Brussels BE, 0884.499.250	Ordinary	123	20.00	0.00	31-dec-07	EUR	105	44
Isabel NV Brussels BE,0455.530.509	Ordinary	253,322	25.33	0.00				
Nova Ljubljanska Banka d.d. Ljubljana SL,-	Ordinary	2,722,634	30.57	0.00				
C. Enterprises linked by participating interests >10% and <= 20%								
Bedrijvencentrum Leuven NV Heverlee BE,0428.014.676	Ordinary	40	9.52	0.00	31-dec-07	EUR	2,029	41
Bedrijvencentrum Regio Roeselare NV Roeselare BE,0428.378.724	Ordinary	500	18.52	0.00	31-dec-07	EUR	551	17
Bedrijvencentrum Vilvoorde NV Vilvoorde BE,0434.222.577	Ordinary	338	9.31	0.00	31-dec-07	EUR	1,205	145

VI. ART.1. LIST OF ENTERPRISES IN WHICH THE CREDIT INSTITUTION HOLDS A PARTICIPATING INTEREST

Mentioned below are those enterprises in which the credit institution has a participating interest in the sense of the Royal Decree of 23 September 1992, as well as the other enterprises in which the credit institution has shareholder rights representing at least 10 % of issued capital.

Name, registerd office, VAT number or national registration number	Shareholder rights				Data on the latest financial year for which annual accounts are available ('000)			
	Direct			via sub-sidiary	Annual accounts	Currency	Own Funds	Net result
	Type	Number	%	%	as at		(+) of (-)	(+) of (-)
Bedrijvencentrum Westhoek NV Ieper BE,0430.383.258	Ordinary	200	11.85	0.00	31-dec-07	EUR	495	8
Bedrijvencentrum Zaventem NV Zaventem BE,0426.496.726	Ordinary	350	11.64	0.00	31-dec-07	EUR	191	-141
BEM NV Brussels BE, 0461.612.904	Ordinary	1,500	6.47	0.00	31-dec-07	EUR	5,367	452
BH-Capital a.s. Prostejov CZ,-	Ordinary	717,300	14.06	0.00	31-dec-07	CZK	503,674	7,463
De Beitel NV Lier BE, 0869.799.196	Ordinary	25	16.34	0.00	31-dec-07	EUR	96	9
Designcenter De Winkelhaak Borgerhout BE, 0470.201.857	Cat. B	124	10.84	0.00	31-dec-07	EUR	2,189	35
Europay Belgium CV Brussels BE,0434.197.536	Ordinary	4,857	14.17	1.81	31-dec-07	EUR	1,353	6,690
Retail Estates NV Ternat BE, 0434.797.847	Ordinary	347,886	9.75	2.24	31-mrt-08	EUR	165,748	24,349
Visa Belgium CVBA Brussels BE,0435.551.972	Ordinary	22	12.29	2.24	31-dec-07	EUR	277	12

VI §2 LIST OF ENTERPRISES IN RESPECT OF WHICH THE CREDIT INSTITUTION IS FULLY LIABLE IN ITS CAPACITY AS A PARTNER OR MEMBER WITH UNLIMITED LIABILITY

Codes	Name, registered office, VAT number		Possible codes (*)
	05		10
	IIB Finance Unltd., Sandwith Street, Dublin 2		C
	KBC Clearing, Oudezijds Voorburgwal 302, NL-1012 GL Amsterdam		C
	KBC Asset Management, Havenlaan 2,B-1080 Brussel ,	0469.444.267	C
	KBC Asset Management International Ltd, Joshua Dawson House, Dawson Street, Dublin 2		C
	KBC Asset Management Ltd, Joshua Dawson House, Dawson Street, Dublin 2		C
	KBC Financial Services (Ireland) Ltd, KBC House, 4 George's Dock IFSC, Dublin 1		C
	KBC Fund Managers Ltd, Joshua Dawson House, Dawson Street, Dublin 2		C
	KBC Securities, Havenlaan 12, B-1080 Brussel,	0437.060.521	C
	Antwerpse Diamantbank NV, Pelikaanstraat 54, 2018 Antwerpen	0404.465.551	C
	Eperon Asset Management Ltd, Dawson Street, Dublin 2		C

(*) The annual accounts of the enterprise:

A. Will be published through a deposition in the National Bank of Belgium
B. Will be published effectively in another member state of the EC pursuant to art.3 of the directive 68/151/EEG;
C. Will be fully or proportionally consolidated in the consolidated annual statements of the enterprise which is prepared, audited and published pursuant to the Royal Decree of 29 September 1992 on the consolidated annual account of the credit institutions.

VII. STATEMENT OF FORMATION EXPENSES AND INTANGIBLE FIXED ASSETS

(Assets heading VIII.)

A. Detailed statement of formation expenses

(in thousands of EUR)

	Codes	Period 05
Net carrying value as at the end of the previous financial year	010	
Movements during the financial year :		
. New costs	020	
. Whrite-downs (+/-)	030	
. Other changes (+/-)	040	
Net carrying value as at the end of the financial year :	099	
- costs incurred at establishment or capital increase, costs of issuing loans and other formation expenses	110	
- restructuring costs	120	

B. Intangible fixed assets

	Codes	Goodwill 05	Other intangible fixed assets 10	Of which provisions as compensation for bringing in transactions art 27 bis * 15
a) ACQUISITION VALUE				
As at the end of the previous financial year	210	505	1,023	
Movements during the financial year				
. additions, including own production	220	1,251	804	
. Sales and disposals (-)	230			
. transfers from one heading to another (+/-)	240	(117)		
As at the end of the financial year	299	1,639	1,827	
b) DEPRECIATION AND WRITE-DOWNS				
As at the end of the previous financial year	310	505	782	
Movements during the financial year				
. recorded	320		116	
. written back as being redundant (-)	330			
. acquired from third parties	340	1,251		
. written off (-)	350	(117)	(132)	
. transfers from one heading to another (+/-)	360			
As at the end of the financial year	399	1,639	766	
c) NET CARRYING VALUE AS AT THE END OF THE FINANCIAL YEAR (a) - b))	499	0	1,061	

* If there is a substantial amount under this heading

VIII. STATEMENT OF TANGIBLE FIXED ASSETS

(Assets heading IX) (in thousands of euros)

	Codes	Land and buildings	Plant, machinery and equipment	Furniture and vehicles	Leasing and similar rights	Other tangible fixed assets	Assets under construction and advance payments
		05	10	15	20	25	30
a) ACQUISITION VALUE							
As at the end of the previous financial year	010	1,085,814	16,641	89,656	11,039	247,616	
Movements during the financial year							
- acquisitions, including the resulting fixed assets	020	36,082	1,093	3,243		31,711	
- transfers and asset retirements	030	(10,836)	(1,764)	(4,889)		(69,414)	
- transfers from one heading to another	040						
As at the end of the financial year	099	1,111,060	15,970	88,010	11,039	209,913	
b) REVALUATION SURPLUSES							
As at the end of the previous financial year	110	66,312					
Movements during the financial year							
. recorded	120	(652)					
. acquired from third parties	130						
. written off (-)	140						
. transfers from one heading to another (+/-)	150						
As at the end of the financial year	199	65,660					
c) DEPRECIATION AND WRITE-DOWNS							
As at the end of the previous financial year	210	583,498	14,349	57,302	795	91,419	
Movements during the financial year							
. recorded	220	28,382	1,561	5,297	424	10,617	
. written off as being redundant	230						
. acquired from third parties	240						
. written off (-)	250	(6,845)	(1,695)	(4,876)		(2,599)	
. transfers from one heading to another (+/-)	260						
As at the end of the finacial year	299	605,035	14,215	57,723	1,219	99,437	
d) NET CARRYING VALUE AS AT THE END OF THE FINANCIAL YEAR (a) + b) - c))	399	571,685	1,755	30,287	9,820	110,476	
of which . land and buildings	410				9,820		
. plant, machinery and equipment	420						
. furniture and vehicles	430						

IX. OTHER ASSETS
(ASSETS HEADING XI)

Breakdown when there occur an important amount under this item

	05
Codes	period
010	
020	
030	
040	
050	
060	
070	

X. DEFERRED CHARGES AND ACCRUED ASSETS
(ASSETS HEADING XII)

	Codes	05
		period
1. Deferred charges	110	23,808
2. Accrued income	120	17,337,886

XI. STATEMENT OF AMOUNTS OWED TO CREDIT INSTITUTIONS

(Liabilities heading I)

(in thousands of EUR)

A. For the heading as a whole :

	Codes	Period 05	Preceding period 10
- amounts owed to affiliated enterprises	010	4,810,467	6,527,930
- amounts owed to other enterprises linked by participating interests	020	3,718	343

B. Analysis of amounts owed, other than those repayable on demand, according to remaining maturity (Liabilities sub-headings I.B. and C.)

	Codes	Period 05
. Up to three months	110	35,593,957
. More than three months and up to one year	120	4,165,090
. More than one year and up to five years	130	105,307
. More than five years	140	50,450
. Undated	150	528

XII. STATEMENT OF AMOUNTS OWED TO CUSTOMERS

(Liabilities heading II)

(in thousands of EUR)

1. Amounts owed to:

	Codes	Period 05	Preceding period 10
- affiliated enterprises	210	30,040,352	29,866,020
- other enterprises linked by participating interests	220	131,865	4,861

2. Geographical analysis of amounts owed :

	Codes	period 05
- in respect of Belgium	310	56,552,689
- in respect of other countries	320	57,437,555

3. Analysis according to remaining maturity :

	Codes	period 05
. Repayable on demand	410	26,356,856
. Up to three months	420	34,387,533
. More than three months and up to one year	430	13,093,441
. More than one year and up to five years	440	13,281,690
. More than five years	450	4,395,248
. Undated	460	22,475,476

XIII. STATEMENT OF DEBTS REPRESENTED BY SECURITIES (in thousands of EUR)
(Liabilities heading III.)

	Codes	Period	Preceding period
		05	010
1. Securities which, to the knowledge of the credit institution, are debts			
- to affiliated enterprises	010	12,236	26,648
- to enterprises linked by participating interests	020	500	880.00

2. Analysis according to remaining maturity

	Codes	Period
		05
. up to three months	110	3,586,407
. more than three months and up to one year	120	608,955
. more than one year and up to five years	130	236,583
. more than five years	140	607,425
. undated	150	

XIV. STATEMENT OF OTHER LIABILITIES
(Liabilities heading IV)

(in thousands of EUR)

	Codes	Period
		05
1. Expired debts in relation to taxes, payments and social charges against:		
a) Tax Department	210	
b) National Office of Social Security	220	
2. Taxes :		
a) taxes payable	230	184,132
b) estimated tax liabilities	240	21,280

	Codes	Period
		05
3. Other liabilities Breakdown when there occur an important amount under this item		
- holiday money, remuneration and other staff charges payable	310	239,141
- dividends payable	320	
- other	330	1,158,049
	340	

XV. ACCRUED CHARGES AND DEFERRED INCOME (in thousands of EUR)

(Liabilities V)

	Codes	Period 05
1. Accrued charges	010	19,771,576
2. Deferred income	020	118,987

XVI. PROVISIONS FOR OTHER LIABILITIES AND CHARGES (in thousands of EUR)

(Liabilities sub-heading VI. A. 3.)

Breakdown when there occur an important amount under this item

	Codes	Boekjaar 05
. Guarantee credits	110	66,419
. Litigation	120	133,877
. Provision VAT-litigation	130	12,072
. Provision disablement benefit	140	12,285
. Provisions on positions derivatives and securities	150	380,000
. Other	160	4,880

XVII. STATEMENT OF SUBORDINATED LIABILITIES (in thousands of EUR)

(LIABILITIES heading VIII)

A. For the heading as a whole :

	Codes	Period 05	Preceding period 10
- debts to affiliated enterprises	210	3,706,016	3,299,768
- debts to other enterprises linked by participating interests	220		

B.

	Codes	Period 05
- Costs attendants on subordinated liabilities	310	522,090

C. Detail of each subordinated loan :

Reference-number	Currency	Amount	Maturity date or conditions governing the maturity	a) Circumstances in which the enterprise is required to repay this loan b) conditions for the subordination c) conditions for the conversion into capital
0001	JPY	39,638	22/04/1994-perpetual Issued by KBC Bank	a) Fiscal requalification Repayment possible from the 10th year
0002	GBP	543,942	19/12/2003-perpetual Issued by KBC Bank	a) Fiscal requalification Repayment possible from 19/12/2019 c) Mandatory conversion into KBC Bank in case of Supervisory Event
0003	EUR	1,243,072	14/05/2008-perpetual Issued by KBC Bank	a) Fiscal requalification Repayment possible from 14/05/2013 c) Call option after 5 years, yearly onwards
0004	EUR	250,000	01/08/2006-01/08/2016 Issued by KBC Bank	a) Fiscal requalification
0005	EUR	2,479	10/04/1998-01/04/2010 Issued by KBC Bank	a) Fiscal requalification
0006	EUR	700,000	27-06-2008 - perpetual	a) Fiscal requalification Repayment possible from 27/06/2013 c) Call option after 5 years, yearly onwards
0007	EUR	16,113	01/04/1998-01/04/2010 Issued by KBC Bank	a) Fiscal requalification
0008	HUF	6,323	On-tap Deposits originated by KBC IFIMA	a) Fiscal requalification
0009	EUR	3,201,739	Subordinated certificate On-tap Issued by KBC Bank	a) Unconditional
0010	USD	233,589	On-tap Deposits originated by KBC IFIMA	a) Fiscal requalification c) Call option issued from 25/04/1989 onwards
0011	EUR	300,000	11/05/1999-perpetual Deposits originated by KBC International Finance	a) Fiscal requalification Repayment possible from the 10th year
0012	EUR	6,000	20/12/1999-20/12/2009 Deposits originated by KBC International Finance	a) Fiscal requalification
0013	EUR	1,213,164	Continuous issues Deposits originated by KBC IFIMA	a) Fiscal requalification
0014	EUR	300,000	14/12/2005-14/12/2015 Deposits originated by KBC IFIMA	a) Fiscal requalification c) Call option from 14/12/2010 onwards
0015	EUR	48,950	Continuous issues Deposits originated by KBC International Finance	a) Fiscal requalification
0016	USD	9,186	Continuous issues Deposits originated by KBC International Finance	a) Fiscal requalification
0017	CZK	93,023	18/05/2005-18/05/2016 Deposits originated by KBC IFIMA	a) Fiscal requalification
0018	SKK	99,582	18/05/2005-18/05/2016 Deposits originated by KBC IFIMA	a) Fiscal requalification
0019	SKK	48,131	21/12/2005-21/12/2020 Deposits originated by KBC IFIMA	a) Fiscal requalification
0020	EUR	279,864	30/06/1999-perpetual Deposits originated by KBC Bank Funding Trust	a) Fiscal requalification and solvency test

C. Detail of each subordinated loan :

Reference-number	Currency	Amount	Maturity date or conditions governing the maturity	a) Circumstances in which the enterprise is required to repay this loan b) conditions for the subordination c) conditions for the conversion into capital
0021	EUR	299,745	10/11/1999-perpetual Deposits originated by KBC Bank Funding Trust	a) Fiscal requalification and solvency test
0022	USD	430,770	02/11/1999-perpetual Deposits originated by KBC Bank Funding Trust	a) Fiscal requalification and solvency test
0023	EUR	76,095	17/03/2004-17/03/2014 Deposits originated by KBC IFIMA	a) Fiscal requalification
0024	EUR	25,000	17/03/2004-17/03/2014 Deposits originated by KBC IFIMA	a) Fiscal requalification
0025	USD	107,782	07/02/2005-07/02/2025 Deposits originated by KBC IFIMA	a) Fiscal requalification
0026	EUR	92,250	30/06/2005-30/06/2017 Deposits originated by KBC IFIMA	a) Fiscal requalification
0027	EUR	5,000	30/06/2005-07/07/2015 Deposits originated by KBC IFIMA	a) Fiscal requalification
0028	EUR	5,815	15/07/2005-15/07/2015 Deposits originated by KBC IFIMA	a) Fiscal requalification
0029	EUR	22,105	12/08/2005-07/07/2015 Deposits originated by KBC IFIMA	a) Fiscal requalification

XVIII. STATEMENT OF CAPITAL

A. SHARE CAPITAL

		amounts	number of shares
	Codes	05	10
1. Issued capital (liabilities sub-heading IX.A.)			
- As at the end of the previous financial year	010	4,030,110	xxxxxxxxxxxxxxxxxxxx
- Movements during the financial year			
	020	1,620,398	
	030	47,932	
	040		
	050		
	060		
- As at the end of the financial year	099	5,698,440	xxxxxxxxxxxxxxxxxxxx
2. Structure of capital			
2.1. Types of share			
- ordinaries	110	5,698,440	582,917,643
	120		
	130		
	140		
	150		
2.2. Registered or bearer shares			
* Registered			
KBC Bank and Insurance Holding NV			582,917,642
KBC Insurance NV			1
TOTAL REGISTERED	160	xxxxxxxxxxxxxxxxx	582,917,643
* Bearer	170	xxxxxxxxxxxxxxxxx	

B. UNPAID CAPITAL

		unclaimed amounts	claimed, unpaid amounts
	Codes	05	10
Shareholders who still have to pay	210		
	220		
TOTAL	299		

		total amount of the capital in possession	corresponding number of shares
C. OWN SHARES held by:	Codes	05	10
- the credit institution	310		
- the credit institution 's subsidiaries	320		
D. Commitments to issue shares			
1. In consequence of the exercise of conversion rights:			
. Amount of current convertible loans	410		
. Amount of capital to be issued	420		
. Maximum number of shares for issue	430		
2. In consequence of the exercise of subscription rights			
. Number of outstanding subscription rights	440		
. Amount of capital to be issued	450		
. Maximum number of shares for issue	460		
E. AUTHORIZED CAPITAL UNISSUED	510	2,000,000	

		number of shares	voting right
F. SHARES OUT OF THE CAPITAL of whom:	Codes	05	10
- shares held by the credit institution itself	610		
- sharers held by the credit institutions' daughters	620		

XIX. ANALYSIS OF THE BALANCE ACCORDING TO EUROS AND FOREIGN CURRENCY

(in thousands of EUR)

		In EUR	In foreign currency (Euro equivalent)
	Codes	05	10
TOTAL ASSETS	010	162,635,986	47,380,415
TOTAL LIABILITIES	020	156,340,472	53,675,929

XX. FIDUCIARY TRANSACTIONS IN ACCORDANCE WITH ARTICLE 27TER §1, PARAGRAPH 3

Assets and liabilities headings involved		Period
	Codes	05
	110	
	120	
	130	
	140	
	150	
	160	
	170	
	180	
	190	
	200	
	210	
	220	
	230	

XXI. STATEMENT OF GUARANTEED DEBTS AND COMMITMENTS

(in thousands of EUR)

(1) Amount of subscription or carrying value of the mortgaged buildings, when these are lower
(2) Amount of subscription
(3) Book value of the premised assets
(4) Amount of the concerned assets

Collateral security constituted or irrevocably committed by the instituion on its own assets :

		Mortgages (1)	Pledges on the Trade Fund (2)	Pledges on other assets (3)	Securities on future assets (4)
	Codes	05	10	15	20
a) as guarantee for debts and commitments of the credit institution					
1. Liabilities headings					
Mobilisations	010			17,919,267	
Fixed pledge in respect of European Investment Bank credit facility	020			487,700	
Asset pledge requirement KBC New York	030			53,906	
Pledge Federal Reserve Bank of New York	040			8,300,922	
Other	050			92,676	
2. Off-balance-sheet headings					
Margins in respect of options and futures	110			6,419,798	
	120				
	130				
	140				
	150				
b) as guarantee for debts and commitments of third parties					
1. Liabilities headings					
Other	210			4	
	220				
	230				
	240				
	250				
2. Off-balance-sheet headings					
	310				
	320				
	330				
	340				
	350				

XXII. STATEMENT OF CONTINGENT LIABILITIES AND OF COMMITMENTS CARRYING A POTENTIAL CREDIT RISK

(Off-balance-sheet headings I. and II.)

(in thousands of EUR)

	Codes	Period 05	Preceding Period 010
. Total of contingent liabilities for affiliated companies	010	43,512,499	27,567,959
. Total of contingent liabilities for companies linked by participating interests	020	132,709	92,634
. Total of commitments in respect of associated companies	030	14,730	315
. Total of commitments in respect of companies linked by participating interests	040		

XXIII. DETAILS CONCERNING THE OPERATING RESULTS

(Profit and loss account headings I. to XV.)

	Codes	Period 05	Preceding Period 10
A.1. Employees in the personnel register			
a) Number of employees at the end of the period	100	11,658	11,905
b) Average number of employees calculated in full-time equivalents	101	10,543	10,570
c) Number of hours worked	102	14,741,635	14,732,074
A.1.Bis. Temporary personnel and persons placed at the disposal of the enterprise			
a) Number of employees registered at the end of the period	110		
b) Average number of employees calculated in full-time equivalents	111	12	8
c) Number of hours worked	112	22,288	16,206
d) Charges to the enterprise	113	826	554
2. Staff charges			
a) Remuneration and direct social benefits	210	644,936	579,087
b) Employer social security contributions	220	155,544	154,783
c) Employer premiums for extra-legal insurance	230	60,845	54,204
d) Other	240	30,299	31,420
e) Pensions	250	3,118	2,591
3. Provisions for pensions			
a) additions (+)	310	24,224	8,079
b) expenditure and write-backs (-)	320	(21,040)	(26,285)
B. 1. Other operating income			
Breakdown of heading XIV of the profit and loss account if there is a substantial amount under this heading			
	410		
	420		
	430		
2. Other operating charges (Profit and loss account heading XV.)			
. Taxation	510	45,196	83,766
. Other operating charges	520	2,805	1,984
Breakdown of heading XV if there is a substantial amount under this heading			
	610		
	620		
	630		
C. Operating results in respect of associated companies			
. Income	710	7,494,122	3,818,325
. Charges	720	4,901,667	5,725,619

XXIII. DETAILS CONCERNING THE OPERATING RESULTS (continued)

D. Analysis of operating income according to source

(in thousands of EUR)

	Codes	Period: Belgian branches	Period: Foreign branches	Previous period: Belgian branches	Previous period: Foreign branches
		05	10	15	20
I. Interest receivable and similar income	010	7,704,937	2,389,129	6,155,296	2,598,654
III. Income from variable-yield securities					
. shares and other variable-yield securities	110	12,909	27	23,458	16
. participating interests in associated companies	120	1,209,554		1,037,471	
. participating interests in companies linked by participating interests	130	16,290		15,901	
. Other shares constituting financial fixed assets	140	8,226	1	8,532	
IV. Commission receivable	210	677,912	94,348	848,770	91,210
VI. Profit on financial transactions					
. on the trading of securities and other financial instruments	310	15,661	(28,487)	156,288	4,985
. on the disposal of investment securities	320	(11,882)	(9,734)	77,629	(9,093)
XIV. Other operating income	410	131,739	5,655	155,008	7,524

Remarks :

1) The attachment to the standard form must include a an analysis by category of activities and by geographical market if there are substantial differences between these markets as regards the organization of sales of products and services that are part of the credit institution's ordinary activities

2) Headings III.B. and C. of the profit and loss account must include in the attachment to the standard form a geographical distinction by refering to the place where the head office of the enterprise is situated

Geographical analysis of Profit and loss account sub-headings III.B.,C. and D.

III. Income from variable-yield securities

	B.Participating interests in affiliated enterprises	C. Participating interests in other enterprises linked by participating interests	D. Other financial fixed assets	TOTAL
Belgium	584,355	1,779	2,405	588,539
Germany	3,000			3,000
Great-Britain	3,483		171	3,654
Hungary	123,873			123,873
Ireland	70,954		3,745	74,699
Luxemburg	13,535			13,535
Netherlands	10,695		500	11,195
Panama			17	17
Poland	33,721			33,721
Portugal			1,388	1,388
Singapore		14,512		14,512
Taiwan			1	1
Czechie	365,938			365,938
Total	1,209,554	16,291	8,227	1,234,072

XXIV. STATEMENT OF FORWARD OFF-BALANCE-SHEET TRANSACTIONS ON SECURITIES, FOREIGN CURRENCIES AND OTHER FINANCIAL INSTRUMENTS NOT INVOLVING COMMITMENTS CARRYING A POTENTIAL CREDIT RISK IN THE SENSE OF OFF-BALANCE-SHEET HEADING II.

(in thousands of EUR)

TYPE OF TRANSACTION	Codes	AMOUNT AT CLOSURE DATE OF THE ACCOUNTS	OF WHICH TRANSACTIONS NOT INTENDED AS HEDGES
		05	010
1. On securities			
- Forward purchases and sales of securities	010		
2. On foreign currency (a)			
- forward exchange operations	110	103,311,999	103,311,302
- currency and interest rate swaps	120	84,908,281	84,831,121
- currency futures	130		
- currency options	140	28,109,372	28,109,372
- foreign exchange contracts	150		
3. On other financial instruments			
1. Forward interest-rate operations (b)			
- interest rate swap agreements	210	575,724,995	574,631,119
- interest rate futures	220	24,128,254	24,128,254
- forward rate agreements	230	11,530,342	11,530,342
- interest rate options	240	107,943,456	107,943,456
2. Other forward purchases or sales (c)			
- other option transactions	310	10,286,646	10,286,646
- other future transactions	320		
- other forward purchases and sales	330	618,164	

CALCULATION IN THE NOTES OF THE ACCOUNTS OF THE EFFECT ON RESULTS OF THE DEROGATION FROM THE VALUATION RULE OF ART.36BIS,§2,WITH REGARD TO FORWARD INTEREST-RATE OPERATIONS

Categories of forward interest-rate operations	Codes	Amounts as at year end of the accounts	Difference between market value and carrying value
		05	010
a) within the framework of cash management	410	23,909,620	(112,354)
b) within the framework of ALM	420	16,241,968	(525,583)

a) Amounts to be deliverd
b) Nominal/Notional reference amount
c) Purchase/Sale price agreed between the parties
d) + positive difference between market value and carrying value
- negative difference between market value and carrying value

XXV. EXTRAORDINARY RESULTS

A.

	Codes	Period 05
. Gains on the transfer of fixed assets to associated companies	010	
. Losses on the transfer of fixed assets to associated companies	020	

B.

	Codes	Period 05
Other extraordinary income (subheading XVII.E. of the profit and loss account): Breakdown, if there is a substantial amount under this heading		
	110	
	120	
	130	
	140	
	150	
Other extraordinary charges (subheading XVIII.E. of the profit and loss account) : Breakdown, if there is a substantial amount under this heading		
	210	
	220	
	230	
	240	
	250	

XXVI. INCOME TAXES

	Codes	Period 05
A. Breakdown of Profit and loss account sub-heading XX.A.		
1. Income taxes for the financial year		
a. Taxes and advance levies due or paid	310	110,747
b. Capitalized excess tax and advance levies paid	320	(55,434)
c. Estimated additional charges for income taxes (recorded under Liabilities heading IV.)	330	6,096
2. Income taxes for previous financial years		
a. Additional taxes due or paid	410	2,831
b. Estimated additional taxes (recorded under Liabilities heading IV.) or additional tax for which a provision has been formed (recorded under Liabilities sub-heading VI.A.2.)	420	5,228

B. MAIN DIFFERENCES BETWEEN PROFIT BEFORE TAX AS SHOWN IN THE ANNUAL ACCOUNTS AND ESTIMATED TAXABLE PROFIT

With separate mention of the differences stemming from the lapse of time between the moment the accounting profit is determined and the moment the taxable profit is determined (insofar as the profit for the period was materially affected by taxes)

	Codes	Period 05
The difference between profit before tax and estimated taxable profit stems from		
- movements in taxable reserves and provisions	510	543,696
- the specific tax treatment accorded to gains and losses on shares	520	1,284,977
- the application of the FII (Franked Investment Income) system to dividends received	530	(1,115,472)
- disallowed expenditure (other than depreciation charges, impairment losses on shares and company tax)	540	23,447
	550	

XXVI. INCOME TAXES (continued)

C. EFFECT OF EXTRAORDINARY RESULTS ON THE AMOUNT OF INCOME TAX FOR THE FINANCIAL YEAR

	Period
Codes	05
010	3,013
020	(1,351,515)
030	2,318

D. SOURCES OF DEFERRED TAX BALANCES (when this information is important to get an overall view of the financial position of the credit institution)

	Codes	Period 05
1. Deferred tax debit		
. Taxed provisions and write-downs	110	90,032
. Exaggerated depreciations	120	850
	130	
	140	
	150	
2. Deferred tax credit		
. Revaluation resources to be taxed	210	9,130
	220	
	230	
	240	
	250	

XXVII. OTHER TAXES AND TAXATION FOR ACCOUNT OF THIRD PARTIES

	Codes	Period 05	Previous period 10
A. Value-added tax, turnover tax and special taxes charged during the financial year			
1. To the enterprise (deductible)	310	15,862	27,837
2. By the enterprise	320	27,972	34,977
B. Amounts withheld for account of third parties for:			
1. Payroll withholding taxes	410	165,475	165,885
2. Withholding taxes on investment income	420	208,647	167,342

XXVIII. RIGHTS AND COMMITMENTS NOT REFLECTED IN THE BALANCE SHEET THAT ARE NOT REFERRED TO IN THE SECTION ABOVE OR UNDER OFF-BALANCE-SHEET HEADINGS

	Codes	Period 05
A. Material commitments to purchase fixed assets		
	010	
	020	
	030	
	040	
Material commitments to sell fixed assets		
	110	
	120	
	130	
	140	
B. Material disputes (*) and other important commitments (**) :		
	210	
	220	
	230	
	240	
C. In the event, a brief description of the supplementary retirement or survivor's pensions for staff or senior management, with an indication of the measures designed to cover the attendant costs (***).	310	
	320	
	330	
	340	
Pensions paid for by the credit institution itself		
. Estimated amount of the commitments for the credit institution stemming from work already performed	410	
. Basic amount and how it was calculated	420	

(*)
The most significant, pending legal disputes are commented on below. Claims filed against KBC Bank and its companies are 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.

These cases are as follows :
the information provided is limited in order not to prejudice the position of the group in ongoing litigation

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 2009.

Remotely probable outflow
On 11 January 2008, the Brussels court sitting in chambers (*Raadkamer*) rendered its decision on the inquiry instituted in mid-1996 relating to the alleged co-operation by (former) directors and members of staff of KBC Bank and KBL European Private Bankers (formerly Kredietbank SA Luxembourgeoise) (KBL) in tax evasion committed by customers of KBC Bank and KBL, ultimately deciding to refer only eleven of the people who had previously been placed under suspicion in the case to the criminal court for trial.
All the other persons placed under suspicion have had charges dismissed against them because the evidence was insufficient or the period of prescription had expired. On 24 September 2008, the Indictment Division upheld the decision rendered by the court sitting in chambers. In the end, it is only the criminal court which can decide, based on the merits of the case, whether these persons are guilty or whether they should be acquitted.

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 62 million euros plus interest. The Czech government has filed a counterclaim, provisionally estimated at 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.

(**)
The credit institution irrevocably guarantees all the commitments of the Irish companies named below as at 31 December 2008; these companies may accordingly be exempted from certain publication requirements under section 17 of the Irish Companies Amendment Act

KBC Bank Ireland Plc
KBC Asset Management International Limited
KBC Asset Management Limited
KBC Financial Services (Ireland) Limited
KBC Fund Managers Limited
Eperon Asset Management Ltd

The credit institution irrevocably guarantees all the commitments of the companies named below as at 31 December 2008; these companies are be exempted from publication on consolidated basis.

KBC Asset Management NV
KBC Securities NV
Antwerpse Diamantbank NV

(***)
A system of extra pension provision exists for all members of staff, including old-age pensions, death benefits, pensions for the surviving partner and orphan's pensions
The amount of these provisions depends on the final average salary, the number of years in service and the age of the person when he/she takes retirement, this within the scope of a 'defined benefits' scheme

These pension provisions are financed entirely by the employer by means of yearly sums charged against profit. These sums, calculated on actuarial basis according to the the 'aggregate cost' method, are transferred to KBC's Pensioenfonds OFP, which is responsible for the supervision of the provisions that are set aside, the payment of the extra pensions and the relevant administration

The directors on the Executive Committee are also entitled to extra pension provisions, based on similar principles.
A group assurance policy has been taken out for this purpose.

There is also a supplementary pension plan (capitalization system) based exclusively on personal contributions by staff made through the deduction of sums from pay. The credit institution guarantees the capitalization of the contributions made at an interest rate of 4.75% a year for the period through 30 June 1999 and at an interest rate of 3.75% from 1 july 1999,which is effective on disbursement.
The management of the provisions set aside for this purpose, the payment of pensions and the relevant administration are entrusted to the OFP Aanvullend pensioenfonds KBC and OFP Aanvullend Pensioenfonds Directie KBC, respectively.

XXIX. FINANCIAL RELATIONSHIPS

A. WITH DIRECTORS AND PARTNERS
B. WITH NATURAL OR LEGAL PERSONS WHO CONTROL THE COMPANY DIRECTLY OR INDIRECTLY, AND ARE NOT ASSOCIATED COMPANIES
C. WITH OTHER COMPANIES THAT DIRECTLY OR INDIRECTLY CONTROL THE PERSONS REFERRED TO UNDER B.

		Codes	Period 05
A.	1. Amounts receivable from the above-mentioned persons	510	
	2. Liabilities incurred in their favour	520	2,511
	3. Other significant commitments entered into in their favour	530	
	Most important conditions in relation to A1, A2 en A3.		
B.	1.The amount of direct and indirect remuneration and of pensions charged to the profit and loss account, on the understanding that this does not relate exclusively or primarily to the situation of a single identifiable person:		
	- to the directors and managers	610	7,340
	- to former directors and managers	620	560
D.	Note regarding assignments carried out by the auditor and work performed by companies with which the auditor has entered into professional co-operation arrangements. Pursuant to Article 134 of the Companies Code, shown below is: The total of the fees paid by KBC Bank NV to Ernst&Young and to the companies with which it has entered into a professional co-operation arrangement :		
	- Fees paid for the statutory audit assignment	810	1,789
	- Fees paid for other certifications	820	464
	- Fees paid for tax advice:	830	27
	- Fees paid for other non-audit services	840	20

SOCIAL REPORT

Numbers of joint industrial committees which are competent for the enterprise

310		

I. STATEMENT REGARDING THE COMPANY'S WORKFORCE

A. EMPLOYEES IN THE PERSONNEL REGISTER

1. During the present and the preceding financial period

	Codes	1. Full-time *period*	2. Part-time *period*	3. Total (T) or total in full-time equivalents (FTE) *period*	4. Total (T) or total in full-time equivalents (FTE) *period*
Average number of employees	100	7,146	3,793	9,763 (FTE)	9,901 (FTE)
Number of actual hours worked	101	10,247,662	3,151,399	13,399,061 (T)	13,566,132 (T)
Staff charges (in thousands of EUR)	102	604,859	186,044	790,903 (T)	729,050 (T)
Benefits in addition to wages (in thousands of EUR)	103	10,788	3,318	14,106 (T)	14,144 (T)

2. As at the closing date of the financial period

	Codes	1. Full-time	2. Part-time	3. Total in full-time equivalents
a. Number of employees recorded in the personnel register	105	7,160	3,704	9,727.5
b. By nature of the employment contract				
Contract of unlimited duration	110	7,159	3,704	9,726.5
Contract of limited duration	111	1		1.0
Contract for specific work	112			
Substitute's contract	113			
c. By sex and level of education				
Men :	120	4,610	827	5,152.4
Primary education	1200			
Secondary education	1201	1,040	475	1,340.6
Higher, non-university education	1202	2,501	285	2,697.8
University education	1203	1,069	67	1,114.0
Women	121	2,550	2,877	4,575.1
Primary education	1210			
Secondary education	1211	479	1,094	1,192.7
Higher, non-university education	1212	1,474	1,408	2,498.8
University education	1213	597	375	883.7
d. By professional category				
Senior management	130	98	1	98.8
Employees	134	7,062	3,703	9,628.7
Workers	132			
Other	133			

B. TEMPORARY PERSONNEL AND PERSONS PLACED AT THE DISPOSAL OF THE ENTERPRISE

During the financial period

	Codes	1. Temporary personnel	2.Persons placed at the disposal of the enterprise
Average number of personnel employed	150	12	
Number of hours worked	151	22,288	
Charges to the enterprise (in thousands of EUR)	152	826	

II. CHANGES IN THE WORKFORCE DURING THE FINANCIAL PERIOD

A. NEW EMPLOYEES

	Codes	1. Full-time	2. Part-time	3. Total in full-time equivalents
a. Number of new employees entered in the personnel register during the financial period	205	499	34	526.3
b. By nature of the employment contract				
Contract of unlimited duration	210	498	34	525.3
Contract of limited duration	211	1		1.0
Contract for specific work	212			
Substitute's contract	213			

B. Employees leaving the company

	Codes	1. Full-time	2. Part-time	3. Total in full-time equivalents
a. Number of employees whose contract termination date as entered in the personnel register was in the financial period	305	668	154	775.6
b. By nature of the employment contract				
Contract of unlimited duration	310	667	154	774.6
Contract of limited duration	311	1		1.0
Contract for specific work	312			
Substitute's contract	313			
c. By reason for contract termination				
Pension	340	278	19	290.6
Early retirement	341			
Dismissal	342	32	7	37.3
Other reason	343	358	128	447.7
Of which: number of former employees who continued rendering services to the enterprise at least on a part-time basis as self-employed persons	350	1		1.0

III. STATEMENT CONCERNING THE IMPLEMENTATION OF MEASURES STIMULATING EMPLOYMENT DURING THE FINANCIAL PERIOD

Total in respect of formal continuous professional training initiatives for employees charged to the employer	Codes	Men	Codes	Women
1. Number of employees	5801	2,969	5811	2,900
2. Number of training hours	5802	97,306	5812	113,047
3. Charges to company (in thousands of EUR)	5803	9,362	5813	9,144
– gross costs directly related to the training course	58031	9,174	58131	8,961
– contributions and payments made to group funds	58032	188	58132	183
– subsidies received (deducted)	58033		58133	

Total in respect of less formal and informal continuous professional training initiatives for employees charged to the employer	Codes	Men	Codes	Women
1. Number of employees	5821	1,746	5831	1,956
2. Number of training hours	5822	77,278	5832	123,560
3. Charges to company (in thousands of EUR)	5823	5,911	5833	6,621

Total in respect of initial professional training initiatives charged to the employer	Codes	Men	Codes	Women
1. Number of employees	5841		5851	
2. Number of training hours	5842		5852	
3. Charges to company (in thousands of EUR)	5843		5853	

Valuation Rules - KBC Bank NV

1. General

The accounting principles and valuation rules conform to Belgian accounting legislation and the provisions of the Royal Decree of 23 September 1992 on the annual accounts of credit institutions.

The annual accounts are made up as at 31 December after profit appropriation.

2. Valuation rules

CURRENCY TRANSLATION

All monetary items denominated in foreign currency are translated into their equivalent in euros at the spot rate at balance sheet date. Negative and positive valuation differences, except for those relating to the financing of shares and investments in foreign currency and to dotation capital for foreign branches, are recorded in the profit and loss account.

Non-monetary items are valued on the basis of the historical rate at acquisition or, where appropriate, on the basis of the exchange rate at which the currency used to pay the price was purchased.
For transactions that entailed funding (lending), the rate of the day is used if there is no exchange rate.

Income and charges denominated in foreign currency are stated in the profit and loss account at the rate prevailing when they were recognised. Foreign-currency income and expenditure which is hedged in advance is recorded in euros on the basis of the fixed rate.

Translation of the financial statements of foreign branches outside the euro zone:
balance sheet items are translated at the closing exchange rate prevailing at year-end, profit and loss account items are translated based on average rates. For this purpose, each month's profit or loss is translated into euros at the rate prevailing at the end of that month.

The translation difference at balance sheet date, resulting from translating the profit and loss account on the basis of average rates, is taken to the profit and loss account as profit on financial transactions.

AMOUNTS RECEIVABLE

Interest collected in advance and similar income (including such additional compensation as fees for foreign loans) for the entire loan period cannot be taken to the profit and loss account immediately, and is therefore posted to an accruals and deferrals heading. At month-end, the amount earned is written to the profit and loss account.
Origination and processing fees charged are taken to profit and loss immediately on the inception of the loans and advances concerned, credit insurance premiums are taken to the profit and loss account annually when paid.
Commissions due (payable in advance) for bank guarantees given are recorded in the profit and loss account immediately. The commissions awarded by KBC Bank for credit broking are charged to the profit and loss account when the credit is disbursed.

Amounts receivable arising from advances and cash deposits are recorded in the balance sheet in the amount made available. The difference between the amount made available and the nominal value (discount) is recognised on an accruals basis according to the straight-line method as interest receivable via the accruals and deferrals accounts.

Dated commercial credit, consumer credit, home loans and receivables arising from leasing contracts are recorded in the balance sheet in the outstanding principal amount, plus the interest past due and sundry costs to be paid by customers. Interest received but not yet due (interest collected in advance) is recorded in the profit and loss account on an accruals basis via the accruals and deferrals headings.

The other amounts receivable are recognised in the balance sheet at nominal value.

Loans and advances that are transferred through securitisation operations where the transfer qualifies as a sale under CBFA guidelines no longer constitute bank assets and consequently may not appear on the balance sheet of KBC Bank, although the amount is required to be recorded in the contingent accounts. Until the securitisation operation comes to an end, the entry in the contingent accounts is required to be adjusted at the end of each month to reflect customers' loan repayments. Any gains realised on the sale of securitised assets are taken to the profit and loss account immediately at the time of the sale.
If the sales price is made up entirely or in part of a variable element dependent on the buyer's operating profit, this element will only be taken to the profit and loss account when the operating profit is known and this element is therefore fixed.

In synthetic securitisation operations, the (credit) risk in respect of the underlying (loan) portfolio is all that is transferred to a third party, and this by means of a credit default swap, for example, and not through the effective transfer/sale of the (loan) receivables. In other words, the loans remain on the balance sheet. Transactions used to hedge the bank's own loan receivables are booked as guarantees given or received. Transactions relating to the trading book are recorded as interest rate swaps. Both types of transaction are marked to market and taken to profit and loss, unless carried out on an illiquid market (in this case, positive valuation differences are posted to an accruals and deferrals heading, and negative valuation differences to the profit and loss account).

For loans with an uncertain outcome, general provisions are set aside, specific write-downs are charged and provisions are created for loans that are linked economically. All interest and various other receivables which have remained unpaid for three months after having become payable will not be recognised in the profit and loss account.
Non-specific write-downs are calculated for domestic loans with an uncertain outcome on the basis of the principal amount whose repayment is uncertain, the percentage susceptible to reclassification (that portion of the 'uncertain outcome' portfolio that might become 'doubtful') and the loss percentage. The percentages are arrived at on the basis of their moving average over the latest twelve months.
IBNR losses are recognised to take account of incurred but not yet reported losses on normal loans.

For loans classified as irrecoverable and doubtful, specific write-downs are posted on a case-by-case basis and charged to the assets heading in the annual accounts in which the risks appear, in order to cover the losses which are considered certain or likely to ensue on the outstanding loans. Interest due and charges are written to reserves.
Loans are classified as irrecoverable and doubtful if the loan balance is payable and if debt-recovery procedures have been initiated in or out of court.

The amount of any security is equal to the principal amount registered. Personal security is recorded in the accounts in the amount that can be obtained if execution is levied. Whenever the borrower makes a payment, the current amount of security has to be adjusted. If insufficient security is provided for a loan, a risk premium in the form of a higher rate of interest will be charged. The income this generates will be posted to 'Net interest income' on an accruals basis.

For country risks, provisions are established that meet the relevant provisioning requirements imposed by the CBFA. In addition, the bank sets aside additional funds, which it considers necessary for the management of country risks. These are risks in respect of countries or groups of countries whose economic, financial, legal or political situation warrants the setting aside of provisions on prudential grounds.

Amounts provisioned for country risks are broken down by type of counterparty (credit institution or non-credit institution) and recorded as an adjusting entry under the 'Loans and advances to credit institutions' or 'Loans and advances to customers' heading, as appropriate.

SECURITIES

Securities are recognised at acquisition cost at the time of purchase, excluding costs and less subscription fees. The ancillary costs attendant on acquisition are charged directly to the result.

- *Investment portfolio*

Fixed-income investment securities are recorded at acquisition cost, less or plus the matured portion of the premium or discount. The difference between the acquisition cost and the redemption value is reflected as an interest item in the profit and loss account on an accruals basis over the remaining term to maturity of the securities. It is included in the profit and loss account on a discounted basis, based on the internal rate of return at the time of purchase.

Perpetual debt is valued at the lower of acquisition cost and market value.

If redemption of a security is uncertain or doubtful, a write-down is recorded according to the principles that apply for the valuation of amounts receivable.
If securities are sold, their carrying value is determined on a case-by-case basis. Gains or losses are posted directly to the profit and loss account.

Listed shares and other variable-yield securities are valued each month at the lower of acquisition cost and market value at balance sheet date. Other securities are valued at least once a year, based on the annual accounts for the previous year. File administrators are responsible for ensuring that any significant negative developments during the course of the year are also dealt with.

No value impairments are posted for shares hedged against a decline in price by means of an option.

- *Trading portfolio*

Securities belonging to the trading portfolio are marked to market. The valuation differences this generates are recorded in the profit and loss account under heading VI: 'Profit (Loss) on financial transactions'.

FINANCIAL FIXED ASSETS

Included in KBC Bank's holdings or participating interests are the rights (shares) held in other companies with a view to creating specific, lasting ties with them.
If there are no lasting ties and the shares are acquired for resale, then this investment will not be considered a financial fixed asset, but rather as part of the investment portfolio, regardless of the size of the shareholding and the influence that could be exerted on the management of the company in question through this shareholding.

Participating interests and shares that are considered financial fixed assets are recognised at acquisition cost. Write-downs are applied only in the event of a lasting impairment in or loss of value, established on the basis of the financial position, the profitability and the prospects of the company concerned.
Participating interests, shares and share certificates classified as financial fixed assets may be revalued if, in light of their usefulness to the company, they exhibit an incontestable and lasting increase in value.

Regardless of whether they are represented by securities, subordinated loans and advances to associated companies and companies linked by participating interests are valued according to the same principles as non-subordinated loans and advances.

FORMATION EXPENSES AND INTANGIBLE FIXED ASSETS

All formation expenses referred to in the Royal Decree on the annual accounts of credit institutions are charged directly to the profit and loss account for the financial year as administrative expenses.

Capitalised goodwill is depreciated according to the straight-line method over a period of five years, unless the Board of Directors decides otherwise.

Software developed in-house is charged immediately to the profit and loss account. Systems software is depreciated at the same rate as hardware, being written off according to the straight-line method over a period of three years. Standard software and software customised or developed by third parties or tailor-made software, as well as its implementation, is capitalised and written off according to the straight-line method over its useful economic life. Since 2000, software developed for KBC head office has been capitalised for KBC Exploitatie NV.

At KBC Bank, intangible fixed assets recorded are capitalised at acquisition cost including ancillary costs, and are written off on an accruals basis during the first year of investment.

TANGIBLE FIXED ASSETS

All tangible fixed assets are recognised at acquisition cost, less accumulated depreciation. They are recorded at acquisition cost, including ancillary, directly allocable costs (acquisition costs, non-deductible VAT, etc.).

The rates of depreciation are determined on the basis of the anticipated useful economic life of the item and are applied according to the straight-line method. All tangible fixed assets are depreciated on an accruals basis during the first year of investment. The ancillary costs are written off over the life of the asset. A write-down is charged for ancillary costs on the acquisition of land.

When tangible fixed assets are sold, realised gains or losses are taken immediately to the profit and loss account. If these assets are destroyed, the remaining amount to be written off is charged directly to the result.

Tangible fixed assets that exhibit an incontestable and lasting appreciation in value compared to their carrying value may be revalued. This surplus is written off over the average residual useful life of the assets in question.

CREDITORS

Amounts owed as a result of advances or cash deposits received are recorded in the balance sheet in the amount made available, plus or minus any difference between this amount and the redemption price of the portion that has already accrued. The difference between the amount made available and the nominal value is reflected as interest on an accruals basis in the profit and loss account.

PROVISIONS FOR LIABILITIES & CHARGES

Provisions for liabilities and charges are intended to cover losses or charges, the nature of which is clearly defined and which at balance sheet date are either likely or certain to be incurred, but the amount of which is uncertain.

- Pensions
Concerned here are commitments with regard to retirement and survivor's pensions, benefits paid out on early retirement and other similar pensions or allowances (related mainly to employees' leaving employment early and end-of-career schemes).

- Taxation
This provision covers the commitments that may arise from a change in the tax base or in the calculation of tax. It is set aside in anticipation of additional tax charges (not yet assessed) for past financial years, for the amount that is disputed.

- Other liabilities and charges

This is a residual heading in respect of the provisions referred to above and includes provisions for legal disputes, commitment credit and indirect taxes.

FINANCIAL INSTRUMENTS

- *Valuation rules for trading and non-trading activities*

Where trading activities are concerned, the unrealised profit or loss on revaluation is recognised at least at the end of every month. This revaluation takes into account any interest flows that have already been recognised on an accruals basis. In the event of a sale, liquidation or expiration, the profit/loss on the position is recognised immediately. Where illiquid currencies or securities are concerned, no profit on revaluation is recognised.

The existing strategic positions the dealing room takes for its own account via derivatives with a view to generating a profit on the long term by way of capital gains or interest spreads are valued according to the same principles used for illiquid interest rate positions.

For non-trading activities, where interest rate instruments are concerned, the gains or losses realised are only recognised on an accruals basis over the corresponding term. The valuation of non-interest-rate instruments (e.g., share option premiums) matches the valuation of the hedged position. In addition, non-trading activities carried out for the purpose of general, long-term management of interest rate products denominated in a foreign currency (macro-hedging) are also valued according to the 'lower of cost and market' principle, along with the associated on-balance-sheet products. Profit or loss on similar transactions carried out for general EUR ALM interest rate management purposes is recognised solely on an accruals basis.

Option premiums that are paid in advance are only taken to the profit and loss account on the due date or on liquidation, with the exception of option premiums for caps, floors and collars that have been concluded for hedging purposes (accruals-basis recognition). In the meantime, they are posted under the 'Other assets' or 'Other liabilities' items. Option premiums relating to trading activities are revalued at least at the end of every month.

- *Valuation of derivatives*

All derivatives are always recorded under specific off-balance-sheet headings on the transaction date. Amounts are released from the off-balance-sheet headings once the outcome of the transaction is definitive, even if the underlying term only starts at that time for certain interest rate products (e.g., FRAs).

Trading transactions are marked to market, and the mark-to-market value is recognised in the trading results. Non-trading transactions are included in interest income on an accruals basis, which is the case for interest payable and interest receivable relating to interest rate swaps and foreign currency interest rate swaps. The swap difference arising on FX swaps (and FX outrights) is also released to the results on an accruals basis. The results from interest rate futures and FRAs are included in the profit and loss account spread over the term of the underlying hedged item. Equity swaps are treated in the same way as interest rate swaps. In practice, equity swaps (just like options) are only recorded in the trading book and consequently marked to market. KBC Bank makes use of the derogation allowed by the CBFA to Article 36 bis of the Royal Decree on the annual accounts of credit institutions. This derogation makes it possible to take interest rate derivatives that do not meet the hedging criteria to the profit and loss account on an accruals basis (interest rate derivatives classified as ALM or treasury management instruments).

- *Hedging criteria for forward interest rate transactions:*

The general criteria are set out in Article 36bis of the Royal Decree on the annual accounts of credit institutions of 23 September 1992:

the hedged item or the combination of comparable hedged items must expose the credit institution to a risk of interest rate fluctuation;

the transaction must be recorded in the books as a hedge from its inception;
there must be a close correlation between fluctuations in the value of the hedged item and fluctuations in the value of the hedge; in the case of hedging options, there must be a correlation between fluctuations in the value of the hedged item and fluctuations in the value of the underlying financial instrument.

In addition, specific company criteria apply. All these criteria must be met: if one criterion is no longer satisfied, the hedge will be considered a trading transaction and be subject to the appropriate accounting treatment.

Hedging combinations that involve derivatives and are terminated before maturity will be considered trading transactions once the underlying position to be hedged no longer exists.

Future interest rate positions can be hedged if it is reasonably certain that the position will actually materialise. Moreover, the amount, term and interest rate conditions must be sufficiently certain.

- *Calculation of unrealised profit/loss on revaluation*

Derivatives are always valued on a contract basis; positive and negative valuation differences are not netted in the accounting records. Only for calculating capital adequacy requirements relative to market risks is the market risk calculated on a net basis per counterparty.

For forward interest rate and similar products (namely forward foreign exchange products), valuation occurs on the basis of the net present value of future, determinable cash flows using a single yield curve per currency, which is used throughout the bank. Any adjustments for operational and liquidity risks are deducted from the initial revaluation. Options are valued according to the usual valuation models. For interest rate products, calculations are always based on the assumption of a liquid market, provided the underlying currencies are liquid.

If a credit granted to a counterparty is classified as 'doubtful' or 'irrecoverable', the receivables and commitments stemming from off-balance-sheet products involving the same counterparty will be given the same classification. For loans and advances, write-downs may be recorded; for commitments, provisions will be set aside.

3. Changes in valuation rules

There were no changes to the valuation rules with a material impact on the figures.

COMMENTS ON THE NON-CONSOLIDATED ANNUAL ACCOUNTS OF KBC BANK NV - 2008

PROFIT AND LOSS ACCOUNT – NV ('000 EUR)	2008	2007	change	in %
Gross income from ordinary activities	3 298 392	3 476 047	-177 655	-5.11%
General administrative expenses	-1 729 430	-1 643 938	-85 492	5.20%
OPERATING RESULT	**1 568 962**	**1 832 109**	**-263 147**	**-14.36%**
Write-downs and provisions	-840 050	-2 010	- 838 038	...
PROFIT FROM ORDINARY ACTIVITIES	**728 912**	**1 830 099**	**-1 101 187**	...
Extraordinary result	-1 355 496	56 272	-1 411 768	---
Taxes	+18 237	-196 967	215 204	---
PROFIT FOR THE PERIOD AVAILABLE FOR APPROPRIATION	**-608 347**	**1 689 404**	**-2 297 750**	**---**

The results were down 2 298 million euros on the year-earlier figure, and represented a loss for the financial year of 608 million euros.

Gross income came to 3 298 million euros, 5.11% lower than in 2007. Dividend income went up by 161.6 million euros. Net interest earnings rose by 101 million euros, but this was offset by considerably lower earnings on financial transactions which amounted to -264 million euros and lower net commission and other operating income which totalled -176.5 million euros.

General administrative expenses (including 'depreciation and amortisation on intangible and tangible fixed assets' and 'other operating charges') rose in 2008 by 85 million euros or 5.2% to 1 729 million euros. The increase is mainly attributable to other administrative expenses (56 million euros) and staff expenses (72.6 million euros). Other operating charges, on the other hand, fell by 37.7 million euros.

On balance, the operating result went down by 263 million euros or 14.36%. Taking into account the considerable net transfer to write-downs and provisions (840 million euros in 2008 compared with 2 million euros in 2007), profit from ordinary activities fell to 729 million euros, 1 101 million euros down on the 2007 figure.

Extraordinary profit decreased from +56 million euros to -1 355 million euros, owing to provisions set aside for considerable write-downs on financial fixed assets.

Income tax charges fell by 215 million euros to 18 million euros, consequent on the drop in taxable profit.

GROSS INCOME FROM ORDINARY ACTIVITIES

Gross income comprises net interest income, dividends received, earnings on financial transactions, other commission and operating income (headings I through VI and XIV).

The 5.11% decrease in gross income – to 3 298 million euros – is the result of:

- the 161.6-million-euro increase in income from variable-yield securities (heading III). Dividends received went up due to the high dividend payments made by the subsidiaries on account of their increased profit figures for the 2007 financial year.

- the 101.5-million-euro increase in net interest income (headings I and II). Net interest income accounted for 42.4% of gross income from ordinary activities, up from 37.32%.
- the 264-million-euro decline in income from financial transactions. Income from derivatives transactions fell by 264.4 million euros to 60.2 million euros. Trading transactions in fixed-income and variable-yield securities amounted to -73 million euros, a slight improvement on the loss of 100.2 million euros in 2007. In 2008, there was a loss of 21.6 million euros on the sale of government securities in the investment portfolio. The high capital gains realised in 2007 on variable-yield securities resulting primarily from the sale of Intesa San Paolo shares for 207 million euros was largely offset by the 133-million-euro losses on the sale of long-term bonds (due mainly to positions being scaled down, given the anticipated trend in interest rates).
- the 176.5-million-euro, or 20.4%, decrease in net commission and other operating income (headings IV, V and XIV). This decrease can be put down in part to the lower commission from sales of investment funds.

GENERAL ADMINISTRATIVE EXPENSES

General administrative expenses (including 'depreciation and amortisation on intangible and tangible fixed assets' and 'other operating charges') rose in 2008 by 85 million euros or 5.2%.

Operating charges (headings VII and XV) went up by 91 million euros or 5.7%. The transfer of employees to the cost-sharing structure was offset by higher amounts being billed via this structure. This is also the case for corporation taxes.

At KBC Bank Belgium, staff expenses rose as a result of the reduction in the number of full-time equivalents owing to personnel being transferred to KBC Group, as well as of negative factors, such as indexation (25 million euros) and other pay increases. In the branches abroad, there was an increase of 9.7 million euros.

Depreciation (heading VIII) fell by 5.6 million euros.

The cost/income ratio rose from 47.29% to 52.43% in 2008.

WRITE-DOWNS AND PROVISIONS

Total transfers to and from write-downs and provisions (heading IX through XIII) resulted in a significant net transfer of 840 million euros, compared with a net transfer of 2 million euros in 2007.

Amounts written down for credit risks (heading IX) went up considerably owing to impairment losses on loans classified as 'uncertain and irrecoverable'. Amounts written down for commercial risks not assessed on an individual basis fell slightly (by 8.5 million euros). Write-downs on securities in the investment portfolio also rose, from 7.3 million euros in 2007 to 156.7 million euros in 2008. The main item related to valuation markdowns on CDOs amounting to 134 million euros. At 14.4 million euros, the net amount set aside for provisioning for commitment credit was lower than the previous year.

At -471.9 million euros, net provisioning (i.e. the difference between transfers from provisions and provisions set aside (headings XI and XII)) was accounted for primarily by a 380-million-euro provision set aside for future capital increases at subsidiaries. These capital increases will be written down immediately. Of the remaining amount set aside, provisioning for legal disputes was the chief item. Moreover, there were significant reversals (+52 million euros) in 2008 on provisioning for miscellaneous expenses and future expenditure. There was a small net allocation (-3.2 million euros) for staff-related provisions compared with -18.3 million euros for the previous year.

EXTRAORDINARY INCOME AND CHARGES

Extraordinary income amounted to a negative 1 355.5 million euros for 2008, compared with a positive 56.2 million euros for the previous year. The exceptional crisis on the financial markets resulted in significant impairment losses on financial fixed assets (1 351.5 million euros).

INCOME TAXES

Income taxes (headings XX and XXII) went down by 215 million euros to 18 million euros, mainly because of the lower taxable profit at KBC Bank Belgium. For an overview of taxation, please see Table XXVI in the Notes.

ASSETS/LIABILITIES

BALANCE SHEET TOTAL

At year-end 2008, total assets came to 210 billion euros, a decrease of 9.6 billion euros or 4.35% compared with the year-earlier figure. On the assets side of the balance sheet, nearly all items were down, with the exception of bonds and other fixed-income securities and deferred charges and accrued income. On the liabilities side, amounts owed to credit institutions and debts represented by securities were the main headings that decreased.

At the end of 2008, amounts receivable from abroad accounted for 57.48% of the balance sheet total (59.97% at the end of 2007). The branches abroad held around 16.17% of the bank's total assets, down 3.26% on year-end 2007.

TRANSACTIONS WITH CREDIT INSTITUTIONS

Loans and advances to banks (asset heading III) fell by 12.7 billion euros. Approximately 24.97% of this heading is accounted for by reverse repos, which were entirely responsible for this decline. Amounts owed to credit institutions (liabilities heading I) also went down by 16.5 billion euros.
Accordingly, net borrowing from credit institutions came to 9.7 billion euros at the end of the financial year, compared with 13.5 billion euros in 2007. The volume outstanding depends on the liquidity requirements of the bank.

LOANS AND ADVANCES TO CUSTOMERS

Asset heading IV, 'Loans and advances to customers', includes not only payment credit granted by the bank, but also securities for collection and balances on suspense accounts. Of the amount outstanding, 75.5% is denominated in euros, while 57.76 % represents exposure to Belgian counterparties. Loans and advances to customers went down by 5.6 billion euros to 94 billion euros.

Term loans decreased by 3.8 billion euros. This heading also includes highly volatile reverse repo transactions with customers, primarily clearing institutions. These transactions were down by 9.2 billion euros on year-end 2007. Ultimately, payment credit granted to customers rose by 5.4 billion euros.

In November 2008, an additional securitisation operation involving home loans was carried out for an amount of 2.8 billion euros. The total amount for securitisation operations came to 6.6 billion euros at the end of 2008.

FIXED-INCOME SECURITIES

The total portfolio of fixed-income securities (asset headings II and V) rose by 6.2 billion euros to 39.6 billion euros. Securities issued by public authorities represented 71.79% of the portfolio and those issued by credit institutions 8.5%.

The investment portfolio increased by 5.2 billion euros to 27.5 billion euros. This portfolio consists mainly of Belgian and EMU government issues. At year-end 2008, there was an unrealised gain on the investment portfolio of fixed-income securities of 131 million euros.

The trading book, made up mainly of government securities and securities issued by credit institutions, grew in 2008 by 0.9 billion euros to 12.1 billion euros.

SHARES AND OTHER VARIABLE-YIELD SECURITIES

Asset heading VI, 'Shares and other variable-yield securities' came to 619.5 million euros, compared with 449.8 million euros at the close of 2007. The trading portfolio went up by 280.3 million euros.

FINANCIAL FIXED ASSETS

Participating interests, other shares and subordinated loans constituting financial fixed assets (heading VII) went down by 409 million euros to 15.8 billion euros.Capital increases were carried out at subsidiaries, with the main operations being the increase of 238 million euros in the stake in ČSOB, of 254 million euros in the stake in Absolut Bank and of 350 million euros in the stake in Istrobanka. Conversely, 1 351 million euros in write-downs were recorded primarily in relation to KBC Financial Products companies, Peel Hunt and shares held in KBC Group NV.

FORMATION EXPENSES AND INTANGIBLE FIXED ASSETS

Asset heading VIII 'Formation expenses and intangible fixed assets' is made up solely of intangible fixed assets.

TANGIBLE FIXED ASSETS

Asset heading IX went down by 45.7 million euros to 724 million euros, on account of real estate activities.

OTHER ASSETS

Other assets went up by 75 million euros to 1.9 billion euros. This heading consists of the revaluation of trading foreign currency options and interest rate options.

ACCRUALS AND DEFERRALS

Deferred charges and accrued income are recorded under asset heading XII.
They rose by 2 billion euros to 17.4 billion euros due to the market valuation of mainly interest-rate-related derivatives.

AMOUNTS OWED TO CUSTOMERS AND DEBTS REPRESENTED BY SECURITIES

Customer deposits, including those represented by securities, are included in liabilities headings II and III. These

are liabilities ensuing on the attraction of working funds from customers (including discounting, repurchase agreements and secured advances), as well as credit balances on suspense accounts and the short position in the trading portfolio.

Total customer deposits rose slightly, by 386 million euros to 119 billion euros at year-end 2008. Amounts owed to customers increased by 3.8 billion euros. Most products went up with the exception of savings certificates, which remained unchanged. Debts represented by securities fell by 3.4 billion euros, the net impact of an increase of 1.5 billion euros in Belgian and a decrease of 4.9 billion euros in the foreign branches.

OTHER LIABILITIES

Other liabilities (heading IV) include liabilities relating to options premiums paid, taxation, remuneration and social security charges, as well as invoices yet to be paid by the bank. There was a decrease of 0.8 billion euros compared with financial year 2007. In 2007, dividends to be paid on treasury shares were also recorded under this heading. For an overview, please see Table XIV in the Notes.

ACCRUALS AND DEFERRALS

Accrued charges and deferred income are recorded under liabilities heading V. They went up by 3 billion euros compared with the previous year.

PROVISIONS FOR LIABILITIES AND CHARGES

In 2008, provisions for liabilities and charges (liabilities heading VI.A) rose by 431.6 million euros to 667.7 million euros, an increase accounted for primarily by:
- a provision of 380 million euros for the future capital increase in relation to KBC Financial Products companies;
- the increase of 25 million euros in the provision for the Bell Group (KBC London).

For more detailed information, see Note XVI of the 'Company accounts' section.

SUBORDINATED LIABILITIES

A breakdown by type and residual term to maturity of liabilities heading VIII is shown in Table XVII in the Notes. Total subordinated liabilities outstanding went up by 2.1 billion euros to 9.7 billion euros. This figure can be broken down as follows:
- non-convertible bonds: 6.6 billion euros;
- other subordinated term borrowings: 3.1 billion euros

The increase in subordinated debt is largely attributable to the issue of two perpetuals that have been recognised as a component of core equity at KBC Bank and KBC Group level (consolidated).

One loan (700 million euros, at 8%) was intended for retail customers in Belgium and the other (1 250 million euros, also at 8%) for institutional and retail investors abroad. Compared with 2007, there was an exchange difference of -162 million euros in relation to the hybrid bond loan of 525 million pounds sterling.

The MCB loan in the amount of 186 million euros matured in 2008 and was converted into shares.

Disregarding the developments in relation to these special subordinated loans, sales in the branch network of primarily subordinated certificates and time deposit accounts increased by around 500 million euros in 2008.

CAPITAL AND RESERVES

Capital and reserves went up in 2008 by 1 764 million euros to 10 767 million euros due to:
the 2 250-million-euro capital increase carried out by KBC Group NV. KBC Group NV financed this capital increase itself by issuing 3.5 billion euros' worth of non-dilutive core-capital securities to the Belgian State. This amount was used to strengthen capital at KBC Bank NV (2 250 million euros) and KBC Insurance NV (1 250 million euros).

the 186-million-euro conversion of a subordinated convertible loan.
the 672-million-euro reduction in the reserves.

OFF-BALANCE-SHEET HEADINGS

CONTINGENT LIABILITIES

Off-balance-sheet items carrying an actual credit risk increased by 14.3 billion euros to 55.1 billion euros.
This increase is accounted for by 'other guarantees' (16.2 billion euros) and relates primarily to guarantees the bank has extended to holders of financial instruments issued by subsidiaries (e.g., to finance companies for the issue of international bond loans). These are included under heading I.C. Guarantees given that are in the nature of direct credit substitutes (heading I.B) went down by 1.9 billion euros year-on-year.

COMMITMENTS CARRYING A POTENTIAL CREDIT RISK

The undrawn margin on confirmed credit lines (heading II.C.) rose by 683 million euros to 39 billion euros, owing to decreased utilisation of the credit lines.