ANNUAL REPORT 2011

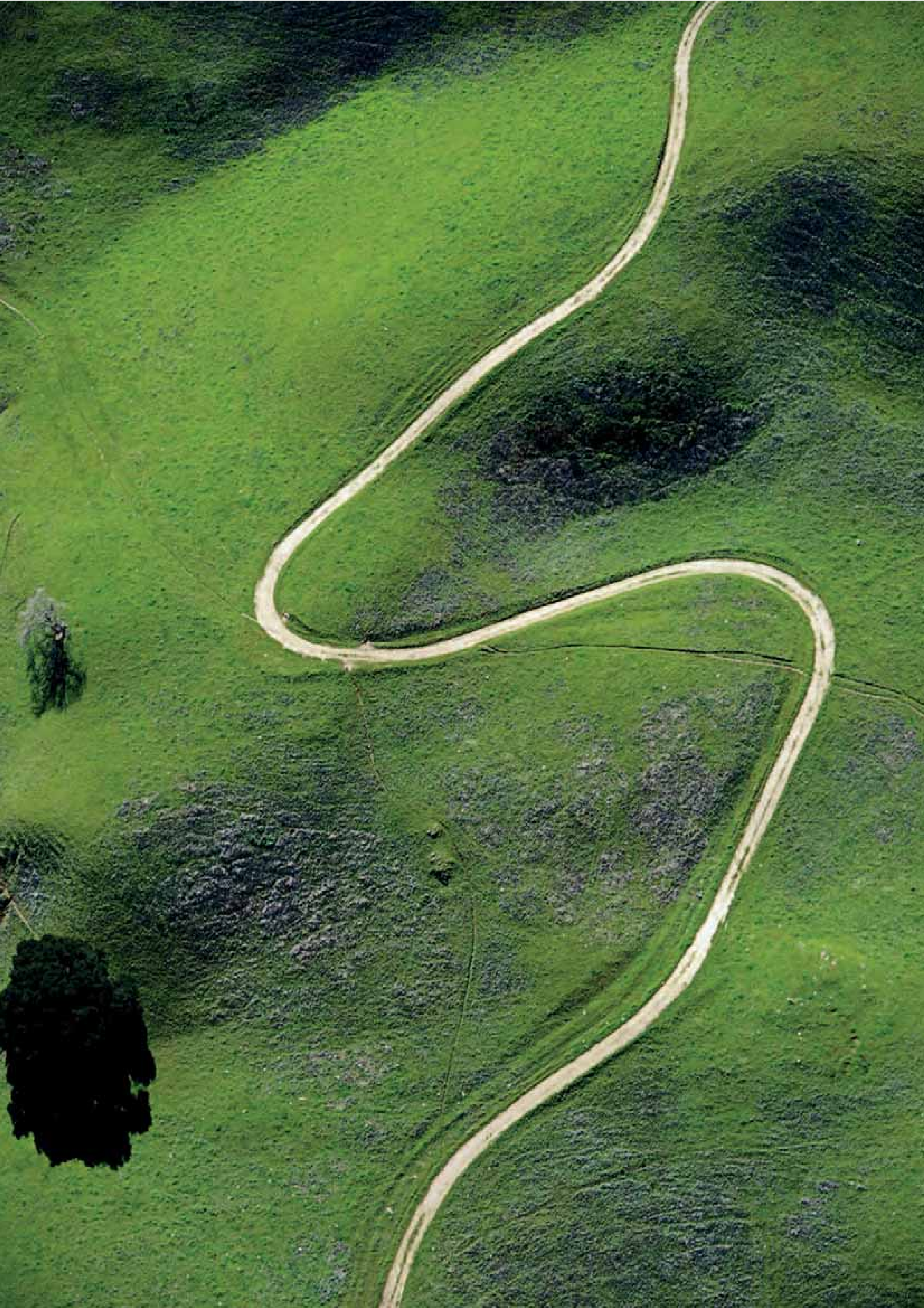
KBL EUROPEAN PRIVATE BANKERS

| 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011

ANNUAL REPORT 2011

"The Path is the Goal."

- Confucius




KBL ESPAÑA EUROPEAN PRIVATE BANKERS


THEODOOR GILISSEN
BANKIERS N.V.
BROWN, SHIPLEY & CO LTD
PUILAETCO DEWAAY PRIVATE BANKERS S.A.
KBL EUROPEAN PRIVATE BANKERS LUXEMBOURG
PUILAETCO LUXEMBOURG
VITISLIFE
KBL RICHELIEU BANQUE PRIVEE S.A.
MERCK FINCK & CO,
PRIVATBANKIERS
KBL SWISS PRIVATE BANKING LTD
KBL MONACO PRIVATE BANKERS S.A.

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and Consolidated Management Report
as at 31 December 2011

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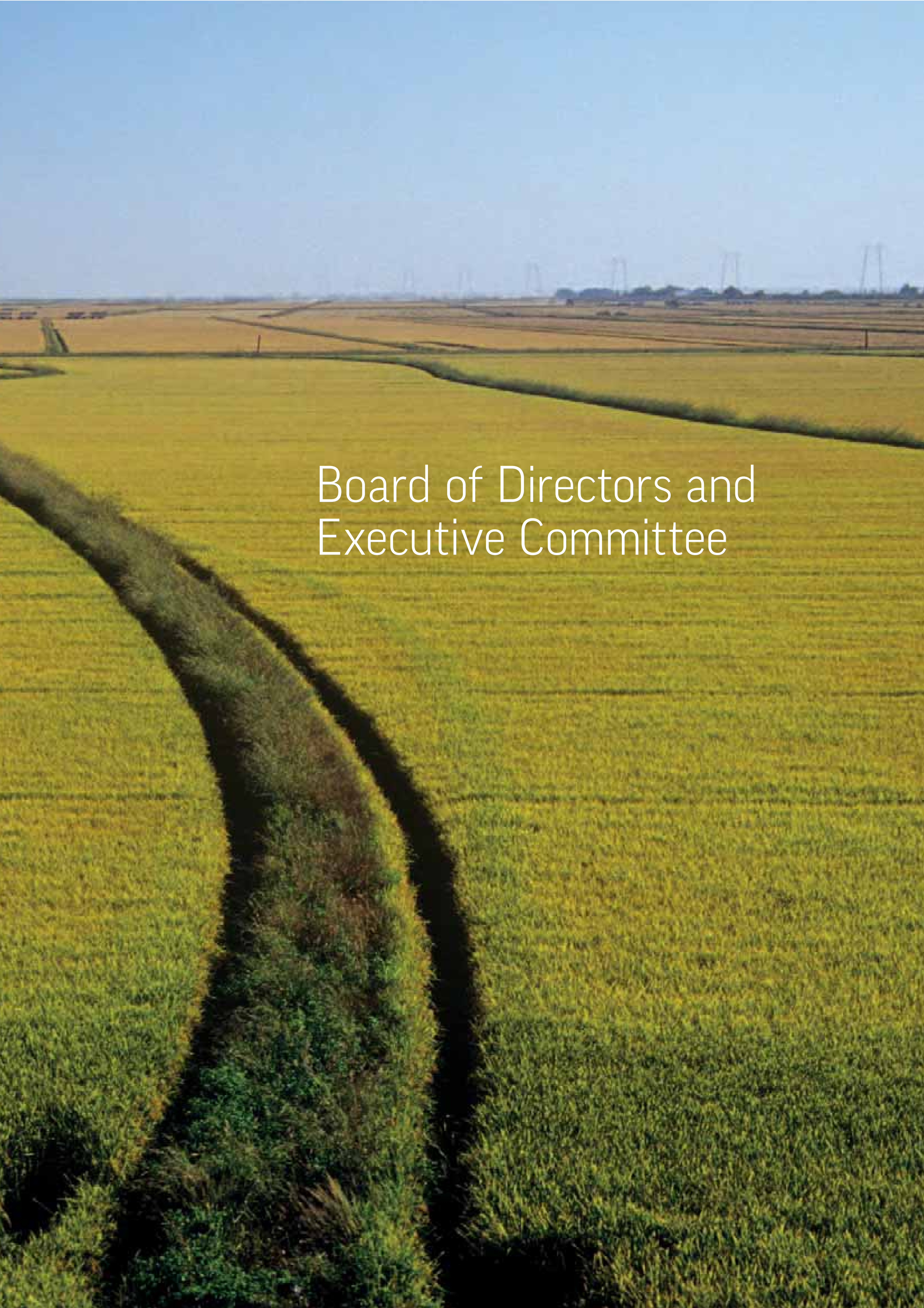
and Management Report
as at 31 December 2011


"What does it matter that we take different roads,
as long as we reach the same goal."
- Mahatma Gandhi



Board of Directors and Executive Committee

Position as at 31 December 2011

Board of Directors

Jan HUYGHEBAERT
Chairman of the Board

Philippe VLERICK
Deputy Chairman of the Board

Franky DEPICKERE
Director

Frank ERTEL
Director
Staff representative

Marc GLESENER
Director
Staff representative

Francis GODFROID
Director
Staff representative

Christian HOELTGEN
Director
Staff representative

Olivier de JAMBLINNE de MEUX
Executive Director

Jan Maarten de JONG
Director

Laurent MERTZ
Director
Staff representative

Diego du MONCEAU de BERGENDAL
Director

Edmond MULLER
Director

Philippe PAQUAY
Executive Director

Jacques PETERS
CEO

Luc PHILIPS
Director

Yves PITSAER
Executive Director

Mathias RAUEN
Director
Staff representative

Philippe RYELANDT
Director
Staff representative

Marie-Christine VANTHOURNOUT-SANTENS
Director

Marc WITTEMANS
Director

Approved statutory auditors responsible for external audit: Ernst & Young S.A.

Executive Committee

Jacques PETERS
CEO

Olivier de JAMBLINNE de MEUX

Philippe PAQUAY

Yves PITSAER

SENIOR MANAGEMENT

Philippe AUQUIER
Finance

Luc CAYTAN
Financial Markets

Rafik FISCHER
Global Investor Services

Marie-Paule GILLEN-SNYERS
General Secretary

Michel GODFRAIND
Risk Control

Guillaume de GROOT HERZOG
Buildings & Logistics

Olivier HUBERT
Tax

Bernard JACQUEMIN
KBL Wealth Management

Siegfried MARISSENS
Corporate Centre

John PERKS
ITS & PPD

Vincent SALZINGER
Group Compliance

Bernard SIMONET
Human Resources

Bernard SOETENS
Corporate / Loans

Thierry THOUVENOT
Group Internal Audit

Philippe VAN DOOREN
Operations Management

Key events

1. NEW FINANCIAL PARTNER FOR KBL *epb*

At the end of 2009 KBC Group, the historic shareholder of KBL European Private Bankers (KBL *epb*) announced its intention to sell its holding and to find a new shareholder to support KBL *epb*'s future development. This search resulted in the signing on 10 October 2011 of an agreement between Precision Capital S.A. and KBC Group N.V. for the purchase of KBL *epb*. The transaction amount was EUR 1.05 billion.

Precision Capital S.A. is a Luxembourg company representing the business interests of a Qatari investor.

2. CLOSING EXPECTED IN 2012

The agreement between KBC Group, KBL *epb*'s reference shareholder and Precision Capital S.A. on 10 October 2011 must first be approved by the Luxembourg supervisory authorities and also by the regulators in the various countries in which KBL *epb* is active. The complexity of the KBL *epb* Group and the legal deadlines of each regulator has the effect of prolonging the approval process. The closing of the operation is expected in the first half of 2012.

3. REFOCUSING ACTIVITIES AND ADAPTING RESOURCES

In the global context of the aftermath of the financial crisis, we concentrated our efforts on preserving our clients' assets.

Today the nature of the activities and transactions that we are carrying out for our clients has developed considerably. Some have disappeared, others have changed profoundly, such as certain Dealing Room activities and private banking which has refocused on discretionary management. Activities which do not form part of our core business have been sharply scaled back and over the past few years an efficient automation process has led to a structural resizing of the Company to ensure its stability.

Within this context we decided to close our Polish branch, KBL Polska, in December 2011.

4. RESULTS - TOWARDS A RELAUNCH OF ACTIVITY WITH THE FUTURE SHAREHOLDER

In the unstable economic environment and within the specific context of the sale of KBL *epb*, the net consolidated profit of KBL *epb* was EUR 20.1 million as at 31 December 2011, compared with EUR 67.7 million the previous year. Market circumstances led us to make significant value adjustments on our French subsidiary and on Greek sovereign securities held by some entities of the Group. These negative elements have only been partly offset by the capital gain on the prepayment at a discount of our Hybrid Tier 1 debt instrument.
The drop in the AuM, which fell from EUR 48.7 billion to EUR 44.3 billion, is attributable to a combination of price and volume effect reflecting the difficult market worldwide.
The acquisition by a Qatari investor announced in late 2011 should bring back the stability and serenity which are necessary for our core private banking and UCI businesses.

5. EMPLOYEES

As at 31 December 2011, the total staff of the KBL *epb* network amounted to 2,339 as against 2,522 at the end of 2010, down by 7%. This change was due to a decrease in employees at the parent company, as well as at certain subsidiaries. Out of the 2,339 staff in the KBL *epb* network, some 57% work in the subsidaries outside Luxembourg.

6. AN AMBITIOUS STRATEGY

KBL *epb* intends to remain a centre of excellence in its core business of private banking. This activity will be called upon to expand in Europe and, profiting from the opportunities we will be offered by the geographic enlargement of our market, we are going to enter regions with great development potential, where our unique range of services will be suited to the expectations of new prospective high net worth clients.

As well as private banking, KBL *epb* will continue to develop its services for institutional investors and financial markets in which its expertise is an added value.

Key consolidated figures

(consolidated figures as at 31 December 2011)	2008	2008 "Underlying result"*	2009	2010	**2011**
RESULTS (in EUR million)					
Net banking income	396.0	653.5	664.9	602.6	**549.3**
Operating expenses	-475.6	-475.6	-504.4	-503.2	**-438.8**
Impairments	-210.2	-44.3	-24.7	-44.6	**-99.4**
Share in results of associated companies	2.1	2.1	2.7	1.6	**0.6**
Badwill	-	-	-	29.0	-
Pre-tax profit	-287.7	135.8	138.5	85.4	**11.8**
Income taxes	141.8	18.2	-19.4	-17.7	**8.3**
Net consolidated profit, Group share	-145.9	153.9	119.2	67.7	**20.1**
FINANCIAL RATIOS					
Core Tier One ratio - Basel II	5.8%	-	9.1%	11.3%	**16.3%**
Tier One ratio - Basel II	6.9%	-	10.7%	13.4%	**16.3%**
Solvency ratio - Basel II	12.2%	-	18.4%	21.6%	**22.3%**
Regulatory capital/Balance sheet total	5.6%	-	7.9%	8.8%	**7.0%**
Loan-to-Deposit Ratio	14.0%	-	14.1%	17.2%	**19.0%**
ROAE	-13.6%	14.3%	12.9%	6.6%	**2.0%**
ROAA	-0.8%	0.8%	0.8%	0.5%	**0.1%**
Cost/Income Ratio	120.1%	72.8%	75.9%	83.5%	**79.9%**

* The 2008 Underlying Result data take account of the neutralisation of the negative impacts directly linked to the financial crisis such as the negative valuation of certain financial instruments at fair value and impairment on the Available-for-Sale (AFS) portfolio and the Loans and Advances portfolio.

(consolidated figures as at 31 December 2011)	2008	2009	2010	2011
BALANCE SHEET TOTAL (in EUR billion)	16.2	13.9	14.7	**14.8**
ASSETS				
Loans and advances to credit institutions and investment companies	5.4	4.8	4.3	**5.1**
Loans and advances to customers	1.5	1.3	1.4	**1.5**
Equity and debt instruments	6.5	6.2	5.0	**4.1**
LIABILITIES				
Amounts owed to credit institutions and investment companies	3.8	3.4	2.7	**2.8**
Amounts owed to customers and debts evidenced by certificates	10.4	8.4	7.8	**7.9**
of which: Subordinated debts	0.8	0.8	0.8	0.4
Total equity	0.8	1.0	1.1	**1.0**
AUM (in EUR billion)				
Assets under management	44.0	46.1	48.7	**44.3**
of which: Private banking customers	34.6	36.4	39.0	35.1
Volume impact	+6.2%	-5.7%	+1.0%	-3.9%
Price impact	-22.0%	+11.0%	+6.2%	-6.0%

"What is important, is not to arrive,
but to move toward."

- Antoine de Saint-Exupéry

Consolidated Management Report

Consolidated Management Report

1. GENERAL COMMENTS ON THE RESULTS

Net consolidated profit, Group share, as at 31 December 2011, amounts to EUR 20.1 million compared with EUR 67.7 million as at 31 December 2010.

As at 31 December 2011, net banking income was down 9% compared with 2010 to stand at EUR 549.3 million. This is mainly due to both the 8% decrease in the net commision income and the 28% decrease in the net realized and unrealized gains on financial instruments.

Assets under management amount to EUR 44.3 billion at the end of 2011 compared with EUR 48.7 billion at the end of 2010.

Operating expenses have been significantly lowered to EUR 438.8 million as the result of cost reduction programmes implemented throughout the group.

As at 31 December 2011, impairment charges were EUR -99.4 million compared with EUR -44.6 million as at 31 December 2010. An impairment of EUR 63.3 million has been booked on the goodwill and on the purchased portfolio of customers of KBL Richelieu Banque Privée. The deterioration of the valuation of the Greek debt had a negative impact of EUR 29.1 million on the group result. As at 31 December 2011, the carrying amount of the Greek Government bonds exposure was EUR 9.3 million.

A positive tax income of EUR 8.3 million is recorded in 2011, of which EUR 6.8 million of deferred tax mainly linked to losses carried forward.

The balance sheet total amounts to EUR 14,752 million, similar to 2010. The 26% decrease in the AFS portfolio net value, mainly due to divestment and matured positions of debt instruments issued by KBC Group (anticipating the separation from KBC Group), is compensated by an increase of cash deposit to central banks and reverse repos with credit institutions.

At the end of the financial year under review, Tier One capital after deductions (calculated in accordance with CSSF Circular 06/273, as subsequently amended, defining capital ratios under Basel II), amounted to EUR 653 million. Consolidated solvency ratio on Tier One equity is 16.3%, compared with 13.4% at the end of 2010. Core Tier One ratio stands at 16.3% compared with 11.3% at the end of 2010. In 2011 the KBL *epb* Tier One hybrid instrument was redeemed early at a discount.

2. KBL *epb* MISSION

Up to now KBL *epb* has focused on the development of pure-play private banking in key countries in Europe. This will now extend to the Middle East and Asia and to services for professional investors provided by our Asset Management, Global Investor Services and Global Financial Markets departments.

2.1. STRATEGIC OBJECTIVES: CONDUCT BUSINESS ON A SOLID BASIS

Based upon our time-honoured European expertise in private banking and with the support of our future shareholder[1] , we see ourselves as open to geographical expansion and ready to take advantage of opportunities on the market.

Indeed, KBL *epb* is really the only European network of local, pure-play private banks. Private banking is our core business and our focus is very much client-centred with a strong accent on specific local needs, cultural awareness and investor preferences.

We feel that the entrepreneurial spirit of the private bankers who join us and the independence of each member of our network are key factors in our success. Because we want to be Belgian in Belgium, Dutch in The Netherlands and Spanish in Spain, each member of the KBL *epb* network enjoys a large measure of independence in defining its particular commercial strategy. With a human dimension, all our brands work under their own name and with their own cultural particularities. As a result, wherever we have a presence, our lasting quality and success are based on the name, the track record and the reputation of each member of KBL European Private Bankers.

2.2. THE CULTURE OF EXCELLENCE IN OUR BUSINESS

In this difficult period for the financial markets, our private bankers are working to position themselves as *trusted advisors*, closer than ever to their clients. Their brief is to advise each individual client on the basis of his or her individual investment profile and expectations. This is why our private bankers have a personalised approach, focusing on dialogue with the client and based on a long-term relationship. This approach is rooted in a personal and durable relationship and engages us in a process of continual reassessment of the portfolio compared to the individual targets of the client, thereby allowing us to use the best of our expertise in the service of our clients.

We are also recognised as *trusted investors*. Our independence in our investment choice is guaranteed by our tried and tested strategy of open architecture. Moreover, at the end of 2011, we launched the EPB Flagship Fund, a fund whose management profits from the combined experience of our private bankers and which aims to offer our clients a return on investment independent of all benchmarks, with low volatility and preserving capital over the medium to long term.

[1] As mentioned under "Key events" item 2 above, it should be noted that the sale of KBL *epb* to Precision Capital S.A. has not yet been completed. The closing will take place as soon as all the conditions precedent provided for the sale (i.e. the regulators' approvals are obtained) are fulfilled. All the following statements made hereunder concerning co-operation with the future shareholder are made subject to completion of the sale.

All the investment strategies our private bankers offer our clients have first undergone an in-depth analysis which takes into account both the performance expected with regard to the level of risk that the investor accepts.

We want to assert ourselves as a *trusted employer*. To achieve this we offer an attractive career to private bankers who are the best in their field. With our ambitions, we want to continue to attract the best ones actively. We surround ourselves with professionals, skilled in all aspects of private banking, which allows us to provide the best support to optimise the work and performance of our private bankers.

We are convinced that in the coming years this private banking-centred model and our new financial partner will provide substantial growth opportunities in the years ahead.

2.3. EXPANSION BACKED BY OUR FUTURE SHAREHOLDER

The close collaboration of our future shareholder in the development of KBL *epb* from 2012 will open attractive opportunities for us which we intend to explore quickly.

With this in mind, we are preparing ourselves enthusiastically to develop and our policy of commercial expansion, be it by approaching new categories of potential customers in the countries where we are already present or by entering new geographical markets and by developing new types of services needed by these categories of customers. So that we have the means to pursue this policy, we plan to significantly reinforce our international marketing team.

We are also going to bolster our activities in setting up and managing investment funds and other financial products activities, in which we are already one of the leaders in Luxembourg.

With the support of our future shareholder we are going to target new markets and new categories of prospective clients in the very near future.

In this approach certain business lines will be able to mutually support and reinforce each other. Consequently Asset Management, which has been working for a long time in conjunction with Private Banking, will now find a much wider area of expansion. The same applies to Correspondent Banking and other financial services (Global Financial Markets) in which our Dealing Room has recognised expertise.

2.4. BUSINESS MANAGEMENT PROCESSES TAILORED TO REALITY

Following the turbulence of the financial crises of recent years, a proactive plan to cut costs was launched across the entire KBL *epb* network. We have remained cautious with regard to risk management and have aimed at guaranteeing our stability. Our credit risk is totally under control and we have a comfortable liquidity position. This cautious policy means that we are able to dispose of an excellent solvency ratio.

2.5. EMPLOYEE COMMITMENT

Our employees are the primary resource of our network. Building a relationship of quality with their clients is their prime objectives. We aim to enhance employees' efforts by promoting initiative and strengthening the feeling of belonging to KBL *epb* Group.

Further, through its cultural and corporate sponsoring, KBL *epb* encourages staff to take part in cultural, social and charitable activities.

3. THE HUB SERVICE CENTRE

In order to provide itself with the means to ensure the development of its European Private Bankers network, KBL *epb* has developed for its members a set of Information and Communication Technologies (ICT) and Operational services in Luxembourg grouped within the Hub Service Centre concept.

KBL *epb* wants to offer its members "state-of-the-art" facilities with regard to quality, flexibility, cost management, specialist ICT tools, back-office services, market execution and operational support through centralisation of these activities on a common platform.

The Hub in Luxembourg is based on all the tools and skills developed within KBL *epb* in Luxembourg and the whole KBL *epb* network over several years. It facilitates the optimisation of service quality for clients wherever KBL *epb* is present in Europe, while achieving high productivity through the systematic use of Straight-through processing.

This platform has been successfully implemented in France (KBL Richelieu Banque Privée), the United Kingdom (Brown, Shipley & Co), in Belgium (Puilaetco Dewaay Private Bankers), in Spain (KBL *epb* España) and in Switzerland (KBL (Switzerland) Ltd).

With an ITS strategy based on efficiency and added value, innovative solutions are deployed within the Hub ITS platform to improve the services provided to private banking activities. This was the case with the new installation in Belgium in 2012 (Puilaetco Dewaay Private Bankers) which could also benefit other members of the group.

On the Operational side, all KBL *epb* members are using (some fully, others partially due to local constraints) the common Hub platform. Various initiatives aimed at improving service efficiency and equality were launched in 2011 and will continue into 2012.

With the Hub, KBL *epb* has firmly focused on a new role, a high-quality proactive centralized service based in Luxembourg for European private bankers who seek excellence for their customers. Pooling processing capabilities and skills plus the flexibility of the architecture implemented make the Hub an essential tool to support growth and to optimise the quality of service, risk management and the cost base for KBL *epb*.

4. COMPLEMENTARY NICHE ACTIVITY

4.1. GLOBAL INVESTOR SERVICES

Beside our banking business, in Luxembourg we have a second core business closely linked to the specifics of the financial centre. Since 2007 our Global Investor Services (GIS) have been centralising all the services and skills in the Bank and making them available to non-private clients. The sectors are primarily those linked to the undertaking for collective investment (UCI) industry and to market-based activities for professional and institutional clients.

The GIS professionals, some 50 experts, provide tailor-made services to professional and institutional clients and offer them products developed within the Bank and more particularly within the Dealing Room, one of the last working ones in Luxembourg. They are assisted in their task by technical devices, such as the Hub's integrated operational platform and top-flight financial communication and information systems from Bloomberg and Reuters.

Investor confidence in collective investment products improved a little in 2011 and the strong downward corrections seen in August and September indicate a mixed future in store. Despite the drop in net assets due to the negative development of financial markets and the increased number of non-performing products being liquidated, OPC & Global Custody Services, experts in the field of administrative and banking services essential for the smooth running of the UCI of our professional and institutional clients, were not only able to maintain the loyalty of clients with whom new products were launched but were also able to extend business relationships to new entrants to the collective investment industry (for more details see 4.2. UCI below). The excellent evolution of non-domiciled funds on deposit with KBL *epb*, whose assets more than doubled in a year, should be noted.

Activities linked to our market skills and activities profited from great market volatility which provided good transactional volumes both for equities and foreign exchange and third-party intermediation transactions. Cross-selling with clients on deposit (funds and others) increased 150% mainly in short-term government bonds which were seen as alternatives to cash deposits, especially during the first six months of the year.

The GIS teams worked with IT on developing the transactional side of our internet application, eKBL. It went into production in the fourth quarter of 2011 and the number of clients wanting to place cash and securities orders using eKBL has not stopped increasing since. Other changes were made to the application, notably improvements in the reporting tools and, since the end of 2011, we have been able to offer our clients a complete solution for placing cash and securities orders. Our teams continue developments and are working on links between eKBL and the automated corporate actions project (CAMA) and the Asset Management Portal tool which will make it possible to follow portfolio developments in real time thanks to detailed information on the financial markets.

4.2. UCI

4.2.1. Despite the crisis, Luxembourg is still Europe's number 1 for UCI

After two years of recovery following the 2008 crisis, which resulted in a record volume of net assets at the end of 2010, the Luxembourg investment funds sector again suffered the

full force of the turbulence on financial markets in 2011. At the end of November 2011, net assets in the financial centre of Luxembourg fell by 6% to reach some EUR 2,059 billion against EUR 2,199 at the end of 2010.
Despite the sluggish environment and the significant negative market effect resulting in a loss of EUR 148 billion in net assets, it is interesting to note that up to the end of November 2011 there were more subscriptions than redemptions. Promoters from an increasing number of countries launched 166 UCI structures or 391 sub-funds. Luxembourg is thus defending its No. 1 position in Europe and with its 3,833 structures and 13,328 sub-funds it remains, after the USA, the world's second market for investment funds (figures for the end of November 2011).

Through various initiatives (ALFI (Association of the Luxembourg Fund Industry), LFF (Luxembourg for Finance)) the financial centre of Luxembourg is continuing to promote itself in Asia, the Middle East and Latin America; territories which are becoming not only distribution markets of prime importance for the sector but also producing an increasing number of investment fund promoters. We should remember that today the Top 3 countries (market portion in % of total net assets) for promoters are the USA (23%), Germany (17%) and Switzerland (16%).

As was the case in previous years, 2011 was marked by the continuing success of alternative funds in the form of venture capital investment companies (SICAR - Sociétés d'Investissement en Capital à Risque) (273 companies at the end of November 2011 against 244 one year before) or Specialised Investment Funds (SIF). The SIF, a flexible but regulated private equity investment vehicle introduced five years ago, again did well: 174 structures were launched up to the end of November 2011, an increase of 15%. The majority of them are funds which follow an alternative investment strategy in the wide sense: property, non-listed companies, hedge funds, micro-finance, new energy, socially responsible investments, etc.

In regulatory terms, the following were on the agenda:

- The AIFM (Alternative Investment Fund Managers) Directive regulating the managers of alternative vehicles and indirectly also alternative funds was adopted in November 2010 and entered into force on 21 July 2011. It has to be transposed into Luxembourg national legislations by 21 July 2013 at the latest.

- The implementation of the new requirements of the European UCITS Directive, commonly known as "UCITS IV". To recap, according to the Law of 17 December 2010, Luxembourg was again the first country in the EU to transpose into its national legislation the said Directive which deals with subjects such as cross-border fund mergers, master-feeder structures, the management company passport, the simplification of the notification procedure and a new version of the simplified prospectus, known as KIID (Key Investor Information Document).

4.2.2. Evolution of assets managed by KTL

KTL is a 100% owned subsidiary of KBL, which is specialized in asset management and UCI administration services. In a difficult global and unstable financial environment, to which a change of shareholder is to be added, net assets remained at a very satisfactory level of EUR 32.2 billion for 88 UCI totalling 704 sub-funds. A considerable number of new business relationships with promoters with very different backgrounds also started in 2011.

4.2.3. European Fund Administration

Since 1998 KTL, as the central UCI administration entity, has subcontracted its management accounting and investor register management functions to a specialist company called European Fund Administration (EFA), of which KBL *epb* is the majority shareholder. At the end of 2011, EFA was managing over 2,727 sub-funds containing total net assets worth EUR 85 billion for 226 clients.
EFA Private Equity, the business line handling services for real estate funds and Venture Capital / Private Equity, took its position as market leader. At the end of 2011, EFA Private Equity was providing services to 90 sub-funds for the equivalent of EUR 7.1 billion. Since 2011, hedge funds and funds of hedge funds have been regrouped under a new business line, EFA Hedge Fund Services.
Finally, there are many ongoing developments at EFA to offer ideal solutions in the context of the new opportunities provided by UCITS IV and AIFMD (KIID, risk management, eligibility services...).

"Obstinacy is the path of success."

- Charles Chaplin

Non-consolidated Management Report

Non-consolidated Management Report

1. GENERAL BALANCE SHEET PERFORMANCE

(For detailed figures, please refer to the Annual Accounts).

At the end of the 2011 financial year, the total balance sheet amounted to EUR 11.4 billion and had slightly increased versus the end of 2010 (EUR +0.3 billion).

In the context of the upcoming sale of KBL *epb* group from KBC Group to a Qatari-owned Luxembourg entity, most of the intragroup exposures with KBC Group have been reimbursed and not renewed which resulted in lower available-for-sale assets EUR –1.4 billion and lower (unsecured) interbank credits EUR –1.2 billion. On the other hand, the Bank has increased its (secured) interbank reverse repos activity (EUR +1.9 billion), deposits to central bank (EUR +0.5 billion) and loans to customers (EUR +0.3 billion).

The ratio of liquid assets to short-term debts remained strong (64% versus 30% minimum). The solvency ratio on a non-consolidated basis remains a comfortable 39.1% (Core Tier One ratio is 32.4%).

2. DEVELOPMENTS IN NET COMMISSION INCOME AND THE NET INTEREST MARGIN

The net commission income decreased by 7% in the unstable economic environment and the increased lack of investor confidence. There was a similar decrease in the net interest margin (8%), which is both the result of shortened maturities and an increased volume of secured interbank deals.

3. FALL IN DIVIDENDS

Dividend income has decreased by 7%.

4. OTHER NET INCOME

Lower foreign exchange results and lower realised gains on the held-for-trading portfolio was partially offset by the capital gain realised on the Hybrid Tier One reimbursement (EUR 43.3 million) and some available-for-sale portfolios.

5. CONTAINMENT OF OPERATING EXPENSES

Staff expenses fell significantly (-24%) mainly due to the restructuring plan implemented at the end of 2010.

6. IMPAIRMENT OF PARTICIPATING INTERESTS

The annual impairment test led to a write-down in the value of three consolidated holdings: KBL Richelieu Banque Privée, KBL Beteiligungs and Theodoor Gilissen Bankiers for EUR 160.6 million.

7. DEFERRED TAX

The Bank recognised EUR 6.5 million of deferred tax assets for losses carried forward.

8. 2011 NET RESULT

Further to the above elements, the Bank recorded a net loss of EUR 29.3 million.

"The journey is a return toward the essential."
- *Tibetan*

Annexes

Annexes

Annex 1

MINORITY SHAREHOLDERS AND TREASURY SHARES HELD

As at 31 December 2011, the number of shares:

- still held by minority shareholders totalled 17,562 (10,474 ordinary shares and 7,088 preferred shares), representing a total of 0.09% of the Bank's capital; and

- held in the Bank's portfolio totalled 844 (844 ordinary shares and zero preferred shares), representing a total of 0.004% of the Bank's capital.

Annex 2

COMPLIANCE RISK

Compliance is responsible for implementing all measures designed to prevent the Bank and the group from suffering damage or loss, whether financial or otherwise, due to a failure to comply with regulations in force.

The KBL & Group Compliance encompasses all the tasks, including identifying compliance risks and dealing with them, the implementation of an awareness-raising policy, corrective measures, internal reporting and relations with the Public Prosecutor and the CSSF in the field of Anti-Money Laundering. It actively helps the managing bodies in risk management and control.

Its major areas of intervention are:

- the fight against money laundering and the financing of terrorism;
- investor protection (MiFID, Market Abuse, customer complaints, ...);
- professional ethics (codes of conduct, compliance manuals, ...) and the fight against fraud;
- data protection (including banking secrecy).

The threefold role of advice, prevention and control in these various areas of intervention form the core work of Compliance. The latter also monitors compliance risks and their management across the whole KBL *epb* network. Within this framework a Corporate Governance Charter for the controlling bodies in the group was adopted in 2011, again strengthening the functional link between local bodies and those in Luxembourg.

Furthermore, Compliance was attached directly to the President of the Bank, underlining if this were necessary, its

weight and access to the group's managing bodies.
Its staff was also reinforced in 2011.

2.1. ADVICE AND PREVENTION

In 2011 Compliance continued its advisory and support role for the various business lines, especially within the framework of the Bank's current activities. It has become a regular support for commercial actions and the questions which may arise from them. It is involved in the Bank's client acceptance and revision procedure.

It should be noted that the Committee on the Authorisation and Supervision of Financial Products (CAS), of which Compliance is a permanent member, meets monthly to approve new products which are being offered to clients. Informing clients so that they can understand the products and make an informed investment decision is the main point of this process which uses brochures or term sheets to clarify the products' characteristics and risks.

In 2011 apart from being available to answer questions of interpretation and its constant monitoring of the subsidiaries, Compliance Advice and the Money Laundering Reporting Officer (MLRO) paid particular attention to the following fields:

- carrying out Compliance Awareness programmes across the KBL *epb* network. This programme is principally based upon a systematic and structured multi-annual approach with more or less frequent and more or less extensive training sessions depending upon the extent to which the persons concerned are exposed to Compliance risks. The programme is accompanied by regular information for employees and managers on Compliance risks according to what is topical (internal or external);
- providing training sessions (face-to-face and e-learning) based on the key themes of this legislation to the employees who are most concerned by those topics;
- giving reminders of the principles of investor protection by means of e-learning to the employees who are most concerned by this topic.

Within the framework of CSSF circular 11/519, KBL *epb* carried out a thorough analysis of the risks of money laundering and financing of terrorism.

2.2. CONTROL

Compliance continued to maintain its role in this area. Its control framework is an important part of the Bank's general internal control framework. In addition to refining and strengthening certain tests, the Compliance Control Unit continued to oversee its Compliance Monitoring Programme (CMP). This tool maps Compliance risks and is designed to check on a regular basis that these risks are under adequate control. If appropriate, suggestions for improving the plan are put forward.

Performance of these checks and balances by our subsidiaries was also monitored from Luxembourg. Where appropriate, support was also given to certain group bodies.

After several years of effort, country by country, specialized anti-money laundering software (SIRON) is now in place in most KBL *epb* group subsidiaries. This solution seeks to improve the review process for the group's clients, whether new or existing, both by analysing client behaviour (before and after) and by comparison with international lists of persons subject to legal action or restrictive measures.

Finally, the context of the financial crisis had the secondary effect of developing external fraud attempts through falsifying payment instructions. The Bank is constantly adapting its control procedures and making staff aware of the need to protect clients.

In general, 2011 also saw Compliance procedures strengthened within the group with regular forums and exchanges of information with the Compliance Officers in our European network.
This has made it possible to share new group standards for AML, conducting business and fighting against corruption.
Group Compliance carries out regular checks in the group's various subsidiaries.

Annex 3

RISK MANAGEMENT

3.1. MISSION AND ACHIEVEMENTS 2011

In 2011 Risk Management changed its name to Risk Control to reflect better its role. The term Risk Management indicates a transversal process of managing risks which involves all the Bank's (and Group's) bodies at different levels and not only "groups of experts" in risk matters who are pooled together in bodies often called "Risk Management".
The first level of risk management is carried by the bodies generating the risks. These bodies, whether front or back office or support, retain the primary responsibility and accountability for managing on a daily basis the risks they generate, as for managing their clients, income, expenses or human and material resources. The carry out first level controls whose results and/or exceptions are escalated to the management of these bodies and second-level bodies and thus form the Bank's first line of defence.
The latter comprise four types of body according to their specialisation: risk control/risk management bodies operate at the second level of managing financial risks (credit risks, ALM, liquidity, trading...) and non-financial risks (Client risk, operational risk, business risk...) for the Bank, as described here. Compliance, described in the previous section, is responsible for second-level management of compliance risks. Other second-level control bodies comprise Finance and Human Resources.
The internal audit is the third level of risk management, external audit being the fourth and the regulatory and supervisory authorities the fifth and final level.

In 2011 Risk Control also helped draw up the remuneration policy, in response to the requirements of CRD III and CSSF Circulars 10/496 and 11/505.

At the end of the sale process, KBL *epb* will again find itself in a position to exercise the role of parent company of an international group. Consequently, Risk Control launched a project to implement a completely autonomous risk governance adapted to the group's specific businesses. This will involve the updating and adaptation of the risk control charter for the group's entities and for local entities, formalising the principles, responsibilities, rules and lines of conduct for risk management. The aim is also to produce a risk map (a taxonomy of the main risks in our core businesses) and a risk framework by risk "silo". These "founder's" documents could be adapted if necessary, to the modulations in the strategy wanted by the new shareholder, after the closing of the sale.

In tandem with this KBL *epb* continued to prepare its separation from KBC Group, while managing risks prudently. The parent company's Asset and Liabilities Committee (ALCO) which was set up in Luxembourg at the end of 2010 met monthly to take over balance sheet management in collaboration with the seller (KBC) and the buyer. Measures have been taken so that, on the closing date of the sale to Precision Capital S.A., the Group will respect the limits of the Large Exposures on our ex-shareholder. All sovereign exposure to the PIIGS countries was closely analysed and monitored. It fell sharply over the period on the back of major redemptions and some sales. As at 31 December 2011, the global nominal exposure was no more than EUR 283 million, of which EUR 39 million was to Greece (EUR 9 million net of provision), EUR 21 million to Portugal, EUR 2 million to Ireland, EUR 83 million to Italy and EUR 138 million to Spain. Investment portfolios, including a private equity portfolio and all CDOs, were also sold at the beginning of 2011.

Certain ALM portfolios with a sovereign risk came to maturity and a growing part of surplus and structural liquidity was invested in short-term secured interbank loans or with the Banque Centrale du Luxembourg.

As mentioned in the 2010 annual report, on 1 January 2011 the Bank implemented a stand-alone Group insurance programme. The amounts of cover are slightly less than those that we benefited from as a member of the KBC Group and the excess has been raised to cover tail risks more effectively at approximately the same price.

Furthermore, while continuing the regular reports to KBC Group, we have pursued our own developments to become totally independent in other fields after the sale. Our own methodology for defining risk appetite has been validated by the Executive Committee. This will be expressed in limits by activity and subsidiary after the closing of the sale with the new shareholder. The same applies for work aiming to replicate with our specifics the VaR calculations in ALM in the banking book and the calculations of new liquidity ratios (LCR and NSFR).
An EROC calculation has been implemented. In operational risk and following our non-integration into KBC Group's new risk framework we continued the implementation of a database of operational principles which should replace and complement the "Group standards" in the short term.

Aware of the fact that after the sale our Group will be "stand alone" and concentrated on a limited number of core activities (mainly private banking and global custody), that risk management methods must be proportionate to the size and complexity of the activities and that one of the main objectives is that they must be easy to assimilate by Management and the Bank's various bodies, the choice was made to simplify methodologies compared to those in force within KBC Group, in particular at credit and trading risk level. Since the end of 2009 when KBC Group announced its intention to sell KBL *epb* the project to implement the IRB Foundation method for calculating credit risk has been suspended since continuing with it meant major investments in terms of specialized human resources and IT developments and extending the scope of the bodies concerned. With a view to the current refocusing on core business, reducing "ancillary" activities and deleveraging the balance sheet, the bank does not intend to relaunch the project. For the second pillar of credit risk, the Bank will also abandon KBC methodology after the sale to concentrate on an "adapted pillar 1" approach. As for tools to detect trading risk, our intention, as announced to the regulators and mentioned in the 2010 annual report, is to return to the methods used before KBC imposed an HVaR on us. Apart from the methodological limitations of this measure, developing and maintaining the IT systems are out of all proportion to the trading activity necessary to support our core business. In the second pillar, the HVaR will also be replaced by the market risk measure of pillar 1.

During 2011 we continued refining controls on private banking at Group level and on Global Investor Services (GIS) in Luxembourg.

Although little recognised or practised by retail and commercial banks, controls linked to the assets deposited by clients, discussed under Client Risk Management below are essential activities for Risk Control bodies in a private bank. As the current crisis has demonstrated, these controls are all the more important since the notion of non-risky and risky can change very quickly. Globally our private clients have very little direct exposure to sovereign risks in peripheral countries. If the accent up to now has been on detecting a particular concentration or securities/debtors at risk in the portfolios, in 2012 we will strengthen the system of alerts on signatures whose credit risk is deteriorating.

At the level of structured products sold to private clients, the standards applied by the Group are very strict and in line with the reinforcing of legal requirements which are emerging in most countries and at a European level. All decisions on accepting new issuers are centralised within a special committee in Luxembourg. We have restricted the issuers mainly to certain systemic banks and modulated the issue volumes according to issuer. Particular attention is paid to the information documents of potential investors. Risk Control also took part in setting up the bank's issue programme for itself. On the other hand in application of CSSF circular 11/512, a complete report on the risk management process for UCI management activities in Luxembourg was presented to the CSSF by KTL Management. The head of Risk Control at KBL *epb* is now also a member of the Risk Committee for this at KTL.

Furthermore for subsidiaries with significant investment fund management business, a report of the main risk indicators is henceforth drawn up by the local Audit, Compliance and Risk Committees.

As regards Global Custody, the Bank actively manages its risk exposure to sub-custodians which has meant it leaving certain of them, in particular in the context of the sovereign debt crisis. The annual report on the monitoring of custodian banks and counterparties has been updated by Operations and has been discussed with the general managers of the business lines concerned, of Compliance and Risk Control. It will be sent to the CSSF in 2012. This report is testimony to the importance that we give to the permanent monitoring of our custodian network.

In 2011 the risk management scope remained the same, except for the closure of the branch in Poland, the monitoring of which used very little of our resources. Certain subsidiaries however had major developments and required intensive monitoring from the Risk Control teams in Luxembourg. To meet the growing demands of local legislation, BSCo in London strengthened its Risk Control team and procedures. The members of the Executive Committee, senior management and the BSCo Board of Directors were subject to "arrow" visits from the regulator which led to a series of recommendations, implemented in record time. As well as a particularly thick ICAAP 2010 report, BSCo also produced an Internal Liquidity Adequacy Assessment (ILAA) report for the first time, the equivalent of the ICAAP report for liquidity risk.

They also developed a first reverse stress test, a scenario to make management aware of fatal risks for the institution. In The Netherlands TGB's Risk Control team made large contributions to a dozen risk management optimisation projects which went well. In Switzerland and at the request of the new management, a consultant was brought in to redefine all first and second level controls. The conclusion is expected in 2012. In Luxembourg the KBL *epb* Risk Control teams where involved in the improvement of the risk framework at Vitis Life, the Group's insurance company, mainly in the areas of ALM, credit risk, operational risk and the "Solvency 2" case.

At team level and following the implementation of new governance rules regarding the resignation/recruitment/mobility of local Risk Control staff, the head of Risk Control in Luxembourg intervened in personnel management in the subsidiaries, in particular at TGB, Puilaetco Dewaay Private Bankers and KBL Richelieu Banque Privée.

3.2. STRUCTURE AND ORGANISATION

Since February 2009 the Risk Management structure of KBL *epb* has consisted of four departments with a total of 32 FTE:

- Operational Risk Control, with 8.3 FTE, responsible for monitoring operational risks (3.6 FTE) and Process Management (4.7 FTE). The main tools for monitoring operational risk are incident analyses recorded for the whole Group in a common tool (Loss Event Reporter), the Group's operational risk standards, Risk Self-Assessments and Case Studies. It is also in charge of managing the insurance programme for the whole KBL *epb* Group. Process management aims to implement a coherent and exhaustive body of transversal procedures, mainly for the parent company, but also for certain branches/subsidiaries which use its services. This department was integrated into Operational Risks in January 2011 in order to develop certain synergies between the two activities. The tools used by Group Process Management will also be used for new developments in the field of operational risk. To favour logistical synergies, the development and maintenance of the BCP programme for KBL *epb* was transferred to Buildings and Logistics at the beginning of 2011.

- Market Risk Control, with 6 FTE, is responsible for the methodological monitoring of market risk issues in the KBL *epb* Group. The department monitors ALM and liquidity risk issues, and leads the ICAAP process of the Bank (pillar 2 of Basel II). It also provides support to subsidiaries in accordance with local regulatory requirements. Lastly, it is within this entity that new controls are developed regarding potential risk in client portfolios.

- Credit Risk Control, with 3.8 FTE, is responsible for monitoring credit risk for the KBL *epb* Group. It includes the former Financial Analysis department, which until the end of 2008 was part of Corporate Banking. Credit risk mainly results from Lombard loans granted to private clients, credit facilities arranged for investment funds, bond investment (FRN and SAS) portfolios and uncommitted bank lines, covering counterparty risk. It monitors the Group's country and sovereign risks.

- Middle Office and Collateral Management, with 11.7 FTE, is in charge of recurring level 2 controls of the Markets Function. This essentially involves:
  - checking the integrity and reliability of positions and trading results and the reporting of these;
  - controlling the usage/overruns of limits and monitoring and consolidating residual trading risk of subsidiaries;
  - monitoring counterparty/country risk (unconfirmed lines);
  - managing the Bank's collateral in relation to Repos, Securities Lending and Derivatives, in addition to monitoring the quality of guarantees received from counterparties under framework agreements.

The total number of Risk Managers in the affiliates is approximately 27 FTE. At Merck Finck & Co, Theodoor Gilissen Bankiers and more recently Brown, Shipley & Co, there are up to 5 FTE. The other teams are much smaller (3 FTE on average). Given the more standard activities within subsidiaries and the non-materiality of some risks (absence of trading activity, minimal ALM and liquidity risk and limited credit risk), most resources are dedicated to the management and control of client risk and operational risk.

3.3. RISK APPETITE

The KBL *epb* Group sees itself as a specialist group of pure-play private banks generating minimal proprietary risk.
This risk aversion is based on the following four principles:

1. A global strategy aimed at reducing the volatility of net earnings and ensuring steady earnings growth that also generates significant liquidity.

- Over the past 10 years, the Bank has built up a network of banks in 9 European countries, enabling it to benefit from geographical diversification and to be present in markets which are at different stages of development.
- Growth is guaranteed at the local level through the takeover of small banks or the recruitment of private bankers attracted by our business model of pure-play private banking.
- This expansion has taken place onshore, a steady growth market, while offshore, which represents the historical base of KBL *epb*, has been undergoing consolidation for a number of years. Onshore entities act as the safety net for clients looking to exit offshore markets. In just a few years, the proportion of onshore to offshore has shifted towards the former.
- Over the years, the Group has encouraged the development of asset-based fees rather than transaction-based fees. Discretionary management, advisory, UCI investment and unit-linked life insurance products (branch 23) satisfy this need for stable overall income.
- The core businesses of private banking and GIS are natural sources of liquidity. Structurally, the Group is a net lender on the financial markets. In the absence of regulatory constraints, subsidiaries transfer their liquidity to KBL *epb*, which reinvests on the market. KBL *epb* prefers secured reverse repo transactions or investments with the Banque Centrale de Luxembourg. When counterparty risks become acceptable again, the Bank can reinvest in unsecured with good quality banks. Limits are monitored closely. The Bank also has considerable room for manoeuvre to obtain additional liquidity by converting eligible portfolios into liquid assets with the BCL or on the repo market. As well as reinvesting excess cash in interbank investments, the Bank in Luxembourg has also built up a portfolio of investment grade bonds, very diversified, essentially denominated in EUR which are swapped in floating rates and financed by short-term cash. Most of these positions, whose issuers are sovereign, banking and financial institutions and companies, are eligible at BCL.

2. For the subsidiaries, the overall strategy focuses on eliminating non-core activities and reducing business risk.

- All bond and share trading activities have ceased. Current trading positions are simply a natural result of client activity, mainly in forex and treasury.
  Tactical ALM positions have been frozen or sold and only limited positions remain which will come to maturity in the coming years.

- Pure corporate lending has been discontinued and is now geared towards private clients as an ancillary service. Most of the exposure is secured either by portfolios (Lombard loans) or by real estate (mortgages) owned by the customers.

- Subsidiaries now focus purely on B-to-C services through global custody, market and ICT support services offered by Hub teams operating centrally in Luxembourg. The Group platform, Globus, while suited to local requirements, helps to standardise the main processes of support and control of activity.

3. The overall strategy seeks to limit the risks of the non-core activities of KBL *epb* in Luxembourg.

- lending, one of the historic activities of KBL *epb*, was restructured in 2009 to focus on ancillary products for private clients and, to a lesser extent, GIS clients. The pure loan portfolio activity has been refocused by abandoning several niche activities, such as structured products and private equity.

- ALM positions in Luxembourg are limited and are essentially structural positions for reinvesting free capital and stable deposits at fixed rates.

- Trading positions in the Luxembourg Dealing Room are closely monitored and largely result from client activity. Classic instruments are used, and the derivatives activity is limited. Most client bond and equity transactions are settled on a Delivery Versus Payment basis. Forex and treasury credit risk is generally covered by netting agreements (ISDA and CSA) Securities lending transactions to GIS clients and their counterparties in the market are also covered by MSLA/GMSLA.

4. Lastly, this strategy also seeks to minimise inherent non-financial risks.

- Over the years, the Bank has developed a strong internal control culture. The segregation of duties and structuring of organisations, the introduction of work procedures and processes, the general "four eyes" principle, the double registration of risk-bearing operations, the registration of transactions as closely as possible to the instructions, the performance of audit assignments covering all activities on a regular basis, the introduction of a complete compliance framework supported by testing on a sample or exhaustive basis and the introduction of operational risk standards and Risk Management controls are just some aspects of supervision at KBL *epb*.

In 2011, KBL *epb* developed a framework to express and quantify its risk appetite. It has been discussed with certain subsidiaries which have adopted it in particular in connection with the local ICAAP. At Group level, this concept which must be discussed in connection with the strategy and approved by the Board of Directors will be set out in limits by activity after the closing of the sale and the forming of the new Board of Directors.

3.4. RISK MANAGEMENT

As mentioned in the first part of this section, while the business lines (either front office, back office or support entities) retain the primary and main responsibility for managing their risks, Risk Control contributes at the second or third level, to the overall management of the risks described below. Risks are generally monitored on a monthly basis, depending on the entity, by dedicated risk committees or by the local Exco. An exhaustive quarterly review of the risks of KBL *epb* and of each subsidiary is carried out by the local Executive Committees and by their respective Audit, Compliance and Risk Committees (ACRC), which report to the Boards of Directors. These risks are also subject to a global evaluation through the ICAAP process for most entities, which is touched on at the end of this report.

3.4.1. CLIENT RISK MANAGEMENT

Client risk refers to clients' dissatisfaction when the Bank fails in its professional obligations in the wide sense, without this necessarily being an operational error or non-respect of contractual clauses. It manifests itself by a complaint or a breaking of the business relationship with the Bank (withdrawal of funds) with the subsequent loss of income.

In our core business of private banking, Client Risk Management consists of identifying the portfolios of clients who could be exposed to an unwanted risk, ensuring that the client is aware of it and that solutions have been proposed. This risk can result from a sudden change in the markets, for example the higher correlation between the various asset classes during the financial crisis, or a deterioration in risk linked to certain types of securities. It can also result from progressive risk taking by the client which no longer ensures the sufficient diversification of his portfolio required by his risk profile.

In our Group, Client Risk Management has always existed, but was mainly focused on discretionary managed portfolios, and adapted to the local situation. Depending on the subsidiary, the contracts signed with clients more or less stipulate various investment limits (by type of instrument, region,) which can increase the Bank's liability if the allocation is not respected. Therefore, Risk Management carries out its own level 2 or 3 control (if another entity handles it) on a regular basis (often monthly) to ensure that the allocation criteria are being met and that any overrun is justified or corrected. Another type of control is also carried out to verify whether the individual securities placed in portfolios under management are actually on the list of recommended securities and that any exceptions are justified and disclosed to the client concerned.

In addition, during the financial crisis in late 2008 and 2009, many clients suffered unexpected losses linked to extreme market conditions or even fraud. Some financial institutions were heavily penalised, being forced to pay for risks originally taken by their clients. Quick to learn from the crisis, the Bank has responded with two initiatives:

- In 2011, Risk Management was tasked with better structuring the controls dedicated to client risk. In this way any risk exposure identified is analysed in terms of its weighting in the client's portfolio in order to assess its potential impact on the performance/valuation of that portfolio. Any genuine risk is reported to the commercial entity which then decides whether or not to contact the client in order to resolve the situation.

- Structured products are permanently supervised and controlled by the Committee on Authorisation and Supervision of New Products (CAS) in Luxembourg, set up at the end of 2008. These products, which are offered to a selected number of the Group's clients, must now obtain formal approval before being sold. The primary role of this committee is to strengthen checks and transparency for all the underlying risks (market, credit, operational, legal, etc.) of these structures. The permanent members of this committee come from Risk Management, Financial Markets, Compliance, Legal, Wealth Management and KTL Asset Management, as well as Marketing.

More specifically, one of the principal objectives is to ensure that all documents sent to clients allow them to have an understanding of the workings of these products and to ensure that they match their risk profile.

Issuers of structured products sold to our customers are individually validated by the CAS, after detailed analysis conducted by Risk Management, which is also in charge of a specific monitoring, to ensure that the credit risk linked to the issuers remains acceptable.
In consultation with the Dealing Room and Marketing, Risk Management awards a risk score to each product launched.
The Committee meets monthly or whenever one of its members requests it, and is chaired by the member of the Executive Committee responsible for Wealth Management. The minutes are circulated to all BU entity members as well as to the Group Internal Audit.

3.4.2. OPERATIONAL RISK CONTROL

Operational risk under Basel II is the risk of direct or indirect losses resulting from inadequate or failed internal procedures, people and systems or from external events. In all KBL *epb* companies, the Operational Risk methodology adopted is the standardised method under Basel II/CRD. For 2011, the capital charge was EUR 69 million (average for 2008-2010).

The methodology is mainly based on the following pillars:

- Gathering and analysis of operational incidents in a database available to the entire Group and referred to as the "Loss Event Reporter". Challenging at local level of the entities responsible for these incidents (and at consolidated level, for incidents exceeding EUR 25,000) and the setting up of action plans resulting from these analyses and performance monitoring. Drawing up of incident statistics by entity/activity/type of incident and comparison with gross income.

- Analysis and implementation of Group operational risk standards covering a wide range of Group activities. Due to the sale by KBC Group, the CORRS (Common Operational Risk Rules System) project was launched to centralize all operational risk rules for the KBL *epb* Group in a common tool allowing the users to access these rules through different views. In 2011 we concentrated on developing rules for our core business of private banking.

- Identification and measurement of risks and evaluation of the controls through risk matrices prepared for each activity during Risk Self-Assessment sessions. Based on the risk matrices prepared by Audit, this exercise has been successfully implemented for KBL *epb*, although it is still at various stages of development in the majority of subsidiaries.

- A specific examination of external incidents/events through a case study. In 2011, several case studies were launched, mainly in private banking throughout the KBL *epb* group after an incident affecting KBL *epb* or a subsidiary.

The key principle applied here is that ORM remains the prime responsibility of the various business lines which form the first line of defence. To assist the Business Management in managing these risks and to ensure sound interaction with Risk Management teams (CORMs), a network of local operational risk managers (LORMs) has been set up within the operational units. The LORMs monitor compliance with procedures, the performance of self-assessments and compliance assessments based on Group standards. At KBL *epb* and in some entities, LORMs are the department/division heads, which afford better visibility and management of operational risks.

In each key entity, an Operational Risk Committee (ORC) supervises the operational risk management process and takes the necessary decisions. It issues instructions to the local Operational Risk Management entity (CORM). Each member of the KBL *epb* network implements this structure at three local levels (ORC – CORM – LORM). KBL *epb*'s Operational Risk Control department plays a key role in the launch and consolidation of initiatives at the level of the subsidiaries.

Residual operational risk is covered by insurance policies. Since 1 January 2011, due to the sale by KBC Group, a new KBL *epb* group insurance programme has been in force. This new programme covers the various entities of the KBL *epb* group for the same type of risks as those covered in the previous KBC Group insurance programme. The Operational Risk Department of KBL *epb* centralises and files damage claims for the whole Group.

A Business Continuity Plan (BCP) designed by the BCP Manager has been in place for a number of years. With the aim of encouraging synergies with Logistics in charge of the first intervention level in the case of a major disaster, the Business Continuity Manager was transferred to this entity in February 2011.

Since January 2011, Process Management has been integrated into Operational Risk Control. Process Management is mainly responsible for creating and implementing transversal procedures by means of their modelling in the MEGA tool. At the end of 2011 the transversal procedures for the Bank's critical processes had been modelled in MEGA and published on the Bank's Intranet site.

Synergies have been developed to optimise operational risk management since the inception and the modelling of the processes.
MEGA will also be used as a platform for the CORRS tool developed to centralise the operational rules/principles which will be applied in the KBL *epb* group to mitigate the occurrence of operational incidents.

3.4.3. CREDIT RISK CONTROL

Proprietary credit risks covered by the Credit Risk Control (CRC) mainly originate from:

- private banking in the form of Lombard loans (Luxembourg and subsidiaries) and to a lesser extent mortgages (particularly Theodoor Gilissen Bankiers);

- granting of uncommitted lines to GIS clients in Luxembourg (mainly UCI) to cover temporary overdrafts;

- bond portfolio/international credit, in the form of liquid FRN and SAS, earmarked for gradual run-off in certain niches since late 2008;

- positions in ALM portfolios (mainly government);

- uncommitted lines covering the trading activity and counterparty exposure with banks (forex, money markets, swaps, reverse repo, securities lending, derivatives, etc.).

Since 2009 Credit Risk Control's sphere of control has been extended to all credit risks for private and institutional clients. Since 2010, the CRC has been directly involved in the monitoring of credit risk in custodian banks and in updating acceptance criteria for securities used as collateral in securities lending and repo transactions. Like other Risk Control departments in Luxembourg, CRC has also stepped up its level 3 supervision and advisory role for local divisions within our subsidiaries. The consolidated credit portfolio report now covers all subsidiaries and provides a detailed picture of the activity and credit risk of each one.

At a regulatory level, all KBL *epb* group entities use the standardised method under Basel II to calculate credit risk. The project begun in 2005 aimed at adopting the IRB Foundation method by 2009/2010, steered by KBC Group, was suspended after the announcement of the sale of KBL *epb* by KBC Group.
It should not be relaunched given the Bank's refocusing on core business.

In the context of the KBC divestment process, Credit Risk Control has developed its own tools for Bank analyses, and implemented its own systems for Bank and Country limits, approved by the Executive Committee. These systems allow the definition of limits adapted to the size of the Bank and its risk appetite.

3.4.3.1. Credit Allocation Decision Making

In Luxembourg, as in our subsidiaries, all lending decisions are the responsibility of the Executive Committee or one of the other competent bodies designated under the delegation of authority based on specific criteria. This delegation of powers always requires the involvement of at least two people from different entities, to ensure that there is no risk of any conflict of interest. All decisions taken on the basis of a delegation of powers must also be reported to and approved by the senior body.

For KBL *epb*, each new credit proposal in terms of bond portfolio/international credit is accompanied by an opinion issued by Credit Risk Control, based on an analysis of the financial situation and creditworthiness of the borrower. For any new investment in a corporate, an internal rating is still assigned and used as a reference when delegating authority. For banks and governments, the internal ratings established by the KBC analyst teams are still used as a reference. They are gradually being replaced by external ratings published by the agencies.

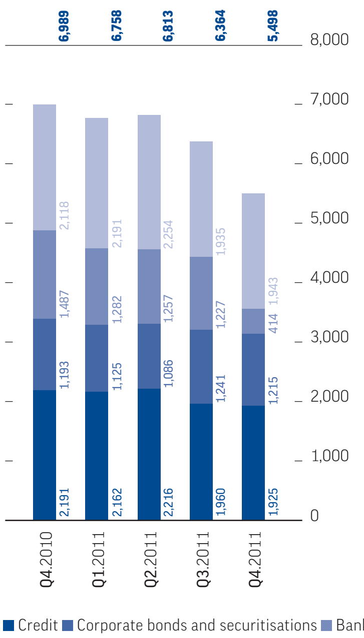
3.4.3.2. Breakdown of loan portfolio

As at 31 December 2011, 71% of the global portfolio was concentrated in Luxembourg (KBL *epb* and Vitis Life, the latter being included since Q2 2010). This is due to the traditional activity of bond investment and international credit and the ALM portfolio. Lending to private clients (mainly Lombard loans) and to investment funds, alongside the Bank's core activities, has remained a pillar of the business. Bond investment in KBL *epb* is limited in terms of the amount of new business and minimum quality: the portfolio is being renewed with international institutions/governments, national companies and utilities, and good quality banks and corporates. Loan portfolios linked to structured products were stopped in 2009 and the securitisation portfolio has been in run-off mode since. In 2011 the Bank nevertheless decided to invest in the most senior tranche of a Belgian mortgage securitisation originated by KBC Group.

The distribution by country of origin of the debtor/guarantor shows that borrowers from European countries which make up the natural sphere of activity of the KBL *epb* group, represent 85% of the consolidated portfolio. 9% are supranational issuers. US accounts make up 4% (3% in 2010), with only 2% from other geographic areas (3% in 2010).

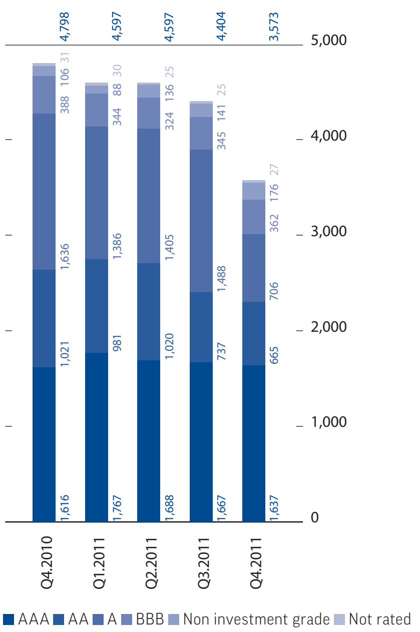
The following chart illustrates the quarterly growth in loans outstanding by type since the end of 2010. There has been a steady contraction in total loans outstanding, given the maturity dates of secured ALM portfolios, run-off portfolios, reduction in KBC Group outstandings below the Large Exposures limit and the cautious policies towards new loans in the bond/international credit portfolios.

CREDIT PORTFOLIO - PRODUCT BREAKDOWN
Credits and investment bond portfolios - in EUR million



The portfolio of highly-rated government bonds, largely European, remains one of the most significant asset classes. If we add to this corporate bonds and securitisations and bonds issued by banks, the vast majority of which have an external rating, we obtain the following rating distribution:

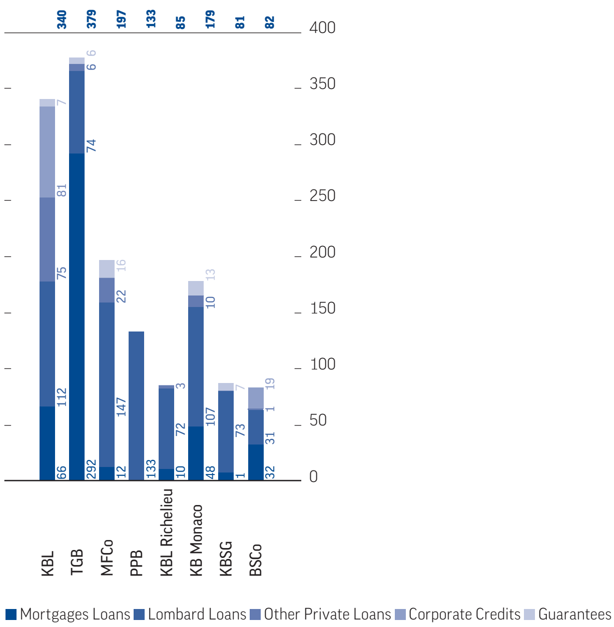
CREDIT BOND PORTFOLIO - RATING DISTRIBUTION
Investment bond portfolios - in EUR million



Despite the crisis which began at the end of 2008, the portfolio is relatively stable in terms of quality, with 97% of assets enjoying investment-grade status.
2011 was marked by numerous downgrades in external ratings, in particular of Sovereigns and banks. These issuers were carefully monitored by Credit Risk Control throughout the year.

In terms of credit transactions (rather than bonds) with counterparties outside KBC Group, the following chart illustrates the importance of private banking.

CREDIT PORTFOLIO - PRODUCT BREAKDOWN BY ENTITY
Situation as at 31 December 2011 - in EUR million



Subsidiaries' loans totalled approximately EUR 1.1 billion. With the exception of Theodoor Gilissen Bankiers, which has a sizeable mortgage portfolio (EUR 292 million), the portfolios of other entities mainly consist of collateralized Lombard loans in which there is a limited track record of default.

3.4.3.3. Monitoring of credit risk

In terms of the day-to-day monitoring of lending transactions, KBL *epb* automatically monitors the loans and guarantees schedule, which allows any overrun to be detected and the appropriate corrective action to be taken swiftly. Within the Group, these situations are reported to the credit committees or Executive Committees of the legal entities concerned. They are also reported to the local ACRC.

In Luxembourg, Credit Risk Control automatically monitors debtors' ratings, as reported by rating agencies, and informs the entities concerned accordingly. Various types of standard or specific report are also drawn up in order to monitor any deterioration in the quality of the portfolio. Therefore, for portfolio investment, debtors are reviewed at least once a year based on the financial statements; certain factors could even lead to more frequent reviews (and inclusion on a specific watch list). The watch list was extended in 2011 to include exposures on private clients, in Luxembourg and all subsidiaries. The sectoral concentration of our risks and the concentration by debtor are monitored at least annually and on a consolidated basis.

Since 2010, monitoring has been extended to the systematic follow-up of CDS spreads. The results of European banks' stress tests have also been analysed in depth.

3.4.3.4. Specific loan provisions

For the parent company in Luxembourg, the evaluation of potential losses and the adjustment of specific provisions are carried out quarterly by Credit Risk Control. The Credit Committee decides on any adjustments for the first three quarters of the year, this being the responsibility of the Executive Committee for the fourth quarter. Subsidiaries submit their proposals for provisions during the quarterly consolidation.

Below we list specific provisions established in respect of the consolidated loan portfolio as at 31 December 2011, and the changes in these provisions over the course of the year.

As at 31.12.2010

	Granted	Outstanding	Provisions	Net outstanding
Performing Loans	6,947.5	6,746.7	0.0	6,746.7
Non-performing Loans (>90 days overdue) unimpaired	0.1	2.6	0.0	2.6
Impaired loans	134.8	155.2	115.2	40.0
	7,082.4	**6,904.5**	**115.2**	**6,789.3**

As at 31.12.2011

	Granted	Outstanding	Provisions	Net outstanding
Performing Loans	5,415,9	4,814.8	0.0	4,814.8
Non-performing Loans (>90 days overdue) unimpaired	0.1	2.8	0.0	2.8
Impaired loans	107.7	128.5	72.9	55.6
	5,523.7	**4,946.1**	**72.9**	**4,873.2**

In 2011 the Bank decided to write off a large part of its outstanding debts in structured products (investments in Capital Notes), provisioned up to 100%, given the remote possibility of recovery. This decision involved a significant drop in the gross amount of impaired loans, which has been partially compensated by the classification of Greek Sovereign Bonds as impaired.

Loan / Loss ratio (*)	**2010**	**2011**
Average over 5 years	58 bps	71 bps
Financial Year	0 bps	44 bps

* The loan/loss ratio is defined as the net variation of specific and general provisions in the average loan portfolio over the year.

Variation in specific loan provisions	**(in EUR million)**
Total provisions as at 01.01.2011	**115.2**
Transfers from income statement	
Increase in provisions	27.9
Reduction in provisions	-0.7
Applications	-69.4
Adjustments for exchange-rate variations	-0.1
Total provisions as at 31.12.2011	**73.0**

As already mentioned, provisions recognised on structured products were partially used and partially cancelled during the period.
Greek state debts have been largely provisioned (more than 75%). Provisions on perpetual bonds have been adapted.

3.4.3.5. Counterparty Risk Management

The measurement and monitoring of counterparty risk for interbank transactions, which are mainly concentrated in the Luxembourg Dealing Room, are a major activity of Credit Risk Control. In collaboration with KBC, it sets interbank limits for these transactions by establishing requirements for the entire network. Loans outstanding are allocated to lines based on the "marked-to-market + add on" method.
In the context of the KBC divestment process, a new system for managing interbank limits has been validated, which will be operational from the date of the closing. This new system defines interbank limits which are commensurate with the size of the Bank and its risk appetite, and fully integrates the new Large Exposures regulation. Credit Risk Control has also developed its own tools for analysing bank counterparts.

The management and supervision of collateral received for secured transactions, in addition to contract management, is handled by Collateral Management, which is part of Risk Control and situated in close proximity to CRC. At the beginning of 2010, the Executive Committee updated the specific guidelines regarding acceptable collateral, the respect of which is monitored on a regular basis by the Credit Risk Control department.
It is the task of the Bank's Front Office to manage the outstanding amounts on these lines. Thus, for example, before settling a deal, the operator must ensure that lines are available for the counterparty and for the product (and country) in question and that the relevant amounts and terms are available. Overruns are monitored daily by Middle Office using GEM. Anomaly reports are sent to the Trading Room management on a daily basis for justification and ratification, and to the Finance and Risk Control manager. All overruns are reported to the members of the KBL *epb* Executive Committee and to KBC Group on a weekly basis.

3.4.3.6. Country Risk Management

As far as country risk is concerned, transferability risks are the Bank's chief concern. Lines are allocated to the Bank and its subsidiaries for credit activities and trading room activities as and when required. Until the closing, the decision to grant a country line will be taken by KBC Group. As with counterparty risk, Middle Office is responsible for independent monitoring, on a daily basis, of whether the set country limits are respected.

As for interbank limits, Credit Risk Control is developing a new framework for the definition and monitoring of country limits, which will be operational from the date of the sale of KBL *epb* by KBC Group. The methodology has also been adapted in such a way as to cover all types of country risks (in particular that of contagion) and is no longer limited to the risk of transferability.

3.4.4. MARKET RISK MANAGEMENT: TRADING RISK

KBL *epb* group being a specialized group of Private Banks, its trading risk-taking is done primarily to support the core business activities. The trading position reflects the necessary intermediation of the Dealing Room, supporting client flows in terms of bonds, equities, forex and deposits. Most of the instruments used by the Dealing Room are plain vanilla. The proprietary use of derivatives is relatively rare and the Dealing Room does not deal in credit derivatives.
The risks incurred therefore are mainly short-term interest-rate risk (treasury in the currencies of clients), medium/long-term interest-rate risk (bond trading, particularly in EUR), market risk (trading in listed equities and structured products sold to private clients) and forex risk (spot and forward exchange rates in the liquid currency pairs used by clients).

In practical terms, all bond and equity trading is concentrated in the Luxembourg Dealing Room. The trading positions of subsidiaries are therefore limited to remaining forex balances (mainly with KBL *epb* as a counterparty) resulting from transactions for clients and remaining interest rate balances arising from the treasury mismatch between their bank reinvestment (mainly on KBL *epb*) and client deposits.

Since 2006 the Bank has been relying heavily on the methodology and trading risk measurement tools of KBC Group. The measurement of exposures and the limits framework are defined based on primary limits in terms of Historical Value-at-Risk (HVaR) and nominal amount, secondary limits in terms of sensitivity (for activities exposed to interest rate risk) and concentration (for forex and equity), in addition to monthly stop loss and a delegation of authority hierarchy. The evolution of exposures linked to each activity compared with their respective limits, as well as the results and key facts, are reported daily to the heads of the Dealing Room and Risk Control. They are also reported each week to the KBL *epb* Executive Committee and on a quarterly basis to the KBL *epb* ACRC Committee.

The KBL *epb* Group global limit amounts to EUR 8 million in terms of Historical Value-at-Risk (10 days HVaR 99% over a history of 500 observations). A limit of EUR 60 million in nominal amount is also set up for all products not measurable by HVaR. In 2011 the global exposure in HVaR for all Trading Forex, Treasury, Fixed Income and Equity trading activities overall remained below EUR 2.82 million. It stood at only EUR 1.95 million as at 31 December 2011. The outstanding amounts of structured products and certain illiquid bonds were globally maintained at under EUR 54.18 million during 2011. It stood at EUR 29.37 million as at 31 December 2011.

As mentioned at the beginning of the chapter, acknowledging HVaR's methodological limits, the complexity and significant costs of restocking the database, while trading has not seen great developments itself, KBL *epb* has regained its autonomy in terms of calculation and monitoring of trading risks by developing a system of measures and limits globally inspired by the system in place before integration into KBC Group. This system consists in limits on nominal amounts for the activities subject to currency risk (Forex) and to price volatility risk (Equity, Structured Products, Special Bonds) and limits in global BPV at 10 bps for activities subject to interest rate risk (Treasury & Bond). These new primary limits will continue to be supplemented by a structure of secondary limits allowing for a more detailed analysis of the Trading risks. These methods and limits will replace the current limits and systems after the closing of the sale.

3.4.5. MARKET RISK MANAGEMENT: ALM

As far as ALM is concerned, KBL *epb* was fully integrated within KBC Group governance until August 2010, when the Group ALM Committee (GALCO), the decision-making centre for Assets and Liabilities Management matters (ALM), was wound up. As for other risks, the KBL *epb* Executive Committee took over direct responsibility for the ALM for KBL *epb* and since December 2010 there has been a monthly ALM Committee (ALCO), in the form of an extended Executive Committee dedicated to ALM issues.

The traditional activity of a private bank entails little ALM risk compared with a retail bank: most of the client assets are reported as an off-balance sheet item in the form of securities deposits. ALM is not seen as a key factor in improving the global return on portfolios. Most short-term client deposits offer variable rates depending on the money market rates. The same applies to Lombard loans. When fixed rates are granted for loans (as for Theodoor Gilissen Bankiers, which has developed a mortgage business as a means of attracting private banking clients), hedging swaps are contracted.

Therefore, in terms of ALM, the Bank only holds a few “structural positions”, in addition to some limited remaining “historic” portfolios with bonds that will come to maturity in the next few years. In this context, KBL *epb* has no “tactical” ALM portfolios aiming to speculate on interest rate evolution.

The major structural positions held by KBL *epb* since the subsidiaries actually have very limited balance sheets, are:

- the reinvestment of free capital in Luxembourg and in the subsidiaries concerned: Merck Finck & Co, Theodoor Gilissen Bankiers, Puilaetco Dewaay Private Bankers and KBL Richelieu Banque Privée; these positions consist of sovereign bonds issued by EU countries with a minimum rating of AA- and in most cases a maximum maturity of seven years;

- the reinvestment of fixed rate sight deposits and savings accounts at KBL *epb* by applying the same reinvestment policy as with free capital;

- bonds/credit portfolios, which are however, less exposed to interest rate risk thanks to their securitization, the majority being FRN, synthetic asset swaps (SAS) or variable rate credits;

- an investment portfolio invested in direct lines of equities or in UCI shares, set up almost 10 years ago and which also holds positions inherited during the acquisition of our subsidiaries.

Within the context of the sale by KBC Group, all residual positions in sovereign bonds, reflecting a historical strategy based on the convergence of non-euro currencies towards the euro (in terms of exchange/interest rates) were sold to KBC in 2011.

KBL *epb* has the following ALM limits:

- a 10 BPV (Basis Point Value) limit of EUR 8.2 million for all banking book positions. It stood at EUR 2.3 million as at 31 December 2011;

- a diversified VaR limit (99% over 1 year) of EUR 167 million for the share investment portfolio. It stood at EUR 101 million as at 31 December 2011;

- a non-diversified VaR limit (99% over 1 year) of EUR 67 million to control exchange-rate risk in ALM positions. This limit is no longer relevant further to the hiving off of the portfolio concerned (it stood at EUR 0.1 million as at 31 December 2011).

The results of the various indicators are reported monthly to the KBL *epb* ALCO and quarterly to the Audit Compliance and Risk Committee.

After the closing, a new set of ALM limits will be proposed to reflect the risk appetite of the new Board of Directors. In the meantime, steps have been taken to provide KBL *epb* with complete autonomy in its ALM risk measurement tools, which have been provided by KBC until now.

3.4.6. MARKET RISK MANAGEMENT: LIQUIDITY RISK

Like Asset and Liabilities Management, the Liquidity Risk Management of KBL *epb* passed out of KBC governance after the dissolution of the GALCO, and is now the direct responsibility of KBL *epb*'s own ALCO. Within KBL *epb*, liquidity risk has always been closely monitored, though it is not seen as a major risk: the Group has a large and stable funding base due to the natural accumulation of deposits from its two core businesses: private banking and GIS (Global Investor Services), which absorb relatively little liquidity.

The subsidiaries make a significant contribution to the liquidity of the KBL *epb* Group, which is centralised in Luxembourg. This global funding is essentially reinvested, following a conservative strategy, in liquid assets (European Central Bank-eligible bonds) and in the short-term interbank market, the majority in the form of reverse repo transactions.
In 2011 the reduction of our exposure to KBC Group, by natural maturity and/or early redemption also contributed to improving KBL *epb*'s comfortable liquidity situation.

The Bank uses a number of tools to monitor liquidity risk:

- an operational liquidity monitoring process (evolution of the liquidity gap and client deposits);
- a structural liquidity monitoring process (stress tests, Loan to Deposit ratio and vertical analysis);
- a Liquidity Contingency Plan.

The operational liquidity of KBL *epb* is monitored on a daily basis by the Risk Controlling Department, which reports to Financial Markets (Dealing Room) and the Risk Control Function:

- a contractual liquidity gap of up to five days, as if the activity is to be continued (no stress test). This report is also sent to the BCL;

- a liquidity gap for each currency over a period of three months, compared with operational limits of 5 and 30 days;

- a stock of available liquid assets;

- the evolution of deposits for each Group entity.

In terms of measurement of structural liquidity, the Bank's Loan-to-Deposit (LTD) ratio is established on a monthly basis. Given the low volumes of loans granted, the consolidated LTD ratio of KBL *epb* is at a very low level, reflecting the excellent situation in terms of liquidity. As at 31 December 2011, it stood at 19.0%.

The monthly liquidity excess is a second measure of structural liquidity. This report assures the Management of the ability of stable funding sources to cover "illiquid" assets (such as fixed assets, non-ECB eligible portfolios, credits). As at 31 December 2011, the liquidity excess stood at EUR 3,482 million.

Monthly liquidity stress testing, according to KBC models, is designed to measure the structural liquidity of KBL *epb* during general market crisis periods, when the interbank market can dry up as a source of funding. Various behavioural assumptions are used to predict the renewal/withdrawal of deposits by clients.

A "liquidity buffer" and a "survival period" are calculated based on the forecast incoming and outgoing cash flows and on a series of specific measures enabling liquidity to be increased (use of the repo market to obtain liquidity, reduction/cessation of interbank loans). Once KBL *epb* has passed out of KBC Group governance, specific liquidity stress tests will be drawn up to take account of the particularities of KBL *epb*'s activity and business model, essentially private banking.

The coverage ratio was developed in 2011 as an indicator of structural liquidity. It compares the level of liquid assets to that of client deposits and makes it possible to evaluate how the Bank can deal with an extreme scenario and the withdrawal of all client deposits at the same time (conservative hypothesis).

KBL *epb* is an active member of the Association des Banques et Banquiers Luxembourg Working Group aiming to analyse the impact of the Basel Committee proposals in terms of liquidity management (Basel III), and to discuss the conclusions with international authorities. When in force, the Liquidity Coverage Ratio will be part of the list of operational liquidity indicators, while the Net Stable Funding Ratio will replace KBL *epb*'s vertical analysis.

Finally, a "Liquidity Contingency Plan" has been defined, consisting of various actions depending on the gravity of the liquidity crisis. In its present version a minor crisis would be handled by the General Manager of Financial Markets, while a major crisis would be managed by the KBL *epb* ALCO.

3.4.7. PILLAR 2: INTERNAL CAPITAL ADEQUACY AND ASSESSMENT PROCESS (ICAAP)

The ICAAP process was carried on and expanded during the first quarter of 2011. It is based on an economic capital approach developed and managed according to KBC models. This model assesses all material risks to which the Bank is (or could be) exposed to assess the maximum loss incurred by KBL *epb* on a one-year time horizon and for a given confidence interval (99.9%).

Capital is allocated to the following five risks (considered as material):

- credit risk;
- business risk;
- ALM risk : interest rates, equities, exchange rates, real estate;
- operational risk;
- market risk (trading).

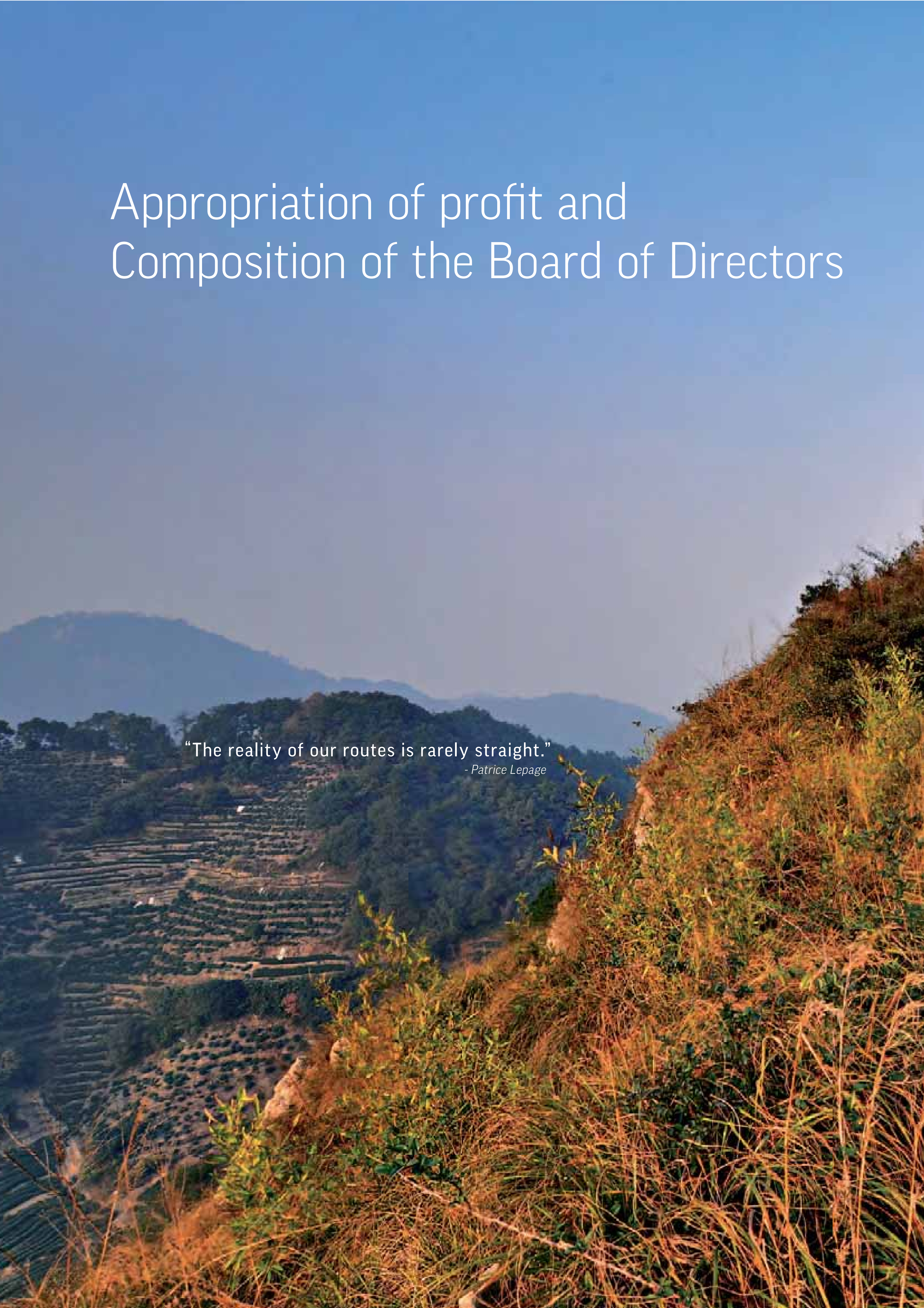
The 2010 ICAAP report was produced on the basis of KBL *epb*'s consolidation scope as at 31 December 2010. It incorporates the latest methodological improvements made by KBC Group and also takes into account the main CSSF recommendations. However, in the context of the KBL *epb* sale, this latest version should be considered as a transitional one in terms of methodology. The developments begun in 2010 to allow KBL *epb* to be autonomous from a methodological point of view continued in 2011.

The development of its own models aimed at:

- evaluating the capital allocated to the various components of ALM;
- maintaining the use of the inter-risks diversification concept.

In addition, KBL *epb* Risk Control aided various subsidiaries which had to submit an ICAAP report.

Appropriation of profit and Composition of the Board of Directors



"The reality of our routes is rarely straight."
- Patrice Lepage

Appropriation of result

At its meeting on 22 February 2012, the Board of Directors proposes to allocate the profit available for distribution to retained earnings.

On 21 March 2012, this affectation will be submitted to the approval of the Annual General Meeting.

	EUR
2011 loss (KBL company)	**-29,333,033.20**
Retained earnings	67,622,004.02
Profit available for distribution	38,288,970.82
Retained earnings	**38,288,970.82**

Composition of the Board of Directors

The mandates of Messrs J. Huyghebaert, F. Depickere, D. du Monceau, E. Muller, Ph. Vlerick and M. Wittemans will expire at the next Ordinary General Meeting on 21 March 2012.

A recommendation is made to the Ordinary General Meeting to renew their mandates for one year.

The mandates of the Staff representatives ended on 31 August 2011.

Pursuant to the Law of 6 May 1974 establishing Works Councils in the private sector, the staff delegation, basing itself on the results of the last elections held in 2008, appointed the following persons as Staff representatives on the Board of Directors as of 1 September 2011.

Representatives	Alternate Representatives
HOELTGEN Christian	LARDO Daniel
GLESENER Marc	WALTZING Jean-Pierre
GODFROID Francis	ROUYER Eric
RAUEN Mathias	RENSON Patrick
MERTZ Laurent	THILL-WOLFF Sony
ERTEL Frank	
RYELANDT Philippe	

The new mandates of these persons are for 4 years pursuant to Article 11 of KBL *epb*'s Articles of Association.

Unqualified certification of the approved statutory auditor

To the Board of Directors of KBL European Private Bankers S.A.
Société Anonyme, Luxembourg

REPORT ON THE CONSOLIDATED ACCOUNTS

Following our appointment by the Board of Directors, we have audited the accompanying consolidated accounts of KBL European Private Bankers S.A., which comprise the consolidated balance sheet as at 31 December 2011, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated accounts

The Board of Directors is responsible for the preparation and fair presentation of these consolidated accounts in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as the Board of Directors determines is necessary to enable the preparation and presentation of consolidated accounts that are free from material misstatement, whether due to fraud or error.

Responsibility of the "réviseur d'entreprises agréé"

Our responsibility is to express an opinion on these consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated accounts. The procedures selected depend on the judgement of the "réviseur d'entreprises agréé", including the assessment of the risks of material misstatement of the consolidated accounts, whether due to fraud or error. In making those risk assessments, the "réviseur d'entreprises agréé" considers internal control relevant to the entity's preparation and fair presentation of the consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated accounts.

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

Opinion

In our opinion, the consolidated accounts give a true and fair view of the financial position of KBL European Private Bankers S.A. as of 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

The consolidated management report, which is the responsibility of the Board of Directors, is consistent with the consolidated accounts.

ERNST & YOUNG
Société Anonyme
Cabinet de révision agréé

Sylvie TESTA

Luxembourg, 22 February 2012

KBL European Private Bankers' subsidiaries

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Bullion	T. (+352) 2621-0355
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This report is available in English and French.
Only the English version is authentic.

"This is one small step for a man, one giant leap for mankind."

- Neil Amstrong

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Consolidated accounts, Report of the independent auditor and Consolidated management report as at 31 December 2011

Contents

The quantitative tables in the following pages may sometimes show small differences due to the use of concealed decimals. These differences, however, do not in any way affect the true and fair view of the consolidated accounts of the Group. Similarly, the value zero "0" in the following tables indicates the presence of a number after the decimal, while "-" represents the value nil.

Unqualified certification of the independent auditor

To the Board of Directors of KBL European Private Bankers S.A.
Société Anonyme, Luxembourg

Report on the consolidated accounts

Following our appointment by the Board of Directors, we have audited the accompanying consolidated accounts of KBL European Private Bankers S.A., which comprise the consolidated balance sheet as at 31 December 2011, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

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The Board of Directors is responsible for the preparation and fair presentation of these consolidated accounts in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as the Board of Directors determines is necessary to enable the preparation and presentation of consolidated accounts that are free from material misstatement, whether due to fraud or error.

Responsibility of the "réviseur d'entreprises agréé"

Our responsibility is to express an opinion on these consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated accounts. The procedures selected depend on the judgement of the "réviseur d'entreprises agréé", including the assessment of the risks of material misstatement of the consolidated accounts, whether due to fraud or error. In making those risk assessments, the "réviseur d'entreprises agréé" considers internal control relevant to the entity's preparation and fair presentation of the consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated accounts.

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

Opinion

In our opinion, the consolidated accounts give a true and fair view of the financial position of KBL European Private Bankers S.A. as of 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

The consolidated management report, which is the responsibility of the Board of Directors, is consistent with the consolidated accounts.

ERNST & YOUNG
Société Anonyme
Cabinet de révision agréé

Sylvie TESTA

Luxembourg, 22 February 2012

Consolidated income statement

(in EUR thousand)	Notes	31/12/2010	31/12/2011
Net interest income	4, 38	150,274	145,253
Gross earned premiums, insurance	5	3,300	2,271
Gross technical charges, insurance	6	-11,725	-11,489
Ceded reinsurance result, insurance		-65	-399
Dividend income	7	6,591	3,866
Net gains / losses on financial instruments designated at fair value through profit or loss	8	46,905	-9,176
Net realised gains/losses on financial assets and liabilities not measured at fair value through profit or loss	9	26,904	62,381
Net fee and commission income	10, 38	378,663	348,878
Other net income	11, 38	1,776	7,697
GROSS INCOME		602,624	549,283
Operating expenses	12, 38	-503,194	-438,769
Staff expenses	13, 33	-352,332	-292,097
General administrative expenses	42	-116,039	-120,060
Other	28, 29, 31	-34,822	-26,612
Impairment	14, 22, 23, 28, 29, 38	-44,603	-99,354
Badwill	45	29,002	-
Share of profit of associates	15, 27	1,596	604
PROFIT BEFORE TAX		85,424	11,763
Income tax (expenses) / income	16	-17,698	8,345
PROFIT AFTER TAX		67,726	20,109
Attributable to: Non-controlling interest		-6	-9
Owners of the parent		67,733	20,118

The notes refer to the 'Notes to the consolidated accounts'.

Consolidated statement of comprehensive income

(in EUR thousand)	31/12/2010	31/12/2011
PROFIT AFTER TAX	67,726	20,109
Revaluation at fair value	3,925	-87,946
Net realised gains / losses on sales	-10,627	-8,978
Impairment	774	5,858
Income tax (expenses) / income	459	25,631
Financial assets available-for-sale	-5,469	-65,435
Exchange differences on translation of foreign operations	-8,260	-3,337
OTHER COMPREHENSIVE INCOME	-13,729	-68,772
TOTAL COMPREHENSIVE INCOME	53,998	-48,663
Attributable to : Non-controlling interest	-5	-9
Owners of the parent	54,003	-48,654

The notes refer to the 'Notes to the consolidated accounts'.

Consolidated balance sheet

ASSETS

(in EUR million)	Notes	31/12/2010	31/12/2011
Cash and balances with central banks	40	437	1,076
Financial assets	17, 18, 19, 20, 21, 38, 40	13,488	12,919
Held-for-trading	24	574	628
At fair value through profit or loss		1,836	1,806
Available-for-sale financial assets	22	5,278	3,883
Loans and receivables	23	5,733	6,557
Hedging derivatives	24	67	45
Reinsurers' share in technical provisions, insurance		0	0
Tax assets	26, 40	86	99
Current tax assets		21	1
Deferred tax assets		64	97
Investments in associates	27	14	13
Investment properties	29	37	36
Property and equipment	29	197	189
Goodwill and other intangible assets	28	356	306
Other assets	25, 40	108	115
TOTAL ASSETS		14,722	14,752

EQUITY AND LIABILITIES

(in EUR million)	Notes	31/12/2010	31/12/2011
Financial liabilities	17, 19, 38	12,788	12,965
Held-for-trading	24	360	359
At fair value through profit or loss		1,822	1,790
At amortised cost		10,518	10,722
Hedging derivatives	24	89	94
Gross technical provisions, insurance	30	475	429
Tax liabilities	26	10	5
Current tax liabilities		5	1
Deferred tax liabilities		5	4
Provisions	31	33	28
Other liabilities	32, 33, 38	361	319
TOTAL LIABILITIES		13,667	13,747
TOTAL EQUITY		1,055	1,006
Equity attributable to the owners of the parent	*34*	*1,054*	*1,005*
Non-controlling interest		0	0
TOTAL EQUITY AND LIABILITIES		14,722	14,752

The notes refer to the 'Notes to the consolidated accounts'.

Consolidated statement of changes in equity

2010 (in EUR million)	Issued and paid-up share capital	Share premium	Treasury shares	Consolidated reserves	Revaluation reserve (AFS investments)	Foreign currency translation reserve	Equity attributable to owners of the parent	Non-controlling interest	Total equity
Balance as at 01/01/2010	187.2	321.3	-0.1	464.2	6.5	18.2	997.3	0.4	997.7
Net movements on treasury shares	-	-	-	-	-	-	-	-	-
Dividends and profit-sharing	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	67.7	-5.5	-8.3	54.0	-0.0	54.0
Changes in scope of consolidation	-	-	-	-	2.9	-	2.9	-	2.9
Effects of acquisitions/disposals on non-controlling interest	-	-	-	-	-	-	-	-	-
Other	-	-	-	0.0	0.1	-	-	-	0.2
Balance as at 31/12/2010	187.2	321.3	-0.1	532.0	4.0	9.9	1,054.3	0.3	1,054.7

2011

(in EUR million)

	Issued and paid-up share capital	Share premium	Treasury shares	Consolidated reserves	Revaluation reserve (AFS investments)	Foreign currency translation reserve	Equity attributable to owners of the parent	Non-controlling interest	Total equity
Balance as at 01/01/2011	187.2	321.3	-0.1	532.0	4.0	9.9	1,054.3	0.3	1,054.7
Net movements on treasury shares	-	-	-	-	-	-	-	-	-
Dividends and profit-sharing	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	20.1	-65.4	-3.3	-48.7	-0.0	-48.7
Changes in scope of consolidation	-	-	-	-	-	-	-	-	-
Effects of acquisitions/disposals on non-controlling interest	-	-	-	-	-	-	-	-	-
Other	-	-	-	-0.3	-	-	-0.3	-	-0.3
Balance as at 31/12/2011	187.2	321.3	-0.1	551.8	-61.4	6.6	1,005.4	0.3	1,005.7

Consolidated cash flow statement

(in EUR million)	31/12/2010	31/12/2011
Profit before tax	85.4	11.8
Adjustments for:	45.9	121.3
Impairment on securities, amortisation and depreciation on property and equipment, intangible assets and investment properties	*74.3*	*121.3*
Badwill	*-29.0*	*-*
Profit/loss on the disposal of investments	*-0.0*	*-2.3*
Change in impairment for losses on loans and advances	*-1.7*	*2.2*
Change in gross technical provisions – insurance	*-11.7*	*-11.5*
Change in the reinsurers' share in the technical provisions	*-0.1*	*-0.4*
Change in other provisions	*10.7*	*2.5*
Unrealised foreign currency gains and losses and valuation differences	*5.1*	*10.2*
Income from associates	*-1.6*	*-0.6*
Cash flows from operating activities, before tax and changes in operating assets and liabilities	131.3	133.1
Changes in operating assets (1)	1,495.7	1,840.6
Changes in operating liabilities (2)	-1,415.5	99.5
Income taxes	-7.2	17.4
NET CASH FLOWS FROM / (USED IN) OPERATING ACTIVITIES	204.3	2,090.4
Purchase of subsidiaries or business units, net of cash acquired/disposed of	-41.0	-2.4
Proceeds from sale of subsidiaries or business units, net of cash acquired/disposed of	0.4	0.0
Purchase of investment property	-0.5	-0.3
Proceeds from sale of investment properties	-	0.3
Purchase of intangible assets	-28.9	-1.6
Proceeds from sale of intangible assets	-	0.2
Purchase of property and equipment	-13.3	-10.2
Proceeds from sale of property and equipment	0.8	3.0
NET CASH FROM / (USED IN) INVESTING ACTIVITIES	-82.5	-11.1

(in EUR million)	31/12/2010	31/12/2011
Purchase/sale of treasury shares	-	-
Issue/repayment of loans	-9.9	116.4
Issue /repayment of subordinated debts	-22.8	-571.0
Dividends paid and profit-sharing	-	-
NET CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES	-32.6	-454.6
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (3)	89.1	1,624.7
CASH AND CASH EQUIVALENTS AS AT 01/01	2,815.4	2,904.6
Net increase/decrease in cash and cash equivalents	89.1	1,624.7
Net foreign exchange difference	-	-
CASH AND CASH EQUIVALENTS AS AT 31/12	2,904.6	4,529.3
ADDITIONAL INFORMATION		
Interest paid during the year	173.7	151.8
Interest received during the year	327.7	308.1
Dividends received (including equity method)	6.6	3.9
COMPONENTS OF CASH AND CASH EQUIVALENTS	2,904.6	4,529.3
Cash and balances with central banks (including legal reserve with the central bank)	436.6	1,076.4
Loans and advances to banks repayable on demand	3,513.1	4,970.6
Deposits from banks repayable on demand	-1,045.1	-1,517.7
Of which: not available (4)	323.6	123.6

(1) Including loans and advances to banks and customers, securities, derivatives and other assets.

(2) Including deposits from banks and customers, bonds issued, derivatives and other liabilities.

(3) Cash includes cash and deposits payable on demand; cash equivalents are short-term investments that are very liquid, easily convertible into a known cash amount and subject to a negligible risk of a change in value.

(4) Cash and cash equivalents not available for the Group mainly comprise of the legal reserve held with the Luxembourg Central Bank and the 'margin' accounts held with clearing houses (futures markets, etc.).

Notes to the consolidated accounts

NOTE 1 – GENERAL

KBL European Private Bankers Group (hereinafter "KBL *epb* group" or the "Group") is an international network of banks and financial companies, specialised in private banking. In support of, and complementary to this activity, KBL *epb* group is also developing several niche activities specific to its various markets.

The business purpose of KBL *epb* group is to carry out all banking and credit activities. In addition, KBL *epb* group is allowed to carry out all commercial, industrial or other operations, including real estate transactions, in order to achieve its main business purpose, either directly or through shareholdings, or in any other manner, these provisions to be understood in the widest manner possible. KBL *epb* group may carry out any activity which contributes in any way whatsoever to the achievement of its business purpose. The Group's main activities are described in "Note 3 a - Operating segments by business segment".

KBL *epb* group is headed by KBL European Private Bankers S.A. (hereinafter "KBL *epb*" or "KBL" or the "Bank"), a public limited liability company (*société anonyme*) in Luxembourg and having its registered office at:

43, boulevard Royal,
L-2955 Luxembourg

KBL *epb* group is part of the KBC Group. Born on 2 March 2005 from the merger of KBC Bank and Insurance Holding N.V. and its parent company Almanij, the KBC Group is today one of the major financial groups in Europe. As a multi-channel, independent bank-insurance group, active in Europe, the KBC Group provides individual clients, as well as small and medium-sized companies, with retail and private banking services. It is also active in asset management, corporate banking and private equity markets. The KBC Group is a major player on the Belgian and Central and Eastern European markets and has created a large network of private bankers in Western Europe. The KBC Group has also selectively developed a presence in certain other countries and regions across the world.

But, on 18 November 2009, the KBC Group communicated its strategic plan as requested by the European Commission to repay the support received from Belgian national and Flemish governments. This plan has been formally approved by the European Commission. KBC wants to refocus on its basic business, namely bank-insurance on its domestic markets. It has decided to sell certain high-quality assets, of which KBL *epb*. The Executive Committee of KBL *epb* has been designated by KBC to pilot the process of searching for a new shareholder.

On 10 October 2011, an agreement was concluded on the sale of KBL *epb* by KBC to a Qatari investment group represented by a Luxembourg entity, Precision Capital. The closing should take place during the first months of the financial year 2012.

The Bank prepares consolidated accounts in accordance with International Financial Reporting Standards as adopted by the European Union, as well as a consolidated management report, which are available at its head office.

The Bank's consolidated accounts are consolidated in the KBC Group consolidated accounts. KBC Group's consolidated accounts and management report are available at its head office.

KBL *epb*'s non-consolidated accounts include those of the Spanish branch opened on 7 April 2010 and of the Polish branch opened on 1 April 2009 and closed on 20 December 2011.

NOTE 2A – STATEMENT OF COMPLIANCE

The consolidated accounts presented in this report were approved by the Board of Directors of KBL *epb* on 22 February 2012.

The Group consolidated accounts have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).

In preparing the consolidated accounts under IFRS, the Board of Directors is required to make estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgement are inherent in the formation of estimates. Actual results in the future could differ from such estimates and the differences may be material to the consolidated accounts.

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2011:

- IAS 24 *Related Party Disclosures (amendment)* effective 1 January 2011.
- IAS 32 *Financial Instruments: Presentation (amendment)* effective 1 February 2010.
- IFRIC 14 *Prepayments of a Minimum Funding Requirement (amendment*) effective 1 January 2011.
- Improvements to IFRSs (May 2010).

The adoption of the standards or interpretations is described below:

- *IAS 24 Related Party Transactions (Amendment)*. The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.
- *IAS 32 Financial Instruments: Presentation (Amendment)*. The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given prorata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group because the Group does not have this type of instruments.
- *IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)*. The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset.
- *Improvements to IFRSs*. In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Group:

- IFRS 3 *Business Combinations*: the measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.
- IFRS 7 *Financial Instruments - Disclosures:* the amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by

requiring qualitative information to put the quantitative information in context.

- IAS 1 *Presentation of Financial Statements*: the amendment clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 3 Business Combinations (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008))

- IAS 27 Consolidated and Separate Financial Statements.

The following interpretation and amendment to interpretations did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments.

The Group has also decided not to early adopt the standards, amendments to standards and interpretations of the IFRIC which have been published but are not applicable for the year ending 31 December 2011. The Group will adopt these standards on the date of their effective application and when they will be approved by the European Union.

This basically concerns the following publications (only the standards, amendments to standards and IFRIC which may have an effect on the Group financial position or performance are mentioned below):

- *IFRS 9 Financial Instruments (Amended)*
  This standard, which is being developed to ultimately replace IAS 39 in its entirety, has been divided into three main phases. The first phase, which relates to the recognition and measurement of financial assets and financial liabilities, has already been completed. It introduces significant changes in the accounting requirements of financial assets, such as: a reduction in the number of available categories, business model-oriented classification rules and the prohibition to recycle (into P&L) any gains and losses on financial assets measured at fair value through other comprehensive income.
  The last two phases which concern impairment and hedge accounting are still to be finalized.
  The standard (including its first phase on a stand-alone basis) is applicable for annual periods beginning on or after 1 January 2015. Earlier application is permitted.
  Up to now, however, no portion of the standard has been endorsed by the European Union.

- *IAS 1 Financial Statements Presentation - Presentation of Items of Other Comprehensive Income (OCI)*. The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has there no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

- *IAS 12 Income Taxes - Recovery of Underlying Assets*. The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after 1 January 2012.

- *IAS 19 Employee Benefits (Amendment)*The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

- *IAS 27 Separate Financial Statements (as revised in 2011).* As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

- *IAS 28 Investments in Associates and Joint Ventures (as revised in 2011).* As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

- *IFRS 7 Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements.* The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets.

  The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendement affects disclosure only and has no impact on the Group's financial position or performance.

- *IFRS 10 Consolidated Financial Statements.* IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 *Consolidation - Special Purpose Entities.*

  IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require the Board of Directors to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27.

- *IFRS 11 Joint Arrangements*. IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities - Non monetary Contributions by Ventures.*

  IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard becomes effective for annual periods beginning on or after 1 January 2013.

- *IFRS 12 Disclosure of Involvement with Other Entities*. IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

- *IFRS 13 Fair Value Measurement.* IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. This standard becomes effective for annual periods beginning on or after 1 January 2013.

NOTE 2B – SIGNIFICANT ACCOUNTING POLICIES

A. CONSOLIDATION CRITERIA

All entities controlled by KBL *epb* or over which KBL *epb* has a significant influence are included in the scope of consolidation when the materiality thresholds are exceeded. These limits are based on the following criteria: share in the Group equity, share in the Group profit and in the Group total balance sheet increased by the off-balance sheet rights and commitments which are used to calculate the solvency ratio.

An entity is included in the scope of consolidation from the date of acquisition, being the date on which KBL *epb* obtains a significant influence or control over this entity and continues to be included until this influence or control ceases.

All entities exclusively controlled by KBL *epb*, directly or indirectly, are consolidated using the full consolidation method.

Companies over which joint control is exercised, directly or indirectly, are consolidated using the proportionate consolidation method.

Investments in associates, that is, where KBL *epb* has a significant influence, are accounted for using the equity method.

B. FOREIGN CURRENCY TRANSLATION

KBL *epb*'s consolidated accounts are presented in EUR, which is also the functional currency of the Group.

KBL *epb* maintains a multi-currency accounting system under which any transaction is registered in its original foreign currency.

In preparing the annual accounts of KBL *epb* (and of all the consolidated subsidiaries which also present their accounts in EUR), assets and liabilities in foreign currencies are translated into EUR.

Monetary items in foreign currencies are converted at the closing rate prevailing at the reporting date; differences arising from such conversion are recorded in the income statement. Non-monetary items in foreign currencies measured in terms of historical cost are translated using the historical exchange rate prevailing at the date of the transaction. Non-monetary items in foreign currencies measured at fair value are translated using the spot exchange rate at the date when the fair value is determined and translation differences are reported together with changes in fair value.

Income and expense items denominated in foreign currencies are recognised in the income statement in their respective currencies and periodically translated at the average monthly exchange rate.

Foreign subsidiaries balance sheets denominated in foreign currencies are translated into EUR using the closing rate prevailing at the reporting date (with the exception of the capital, reserves and goodwill, which are translated using historical rates).

Foreign subsidiaries profit and loss accounts denominated in foreign currencies are translated at the average exchange rate for the financial year. This principle is applicable to the KBL *epb* subsidiaries in Switzerland and in the United Kingdom.

Annual average exchange rates in 2011

	1 EUR = ... CUR	**Variation versus average 2010**
CHF	1.233275	-10.61%
GBP	0.87231	+1.77%

Exchange rate as at 31/12/2011

	1 EUR = ... CUR	**Variation versus 31/12/2010**
CHF	1.2156	-2.78%
GBP	0.8353	-2.96%

Exchange differences resulting from the procedures applied to translate balance sheets and income statements of foreign subsidiaries denominated in foreign currencies into EUR are recognised as a separate item in equity.

C. FINANCIAL ASSETS AND LIABILITIES

General principles of recognition and derecognition of financial instruments

A financial instrument is recognised in the balance sheet when and only when the Group becomes a party to the contractual provisions of the instrument.

A financial asset is derecognised when and only when the contractual rights to receive cash flows from the asset have expired or the Group transfers the financial asset.

A financial liability is derecognised when and only when the contractual liability is settled, cancelled or expires.

The purchases and sales of financial assets are recognised on the payment date, which is the date that the asset is delivered. Any variation in the fair value of the asset to be received during the period from the transaction date to the payment date is recognised in the same way as for the asset acquired. In other words, the change in value is not recognised for assets recognised at cost or at amortised cost; it is recognised in the income statement for assets classified as financial assets at fair value through profit or loss and in equity for those classified as available-for-sale.

In the case of sales, the assets at fair value are measured at their sale price during the period between the transaction date and the payment date.

Pursuant to the provisions of IAS 39 on derecognition, the Group keeps securities lent in its securities portfolio but securities borrowed are not recorded on the balance sheet.

Similarly, the securities transferred through repurchase agreements are kept in the securities portfolio but those under reverse repurchase agreements are not recorded on the balance sheet.

Definition of IAS 39 categories of financial assets and financial liabilities

All financial assets and liabilities – including derivatives – must be measured on the balance sheet according to their IAS 39 category. Each category is subject to specific measurement rules.

The IAS 39 categories are the following:

- *Held-to-maturity assets* are all non-derivative financial assets with fixed maturities and fixed or determinable payments that KBL *epb* group intends and is able to hold to maturity. The Group's management has decided not to class financial instruments in this category.

- *Loans and receivables* are all non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

- Financial assets at fair value through profit or loss include held-for-trading assets and any other financial assets initially designated at fair value through profit or loss. Held-for-trading assets are those acquired principally for the purpose of selling them in the near term and those which are part of a portfolio with indications of recent short-term profit-taking. All derivative assets are considered as being held for trading unless designated as effective hedging instruments. Other assets at fair value through profit or loss are valued in the same way as held-for-trading assets, even if there is no intention of short-term profit taking.
  The 'fair value option' may be used when a contract contains one or more embedded derivatives under certain conditions or when its application produces more pertinent information:
  - either because a group of financial assets/liabilities is managed on a fair value basis and its performance measured on a fair value basis, following a documented investment or risk management strategy;
  - or because the application of this option reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

This option is mainly used by the Group for contracts with one or more embedded derivatives, as an alternative to hedge accounting (aligning the valuation of the hedged instrument with that of the hedging instrument) and, for insurance subsidiaries, to mirror the valuation of unit-linked financial liabilities.

- *Available-for-sale financial assets* are all non-derivative financial assets which do not fall into one of the above categories.

- *Financial liabilities at fair value through profit or loss* encompass *held-for-trading liabilities* and *financial liabilities initially designated at fair value through profit or loss*. *Held-for-trading liabilities* are liabilities held mainly with the intention of repurchasing them in the near term. All derivative liabilities are considered as being held for trading unless designated as effective hedging instruments.
  Financial liabilities initially designated at fair value through profit or loss are those liabilities accounted for under the 'fair value option'. This category is currently only used for unit-linked financial liabilities for insurance subsidiaries.

- *Other financial liabilities* are all other financial instruments not at fair value through profit or loss.

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

Evaluation of financial instruments

Financial assets and liabilities are initially recognised at fair value and are then measured in accordance with the principles governing the IAS 39 category in which they are placed.

General principles

Loans and receivables with a fixed maturity are measured at amortised cost using the effective interest rate (hereinafter "EIR") method, that is the rate that precisely discounts the future cash inflows or outflows to obtain the carrying amount. Instruments without a fixed maturity are measured at cost.

The *available-for-sale financial assets* are measured at fair value with changes in fair value recognised in equity ('Revaluation reserve (available-for-sale financial instruments)') until the sale or impairment of these instruments. In the latter cases, the cumulative result of the revaluation is transferred from equity to the income statement of the period.

The *financial assets and liabilities at fair value through profit or loss* are measured at fair value with changes in fair value recognised in the income statement.

Other financial liabilities are measured at amortised cost. The difference between the amount made available and the nominal amount is recognised in the income statement (net interest income) *prorata temporis*, on an actuarial basis using the EIR method.

Impairment

Available-for-sale financial assets and *loans and receivables* are also subject to impairment tests and impairment losses are recognised if evidence of impairment exists on the balance sheet date.

- *Available-for-sale financial assets*

For listed shares, an impairment is recognised if the market value is less than 70% of the purchase value or if the market price of the share is less than the acquisition price over one year.

For debt and other equity instruments, the impairment amount is measured from the recoverable value.

Impairment losses are always recognised in the income statement. Impairment reversals are recognised in the income statement for debt instruments and in other comprehensive income (available-for-sale revaluation reserve) for listed shares and other equity instruments.

- *Loans and receivables*

The amount of the impairment loss is the excess of the carrying amount over the recoverable amount of the asset. The Group firstly evaluates if there is an impairment loss for each individually significant loan or receivable or for each group of loans or receivables not individually significant. If the Group considers that there is no evidence of an impairment loss for a given loan or receivable, individually significant or not, it includes it in a group of financial assets presenting the same credit risk characteristics and examines the possibility of an impairment loss on a collective basis. The assets evaluated individually and for which an impairment loss is recognised are not examined collectively.

Embedded derivatives

Derivatives embedded in financial instruments that are not measured at fair value through profit or loss are separated from the financial instrument and measured at fair value through profit or loss if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

In practice, financial assets 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 from the hybrid (combined) instrument, since the entire financial instrument is measured at fair value, with changes in fair value being recognised in the income statement.

Hedge accounting

The Group makes little use of macro-hedge accounting. It is used to hedge a mortgage portfolio in one of the Group's subsidiary.

It does however apply micro-hedge accounting when all the following conditions are met: the hedging relationship must be designated at inception and formally documented, the hedge is expected to be highly effective and it must be possible to reliably measure the effectiveness of the hedge, forecast transactions (for cash flow hedges) must be highly probable and the hedge is measured on an ongoing basis and is determined actually to have been highly effective throughout the periods covered by the consolidated accounts for which the hedge was designated.

Fair value hedge accounting is used by the Group to cover the exposure of a financial instrument (e.g. loans, available-for-sale bonds and some issued debt securities) to changes in fair value attributable to changes in interest rates or exchange rates. In this case those derivatives designated as hedging instruments (mainly interest rate swaps and cross-currency interest rate swaps) are measured at fair value with changes in fair value recognised in the income statement. Furthermore, the gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged element and is also recognised in the income statement. If the hedged item is an available-for-sale asset already measured at fair value under other IFRS requirements, applying hedge accounting leads to splitting the change in the instrument fair value between the portion addressed by the hedging relationship, recognised in the income statement, and the portion that relates to unhedged risks, recognised in the revaluation reserve in equity.

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, and for debt instruments, the cumulative change to the carrying amount of the hedged instrument (relating to hedged risks) is transferred to the income statement *prorata temporis* until the instrument expires.

As regards to cash flow hedge (not currently used by the KBL *epb* group), hedging instruments are measured at fair value. The portion of the gain or loss that is determined to be an effective hedge is recognised in other comprehensive income. The ineffective portion is recognised in the income statement. Hedge accounting is discontinued if the hedge accounting criteria are no longer met. In this case, the hedging instruments shall be treated as held-for-trading and measured accordingly.

Foreign currency funding of a net investment in a foreign entity is accounted for as a hedge of that net investment. Translation differences (taking account of deferred taxes) on the financing are recorded in equity, along with translation differences on the net investment.

Determination of fair value

When available, published price quotations on active markets are used to determine the fair value of financial assets or liabilities.

If such quotations are not available fair value can be obtained:

- by reference to recent 'at arm's length' market transactions between knowledgeable, willing parties;
- by using a valuation technique (discounted cash flow analysis and option pricing models). The valuation technique must then incorporate all factors that market participants would consider in setting a price and be consistent with accepted financial methodologies used for pricing financial instruments;
- by using the European Venture Capital Association (EVCA) guidance for private equity instruments.

D. GOODWILL, BADWILL AND OTHER INTANGIBLE ASSETS

Goodwill arising in a business combination is defined as any excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets and liabilities acquired and contingent liabilities recorded at the date of acquisition.

Goodwill arising in a business combination is not amortised but is tested for impairment at least on an annual basis.

An impairment loss is recognised if the carrying amount of the goodwill exceeds its recoverable amount. The recoverable amount is estimated using various methods such as discounted cash flow analysis, percentage of assets under management or a price/earnings ratio multiple. Impairment losses on goodwill cannot be reversed.

Badwill (negative goodwill) is the excess of KBL *epb*'s interests in the net fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary, joint venture or associate at the date of acquisition over the acquisition cost. Where negative goodwill exists after re-examination and re-estimation of the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary, joint venture or associate, it is immediately recognised as a profit in the income statement.

The purchase of a portfolio of customers generally includes the transfer of the client assets under management to the Group and the recruitment of all or part of the account officers in charge of client relationships.

This type of intangible assets is not amortised, but is tested for impairment at least annually. The criteria and methodologies used for impairment testing are those initially used to measure the purchase price (percentage of assets under management, gross margin multiple, etc.). Whenever available, the result of the impairment test is compared with an estimate based on the parameters deduced from similar transactions.

When the recognition criteria are met and when the amounts are not immaterial, software is recognised as an intangible asset. Internal and external expenses incurred during the development phase of internally generated strategic software are recognised in assets and amortised using the straight-line method over the estimated useful life (average annual depreciation rate: 25%). However, the useful life of two specific IT projects (Corporate Action Management - CAMA - and Globus T24) has been estimated at 7 years (average annual rate: 14.3%).

Research expenses for these projects and all expenses that relate to non-strategic projects are recognised directly in the income statement.

E. PROPERTY AND EQUIPMENT

Property and equipment are initially recognised at cost.

Property and equipment the use of which is limited in time are depreciated using the straight-line method over their estimated useful lives.

Overview of average depreciation rates

Type of investment	Depreciation rate
Land	Non depreciable
Buildings	2%-3%
Technical installations	5%-10%
Furniture	25%
IT hardware	25%
Vehicles	25%
Works of art	Non depreciable

An impairment loss must be recognised if the carrying value exceeds the recoverable value (which is the greater of the asset's value in use and its fair value less costs to sell).

When property or equipment is sold, the realised gains or losses are recognised in the income statement. If property or equipment is destroyed, the carrying amount to be written off is immediately recognised in the income statement.

F. INVESTMENT PROPERTIES

Investment property is property held to earn rentals or for capital appreciation or both.

Investment property is recognised only when it is probable that future economic benefits associated with the investment property will flow to KBL *epb* group and if its cost can be measured reliably.

Investment property is measured at cost less any accumulated depreciation and impairment. It is depreciated using the straight-line method over its estimated useful live (average rate: 2% - 3%).

G. TECHNICAL PROVISIONS, INSURANCE

Sufficient technical provisions are made to enable the Group to face its commitments resulting from insurance contracts. The reinsurers' share in technical provisions is included within assets on the balance sheet.

– Provision for unearned premiums –
Premiums earned represent premiums received or receivable for all insurance policies issued before year end. The part of the premiums earned which relates to subsequent accounting periods (i.e. the entrance fee) is calculated individually *prorata temporis* for each contract with fixed duration and deferred through the transfer to the provision for unearned premiums.

– Life insurance provision –
Life insurance provision, which comprises the actuarial value of the Group's liabilities after deducting the actuarial value of future premiums, is estimated separately for each insurance policy on the basis of mortality tables accepted in Luxembourg. Life insurance provision is calculated on the basis of a prospective actuarial method.

– Discretionary participation feature (DPF) –
The provision for DPF is estimated separately for each contract.

H. PENSIONS

In addition to the general and legally prescribed retirement plans, KBL *epb* group maintains a certain number of complementary systems in the form of both defined contribution and defined benefit pension plans. Defined benefit plans are those under which the Group has a legal or constructive obligation to pay further contributions if the pension fund does not hold sufficient assets to pay all employee benefits for the current and past periods.

Defined contribution plans are those under which the Group has no further legal or constructive liability beyond the amount it pays into the fund.

In the case of defined benefit pension plans, the pension cost in the income statement and the liability on the balance sheet are calculated in accordance with IAS 19, based on the Projected Unit Credit Method, which sees each period of service as giving rise to an additional unit of benefit entitlement. The calculations are made each year by independent actuaries.

Actuarial gains and losses are recognised using what is known as the 'corridor method'. The portion of gains and losses exceeding 10% of the greater of the two values below shall be recognised in the income statement on a straight-line basis over a period representing the expected average remaining working lives of the employees participating in the plan:

- the discounted value of the defined benefit obligation at the balance sheet date (before deducting plan assets); and
- the fair value of the plan assets at the balance sheet date.

In the case of defined contribution plans, the contributions payable are expensed when the employees render the corresponding service which generally coincides with the year in which the contributions are actually paid.

I. TAX ASSETS AND LIABILITIES

These balance sheet headings include both current and deferred tax assets and liabilities.

Current tax is the amount expected to be paid or recovered, using the tax rates which have been enacted or substantively enacted at 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 valued using the tax rates in effect for the periods when the assets are realised or the liabilities settled, on the basis of the tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised for the carryforward of all unused tax losses and unused tax credits and for all deductible temporary differences between the carrying value of the assets and liabilities and their tax base, to the extent that it is probable that future taxable profit will be available against which these losses, tax credits and deductible temporary differences can be utilised.

Where required by IAS 12, tax assets and liabilities are offset.

J. PROVISIONS

A provision is recognised when and only when the following three conditions are met:

- the Group has a present obligation (at the reporting date) as a result of a past event;
- it is more likely than not that an outflow of resources embodying economic benefits will be required to settle this obligation; and
- the amount of the obligation can be estimated reliably.

K. FINANCIAL GUARANTEES

Financial guarantees contracts are initially recognised at fair value and subsequently measured at the higher of (i) the amount initially recognised less, when appropriate, cumulative amortisation and (ii) the Group's best estimate of the expenditure required to settle the present obligation at the reporting date.

L. EQUITY

Equity is the residual interest in the assets of the KBL *epb* group after all its liabilities have been deducted.

Equity instruments have been differentiated from financial instruments in accordance with the provisions of IAS 32.

The acquisition cost of KBL *epb* treasury shares that have been or are being purchased is deducted from equity. Gains and losses realised on sale or cancellation of treasury shares are recognised directly in equity.

The revaluation reserve for available-for-sale financial assets is included in equity until any impairment or sale. In such a case, the gains and losses are transferred to the income statement of the period.

As regards to cash flow hedges and hedges of a net investment in a foreign operation, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity.

M. REVENUE

KBL *epb* group recognises revenue relating to ordinary activities if and only if the following conditions are met:

- it is probable that the economic benefits associated with the transaction will flow to the KBL *epb* group, and
- the amount of revenue can be measured reliably.

The specific conditions below must also be met before recognising the related revenue:

Net interest income

Interest is recognised *prorata temporis* using the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or liability.
All interest paid and received on financial instruments are recorded under the heading "Net interest income" except interest on held-for-trading derivative instruments, which are presented under the heading "Net gains/losses on financial instruments at fair value" in the income statement.

Dividends

Dividends are recognised when the right of the shareholder to receive the payment is established. They are presented under the heading "Dividend income" in the income statement irrespective of the IFRS category of the related assets.

Rendering of services

Revenue from services is recognised by reference to the stage of completion at the balance sheet date. According to this method, the revenue is recognised in the periods when the services are provided.

Gross premiums, insurance

For single premium business, revenue is recognised on the date on which the policy is effective.

NOTE 3A – OPERATING SEGMENTS BY BUSINESS SEGMENT

KBL *epb* group distinguishes between the following primary segments :

The **'Private Banking'** segment includes the wealth management activities provided to private clients, as well as the management of investment funds, mainly distributed to private clients. This segment includes all major subsidiaries of KBL *epb* group (KBL (Switzerland) Ltd, KBL Monaco Private Bankers, KBL Richelieu Banque Privée S.A., Puilaetco Dewaay Private Bankers S.A., Theodoor Gilissen Bankiers N.V., Brown Shipley & Co Limited, and Merck Finck & Co), the private banking activities of KBL *epb*, Kredietrust Luxembourg S.A. and, finally Vitis Life S.A. (Insurance) consolidated as per April 2010.

The **'Global Investor Services'** segment includes services provided to institutional clients. This segment includes custodian bank and fund domiciliation and administration activities, paying agent activities, central securities depository Clearstream / Euroclear activities, as well as intermediation and portfolio management services for KBL *epb* institutional clients.

The **'ALM Activities'** segment includes "Client Dealing and Treasury" activities, which represent the extension of intermediation activities provided to KBL *epb* clients and operates cash management within the Group by means of treasury activities, securities lending and repos / reverse repos, as well as 'Credit & Securities' portfolios, which cover "credit" exposure (including direct loans to non-private clients of the Group) and securities held on its own behalf by KBL *epb* group.

The **'Other'** segment includes support activity provided by KBL *epb* for the network of subsidiaries, acting in its capacity as parent company, and all other elements not directly linked to the previous three segments, including reallocation of excess equity, net of the cost of financing holdings, and extraordinary elements not directly linked to other business segments.

The various items of the income statement include inter-segment transfers, calculated on an arm's length or cost recovery basis.

The net result of each entity included in the scope of consolidation is allocated to the various sectors after taking into account consolidation adjustments, after elimination of non-controlling interests and before elimination of the intercompanies accounts.

Income statement

(in EUR million)	PRIVATE BANKING 2010	PRIVATE BANKING 2011	GLOBAL INVESTOR SERVICES 2010	GLOBAL INVESTOR SERVICES 2011	ALM ACTIVITIES 2010	ALM ACTIVITIES 2011	OTHER 2010	OTHER 2011	TOTAL GROUP 2010	TOTAL GROUP 2011
Net interest income	73.4	86.5	15.2	15.9	59.2	46.4	2.5	-3.6	150.3	145.3
Gross earned premiums, insurance	3.3	2.3	-	-	-	-	-	-	3.3	2.3
Gross technical charges, insurance	-11.7	-14.4	-	-	-	-	-	2.9	-11.7	-11.5
Ceded reinsurance result, insurance	-0.1	-0.4	-	-	-	-	-	-	-0.1	-0.4
Dividend income	2.4	2.7	-	0.0	4.2	1.2	-	-0.0	6.6	3.9
Net gains/losses on financial instruments designated at fair value through profit or loss	13.0	10.2	5.2	5.3	24.7	-11.9	4.0	-12.8	46.9	-9.2
Net realised gains/losses on financial assets and liabilities not measured at fair value through profit or loss	9.9	-7.4	1.1	0.1	12.2	13.4	3.8	56.3	26.9	62.4
Net fee and commission income	331.1	299.3	41.3	44.2	-1.0	-3.0	7.3	8.4	378.7	348.9
Other net income	-1.6	1.5	0.2	0.0	0.6	2.8	2.5	3.4	1.8	7.7
GROSS INCOME	419.6	380.2	63.0	65.6	99.8	48.8	20.2	54.7	602.6	549.3
Operating expenses	-367.4	-344.4	-33.2	-32.3	-21.8	-20.7	-80.8	-41.3	-503.2	-438.8
Impairment	-4.8	-45.7	0	0	-0.2	-3.9	-39.6	-49.8	-44.6	-99.4
Badwill	-	-	-	-	-	-	29.0	-	29.0	-
Share of profit of associates	-	-	1.6	0.6	-	-	-	-	1.6	0.6
PROFIT BEFORE TAX	47.4	-9.8	31.4	33.9	77.8	24.2	-71.2	-36.4	85.4	11.8
Income tax (expenses) / income	-20.8	-10.2	-8.5	-9.6	-22.2	-6.9	33.8	35.0	-17.7	8.3
KBL *epb* GROUP PROFIT	26.6	-20.1	22.9	24.3	55.6	17.3	-37.4	-1.4	67.7	20.1
Attributable to non-controlling interest	0	0	-	-	-	-	0	0	0	0
ATTRIBUTABLE TO THE OWNERS OF THE PARENT	26.6	-20.1	22.9	24.3	55.6	17.3	-37.4	-1.4	67.7	20.1

Balance sheet

(in EUR million)	PRIVATE BANKING 2010	PRIVATE BANKING 2011	GLOBAL INVESTOR SERVICES 2010	GLOBAL INVESTOR SERVICES 2011	ALM ACTIVITIES 2010	ALM ACTIVITIES 2011	OTHER 2010	OTHER 2011	TOTAL GROUP 2010	TOTAL GROUP 2011
Cash and balances with central banks	98	202	-	-	339	875	-	-	437	1,076
Financial assets	4,953	4,805	185	169	8,064	7,629	286	315	13,488	12,919
Held-for-trading	116	91	-	-	457	537	-	-	574	628
At fair value through profit or loss	1,822	1,791	-	-	14	15	-	-	1,836	1,806
Available-for-sale financial assets	1,507	1,414	115	103	3,437	2,095	219	271	5,278	3,883
Loans and receivables	1,507	1,509	70	66	4,156	4,982	-	0	5,733	6,557
Hedging derivatives	-	-	-	-	-	-	67	45	67	45
Tax assets	32	18	-	-	-	-	54	81	86	99
Current tax assets	17	1	-	-	-	-	4	0	21	1
Deferred tax assets	15	16	-	-	-	-	49	81	64	97
Investments in associates	-	-	14	13	-	-	-	-	14	13
Investment properties	-	-	-	-	-	-	37	36	37	36
Property and equipment	139	132	13	11	6	11	39	36	197	189
Goodwill and other intangible assets	325	266	-	-	-	-	30	41	356	306
Other assets	108	115	-	-	-	-	-	-	108	115
TOTAL ASSETS	5,656	5,537	211	193	8,409	8,514	446	509	14,722	14,753
Financial liabilities	7,595	7,797	2,000	2,417	2,079	2,467	1,115	284	12,788	12,965
Held-for-trading	114	89	-	-	236	260	10	9	360	359
At fair value through profit or loss	1,822	1,790	-	-	-	-	-	-	1,822	1,790
At amortised cost	5,646	5,897	2,000	2,417	1,783	2,133	1,089	275	10,518	10,722
Hedging derivatives	13	20	-	-	60	74	16	-	89	94
Gross technical provisions, insurance	475	429	-	-	-	-	-	-	475	429
Tax liabilities	10	5	-	-	-	-	-	-	10	5
Current tax liabilities	5	1	-	-	-	-	-	-	5	1
Deferred tax liabilities	5	4	-	-	-	-	-	-	5	4
Provisions	26	24	-	-	-	-	7	5	33	29
Other liabilities	361	318	-	-	-	-	-	-	361	318
TOTAL LIABILITIES (EXCLUDING EQUITY)	8,466	8,574	2,000	2,417	2,079	2,467	1,123	289	13,667	13,747

Management monitors the operating results of its operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated accounts.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

NOTE 3B – OPERATING SEGMENTS BY GEOGRAPHIC SECTOR

KBL *epb* group, as the driver for the development of private banking within the KBC Group, distinguishes between the secondary segments 'OFF-SHORE', covering the activities of the Luxembourg, Swiss and of Monaco companies, and 'ON-SHORE', covering the activities of the other companies included in the scope of consolidation

(in EUR million)	On-shore		Off-shore		KBL *epb* group	
	2010	2011	2010	2011	2010	2011
Gross income	245	215	357	334	603	549
Total assets	2,788	2,687	11,934	12,065	14,722	14,752
TOTAL LIABILITIES(excluding equity)	3,273	3,266	10,394	10,481	13,667	13,747

NOTE 4 – NET INTEREST INCOME

(in EUR thousand)	31/12/2010	31/12/2011
BREAKDOWN BY PORTFOLIO		
INTEREST INCOME	321,207	273,710
Available-for-sale financial assets	163,003	126,787
Loans and receivables	69,862	99,764
Other	452	667
Sub-total of interest income from financial assets not measured at fair value through profit or loss	233,317	227,218
Financial assets held-for-trading	8,423	8,738
Net interest on hedging derivatives	75,574	37,574
Other financial assets at fair value through profit or loss	3,893	180
INTEREST EXPENSE	-170,933	-128,457
Financial liabilities at amortised cost	-82,617	-76,567
Other	-1,009	-517
Sub-total of interest expense on financial liabilities not measured at fair value through profit or loss	-83,625	-77,085
Net interest on hedging derivatives	-87,307	-51,373
TOTAL	150,274	145,253

NOTE 5 – GROSS EARNED PREMIUMS, INSURANCE

As of 31 December 2011 and 2010, the gross earned premiums only include individual and single premiums.

NOTE 6 – GROSS TECHNICAL CHARGES, INSURANCE

(in EUR thousand)	31/12/2010	31/12/2011
Claims paid	-38,829	-51,503
Change in life provision	29,500	44,821
Profit sharing	-185	158
Other technical charges / income	-2,211	-4,966
TOTAL	-11,725	-11,489

NOTE 7 – DIVIDEND INCOME

(in EUR thousand)	31/12/2010	31/12/2011
Available-for-sale equity instruments	6,248	3,535
Equity instruments held-for-trading	339	324
Equity instruments at fair value through profit or loss	4	7
TOTAL	6,591	3,866

NOTE 8 – NET GAINS / LOSSES ON FINANCIAL INSTRUMENTS AT FAIR VALUE DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

(in EUR thousand)	31/12/2010	31/12/2011
Held-for-trading (including interest and valuation of trading derivatives)	16,276	-13,698
Other financial instruments at fair value	1,076	392
Exchange differences	30,829	4,547
Fair value adjustments in hedge accounting	-1,275	-416
Micro-hedging	-975	94
Fair value of hedged items	10,718	17,122
Fair value of hedging items	-11,693	-17,028
Macro-hedging	-300	-510
Fair value of hedged items	743	5,306
Fair value of hedging items	-1,043	-5,816
TOTAL	46,905	-9,176

NOTE 9 – NET REALISED GAINS/LOSSES ON FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

(in EUR thousand)	31/12/2010	31/12/2011
Available-for-sale financial assets	26,903	13,846
Debt instruments	21,130	5,063
Equity instruments	5,773	8,783
Loans and receivables	-	-31
Financial liabilities measured at amortised cost	-	48,323
Other	0	243
TOTAL	26,904	62,381

[1] EUR 48,3 million generated by the early redemption of an hybrid instrument

NOTE 10 – NET FEE AND COMMISSION INCOME

(in EUR thousand)	31/12/2010	31/12/2011
FEE AND COMMISSION INCOME	483,169	450,610
Asset management	278,669	277,075
Securities transactions	165,510	138,339
Other [1]	38,990	35,196
FEE AND COMMISSION EXPENSE	-104,505	-101,732
Asset management	-56,676	-58,021
Securities transactions	-37,033	-32,822
Other [1]	-10,796	-10,889
TOTAL	378,663	348,878
[1] of which net commissions on Unit Link activities of the Insurance subsidiary	10,197	9,464

NOTE 11 – OTHER NET INCOME

(in EUR thousand)	31/12/2010	31/12/2011
Total	1,776	7,697
of which:		
Write-back of provisions for various expenses	735	825
Net proceeds from precious metals transactions	2,641	2,825
Withholding tax on dividends and wealth tax	-3,722	-2,306
Net proceeds on sale of other activities	221	-
Net proceeds from the sale of “Gestoland” building	-	2,086
Rental income	2,343	2,492

NOTE 12 – OPERATING EXPENSES

Operating expenses include staff costs, amortisation and depreciation of investment properties, amortisation and depreciation of property and equipment and intangible assets, changes in provisions and general administrative expenses.

General administrative expenses include in particular repair and maintenance expenses, advertising expenses, rent, professional duties, IT costs and various (non-income) taxes.

(in EUR thousand)	31/12/2010	31/12/2011
Staff expenses	-352,332	-292,097
General administrative expenses	-116,039	-120,060
Depreciation and amortisation of property and equipment, intangible assets and investment properties	-24,111	-24,076
Net provision allowances	-10,711	-2,536
TOTAL	-503,194	-438,769

NOTE 13 – STAFF

	31/12/2010	31/12/2011
TOTAL AVERAGE NUMBER OF PERSONS EMPLOYED (IN FULL-TIME EQUIVALENTS)	2,607	2,408

BREAKDOWN BY BUSINESS SEGMENT [1]	31/12/2010	31/12/2011
Private Banking	1,887	1,749
Global Investor Services	245	214
ALM Activities	134	120
Other	341	325
TOTAL	2,607	2,408

GEOGRAPHIC BREAKDOWN	31/12/2010	31/12/2011
On-shore	1,281	1,182
Off-shore	1,326	1,226
TOTAL	2,607	2,408

[1] The breakdown of commercial, administrative and support staff has been made on the same basis as for drawing up Note 3a on operating segments by business segment.

NOTE 14 – IMPAIRMENT

(in EUR thousand)	31/12/2010	31/12/2011
(Impairment)/reversal of impairment of:		
Loans and receivables	1,740	-2,174
Available-for-sale financial assets	-4,531	-33,859
Goodwill	-41,812	-63,321
Total	-44,603	-99,354

Impairment of loans and receivables

More detailed information on impairment is provided in the annex to the consolidated management report.

(in EUR thousand)	31/12/2010	31/12/2011
BREAKDOWN BY TYPE		
(Impairment)/reversal of impairment of:		
Specific impairment on loans and receivables	1,671	-2,390
Portfolio-based impairments	69	216
TOTAL	1,740	-2,174
GEOGRAPHIC BREAKDOWN		
On-shore	1,565	249
Off-shore	175	-2,423
TOTAL	1,740	-2,174

See also Note 23 – Impairment of loans and receivables – and Note 31 – Provisions.

Impairment of available-for-sale financial assets

(in EUR thousand)	31/12/2010	31/12/2011
(Impairment)/reversal of impairment of:		
Debt instruments	-1,084	-22,977
Equity instruments	-3,447	-10,882
TOTAL	-4,531	-33,859

Impairment on goodwill

(in EUR thousand)	31/12/2010	31/12/2011
Goodwill arising in a business combination	-39.764	-45,904
Purchased portfolio of customers	-2.048	-17,417
Total	-41,812	-63,321

The values of goodwill in the Group's consolidated accounts are subject to an impairment test which is performed at least annually in the course of the fourth quarter. These impairment tests are primarily based on the Discounted Cash Flow (DCF) method according to the following main assumptions :

- For all periods, cash flows are discounted at annual rate of 11.5%.

- For the period covering the next three years, cash flows are based on each available subsidiary's business plan as approved by the KBL *epb* Executive Committee.

- For the period from three years to ten years, two key assumptions are considered:
  - Annual growth of the gross income by 5.0%.
  - Annual growth of the operating expenses by 4.0%.

- For the period after 10 years, a terminal value is calculated based on a long term (LT) growth rate of cash flows of 5.0%. For reference, the combination in the terminal value of a [LT growth rate of 5% and a discount rate of 11.5%] corresponds to an implied PER valuation at terminal value of "15.3x".

Other cross-check methods such as the "NAV + multiple of AuM" are used to corroborate the results of the DCF method.

NOTE 15 – SHARE OF PROFIT OF ASSOCIATES

(in EUR thousand)	31/12/2010	31/12/2011
European Fund Administration S.A. and EFA Partners S.A.	1,596	604
TOTAL	1,596	604

NOTE 16 – INCOME TAX (EXPENSES) / INCOME

(in EUR thousand)	31/12/2010	31/12/2011
BREAKDOWN BY TYPE		
Current tax	-3,826	1,545
Deferred tax	-13,872	6,800
TOTAL	-17,698	8,345

(in EUR thousand)	31/12/2010	31/12/2011
BREAKDOWN BY MAJOR COMPONENTS:		
Profit before tax	85,424	11,763
Luxembourg income tax rate	28.80%	28.80%
INCOME TAX CALCULATED AT THE LUXEMBOURG INCOME TAX RATE	-24,602	-3,388
Plus/minus tax effects attributable to:		
Differences in tax rates, Luxembourg – abroad	-5,272	18,863
Tax-free income	21,253	11,815
Other non-deductible expenses	-1,016	-14,580
Adjustments related to prior years	-414	6,299
Adjustments to opening balance due to tax rate change	577	149
Unused tax losses and tax credits	-5,608	-8,224
Other	-2,616	-2,589
INCOME TAX ADJUSTMENTS	6,904	11,733
TOTAL	-17,698	8,345

Details of tax assets and liabilities are given in Note 26.

NOTE 17 – CLASSIFICATION OF FINANCIAL INSTRUMENTS: BREAKDOWN BY PORTFOLIO AND BY PRODUCT

- Financial instruments are classified into several categories ("portfolios"). Details of these various categories and the valuation rules linked to them are given in Note 2b, point c, dealing with financial assets and liabilities (IAS 39).
- The balance sheet analyses below have been conducted at the clean price. Thus the interest accrued is presented separately, except for trading derivatives, which are presented at the dirty price.

CARRYING AMOUNT
31/12/2010

ASSETS (in EUR million)	Held-for-trading (HFT) assets	Financial instruments at fair value (FIFV) through profit or loss	Available-for-sale (AFS) financial assets	Loans and receivables (L&R)	Hedging derivatives	Total
LOANS AND ADVANCES TO BANKS AND INVESTMENT FIRMS	-	-	-	4,324	-	4,324
Loans and advances to customers	-	14	-	1,402	-	1,416
Discount and acceptance credits	-	-	-	12	-	12
Consumer credits	-	-	-	7	-	7
Mortgage loans	-	-	-	438	-	438
Term loans	-	-	-	456	-	456
Current accounts	-	-	-	437	-	437
Other	-	14	-	51	-	65
Investment contracts (Insurance "branche 23")	-	1,822	-	-	-	1,822
EQUITY INSTRUMENTS	3	0	292	-	-	295
DEBT INSTRUMENTS	280	-	4,916	-	-	5,196
Government bodies	40	-	2,180	-	-	2,220
Banks and investment firms	119	-	502	-	-	622
Corporates	120	-	2,234	-	-	2,354
FINANCIAL DERIVATIVES	284	-	-	-	35	319
ACCRUED INTEREST	7	0	71	8	32	117
TOTAL	574	1,836	5,278	5,733	67	13,488
Of which reverse repos	-	-	-	2,530	-	2,530

CARRYING AMOUNT
31/12/2010

ASSETS (in EUR million)	Held-for-trading (HFT) assets	Financial instruments at fair value (FIFV) through profit or loss	Available-for-sale (AFS) financial assets	Loans and receivables (L&R)	Hedging derivatives	Total
LOANS AND ADVANCES TO BANKS AND INVESTMENT FIRMS	-	-	-	5,062	-	5,062
LOANS AND ADVANCES TO CUSTOMERS	-	15	-	1,486	-	1,501
Discount and acceptance credits	-	-	-	-	-	-
Consumer credits	-	-	-	6	-	6
Mortgage loans	-	-	-	465	-	465
Term loans	-	-	-	543	-	543
Current accounts	-	-	-	419	-	419
Other	-	15	-	54	-	69
INVESTMENT CONTRACTS (INSURANCE “BRANCHE 23”)	-	1,790	-	-	-	1,790
EQUITY INSTRUMENTS	2	0	276	-	-	278
DEBT INSTRUMENTS	235	-	3,548	-	-	3,784
Government bodies	45	-	1,955	-	-	2,000
Banks and investment firms	60	-	378	-	-	437
Corporates	131	-	1,216	-	-	1,346
FINANCIAL DERIVATIVES	387	-	-	-	34	420
ACCRUED INTEREST	4	0	59	9	11	82
TOTAL	628	1,806	3,883	6,557	45	12,919
Of which reverse repos	-	-	-	4,379	-	4,379

CARRYING AMOUNT
31/12/2010

LIABILITIES (in EUR million)	Held-for-trading (HFT) liabilities	Financial liabilities at fair value (FIFV) through profit or loss	Hedging derivatives	Financial liabilities at amortised cost	Total
DEPOSITS FROM BANKS AND INVESTMENT FIRMS	-	-	-	2,717	2,717
DEPOSITS FROM CUSTOMERS	-	-	-	6,920	6,920
Current accounts/demand deposits	-	-	-	5,048	5,048
Time deposits	-	-	-	1,853	1,853
Other deposits	-	-	-	20	20
DEBT CERTIFICATES	-	-	-	840	840
Deposits certificates	-	-	-	0	0
Customer savings bonds	-	-	-	4	4
Debt certificates	-	-	-	-	-
Non-convertible bonds	-	-	-	3	3
Non-convertible subordinated liabilities	-	-	-	833	833
INVESTMENT CONTRACTS (INSURANCE)	-	1,822	-	-	1,822
FINANCIAL DERIVATIVES	336	-	67	-	403
SHORT SALES	24	-	-	-	24
Equity instruments	0	-	-	-	0
Debt instruments	24	-	-	-	24
ACCRUED INTEREST	0	-	21	40	62
TOTAL	360	1,822	89	10,518	12,788
Of which, repos	-	-	-	1,078	1,078

CARRYING AMOUNT
31/12/2011

LIABILITIES (in EUR million)	Held-for-trading (HFT) liabilities	Financial liabilities at fair value (FIFV) through profit or loss	Hedging derivatives	Financial liabilities at amortised cost	Total
DEPOSITS FROM BANKS AND INVESTMENT FIRMS	-	-	-	2,821	2,821
DEPOSITS FROM CUSTOMERS	-	-	-	7,498	7,498
Current accounts/demand deposits	-	-	-	5,609	5,609
Time deposits	-	-	-	1,881	1,881
Other deposits	-	-	-	9	9
DEBT CERTIFICATES	-	-	-	385	385
Deposits certificates	-	-	-	0	0
Customer savings bonds	-	-	-	3	3
Debt certificates	-	-	-	114	114
Non-convertible bonds	-	-	-	6	6
Non-convertible subordinated liabilities	-	-	-	262	262
INVESTMENT CONTRACTS (INSURANCE)	-	1,790	-	-	1,790
FINANCIAL DERIVATIVES	330	-	73	-	403
SHORT SALES	29	-	-	-	29
EQUITY INSTRUMENTS	0	-	-	-	0
DEBT INSTRUMENTS	28	-	-	-	28
ACCRUED INTEREST	0	-	21	17	39
TOTAL	359	1,790	94	10,722	12,965
Of which, repos	-	-	-	497	497

FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table summarises the carrying amounts and fair values of the financial assets and liabilities not measured at fair value, excluding accrued interest.

	CARRYING AMOUNT		FAIR VALUE	
(in EUR million)	31/12/2010	31/12/2011	31/12/2010	31/12/2011
ASSETS				
Loans and advances to banks and investment firms	4,324	5,062	4,324	5,063
Loans and advances to customers	1,402	1,486	1,402	1,486
Discount and acceptance credits	12	-	12	-
Consumer credits	7	6	7	6
Mortgage loans	438	465	438	465
Term loans	456	543	456	543
Current accounts	437	419	437	419
Other	51	54	51	54
LIABILITIES				
Deposits from banks and investment firms	2,717	2,821	2,717	2,822
Deposits from customers	6,920	7,498	6,919	7,498
Current accounts/demand deposits	5,048	5,609	5,046	5,609
Time deposits	1,853	1,881	1,853	1,881
Other deposits	20	9	20	9
Debt certificates	840	385	830	366
Deposits certificates	0	0	0	0
Customer savings bonds	4	3	4	3
Debt certificates	-	114	-	114
Non-convertible bonds	3	6	3	6
Non-convertible subordinated liabilities	833	262	823	243

FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) price in active market for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

31/12/2010 (in EUR million)	Level 1	Level 2	Level 3	Accrued interest	TOTAL
ASSETS					
HELD-FOR-TRADING	309	258	-	7	574
Equity instruments	2	1	-	-	3
Debt instruments	227	52	-	7	287
Derivatives	80	204	-	-	284
AT FAIR VALUE THROUGH PROFIT OR LOSS	1,822	14	-	0	1,836
AVAILABLE-FOR-SALE	3,233	1,930	38	71	5,272
Equity instruments	234	13	38	-	285
Debt instruments	2,999	1,917	-	71	4,987
HEDGING DERIVATIVES	-	35	-	32	67
TOTAL	5,364	2,237	38	109	7,749
LIABILITIES					
HELD-FOR-TRADING	103	257	-	0	360
Equity instruments	0	-	-	-	0
Debt instruments	21	2	-	0	24
Derivatives	81	255	-	-	336
AT FAIR VALUE THROUGH PROFIT OR LOSS	1,822	-	-	-	1,822
HEDGING DERIVATIVES	0	67	-	21	89
TOTAL	1,924	324	-	22	2,271

31/12/2011 (in EUR million)	Level 1	Level 2	Level 3	Accrued interest	TOTAL
ASSETS					
HELD-FOR-TRADING	201	423	0	4	628
Equity instruments	1	1	0	-	2
Debt instruments	151	84	0	4	239
Derivatives	49	338	-	-	387
AT FAIR VALUE THROUGH PROFIT OR LOSS	1,791	15	-	0	1,806
AVAILABLE-FOR-SALE	2,991	827	0	59	3,877
Equity instruments	242	27	0	-	269
Debt instruments	2,749	799	0	59	3,607
HEDGING DERIVATIVES	-	34	-	11	45
TOTAL	4,982	1,299	0	73	6,355
LIABILITIES					
HELD-FOR-TRADING	77	282	-	0	359
Equity instruments	-	-	-	-	-
Debt instruments	28	1	-	0	29
Derivatives	49	282	-	-	330
AT FAIR VALUE THROUGH PROFIT OR LOSS	1,790	-	-	-	1,790
HEDGING DERIVATIVES	-	73	-	21	94
TOTAL	1,867	355	-	21	2,243

Level 3 items measured at fair value

(in EUR million)	Financial instruments at fair value through profit or loss	Available-for-sale financial assets	Total
BALANCE AS AT 01/01/2010	7	33	40
Total profit / loss for the year			
recognised in the income statement	0	-2	-2
recognised in other components of comprehensive income	-	1	1
Purchases	-	6	6
Sales	-7	-1	-8
Transfers from / to level 3	-	-	-
BALANCE AS AT 31/12/2010	-	38	38
Total profit / loss for the year recognised in the income statement and relating to assets held as at 31/12/2010	0	-	0

(in EUR million)	Financial instruments at fair value through profit or loss	Available-for-sale financial assets	Total
BALANCE AS AT 01/01/2011	-	38	38
Total profit / loss for the year			
recognised in the income statement	-	0	0
recognised in other components of comprehensive income	-	-	-
Purchases	-	-	-
Sales	-	-38	-38
Transfers from / to level 3	-	-	-
BALANCE AS AT 31/12/2011	-	0	0
Total profit / loss for the year recognised in the income statement and relating to assets held as at 31/12/2011	-	0	0

Transfers between the level 1 and level 2 categories

Transfers between the level 1 and level 2 categories which occur in 2011 were not significant. Reasons for the transfers were mainly linked to evolution in the liquidity of the related instruments.
No transfer between the level 1 and level 2 categories occurred in 2010.

GOVERNEMENT BONDS BY COUNTRY

31/12/2010 (in EUR million)	Available-for-sale financial assets Nominal	Carrying amount	Available-for-sale reserve	Impairment	Related hedging derivatives	Held-for-trading assets Nominal	Carrying amount
Austria	66	69	2	-	-	1	1
Belgium	448	467	9	-	-3	4	4
Cyprus	10	10	0	-	0	0	0
Denmark	1	0	0	-	-	1	1
Finland	2	3	0	-	-	-	-
France	107	112	2	-	-	-	-
Germany	95	102	5	-	-	-	-
Greece	48	34	-13	-	-	-	-
Ireland	2	2	-0	-	-	-	-
Italy	242	246	1	-	-	0	0
Luxembourg	97	100	3	-	1	7	7
The Netherlands	280	290	5	-	-	-	-
Poland	-	-	-	-	-	-	-
Portugal	21	19	-2	-	-	-	-
Spain	162	163	-3	-	-3	-	-
Sweden	23	24	1	-	-	-	0
Swiss	33	51	1	-	-	-	-
Supranational	355	369	10	-	2	22	22
Rest	112	119	11	-1	-1	6	5
Total	**2,103**	**2,180**	**32**	**-1**	**-4**	**41**	**40**

In EUR million (31/12/2011)	Maturity	Available-for-sale financial assets					Held-for-trading assets	
		Nominal	Carrying amount	Available-for-sale	Impairment	Related hedging	Nominal	Carrying amount
Austria		**88**	**95**	**2**	**-**	**-**	**0**	**0**
	2012	19	20	0	-	-	0	0
	2013 or 2014	2	2	0	-	-	0	0
	2017 and later	67	73	2	-	-	-	-
Belgium		**387**	**397**	**1**	**-**	**-4**	**-**	**-**
	2012	219	223	2	-	-0	-	-
	2013 or 2014	67	68	1	-	-	-	-
	2015 or 2016	81	84	-3	-	-4	-	-
	2017 and later	20	22	1	-	-	-	-
Cyprus		**10**	**10**	**-0**	**-**	**0**	**-**	**-**
	2012	10	10	-0	-	-0	-	-
Denmark		0	-	0	-	-	-	-
	2013 or 2014	0	0	0	-	-	-	-
Finland		**2**	**2**	**0**	**-**	-	**-**	**-**
	2015 or 2016	2	-	0	-	-	-	-
France		**232**	**243**	**4**	**-**	-	**-**	**-**
	2012	64	65	0	-	-	-	-
	2013 or 2014	104	110	2	-	-	-	-
	2015 or 2016	32	34	1	-	-	-	-
	2017 and later	32	34	1	-	-	-	-
Germany		**105**	**116**	**5**	**-**	-	**-**	**-**
	2012	3	3	-0	-	-	-	-
	2013 or 2014	47	51	2	-	-	-	-
	2015 or 2016	25	27	2	-	-	-	-
	2017 and later	30	35	2	-	-	-	-
Greece		**39**	**9**	**-**	**-22**	-	**0**	**0**
	2012	1	1	-	-1	-	-	-
	2013 or 2014	4	1	-	-3	-	0	0
	2015 or 2016	34	8	-	-18	-	-	-
Ireland		**2**	**2**	**-0**	**-**	-	**-**	**-**
	2017 and later	2	2	-0	-	-	-	-
Italy		**83**	**80**	**-3**	**-**	-	**-**	**-**
	2012	5	5	0	-	-	-	-
	2013 or 2014	24	24	-0	-	-	-	-
	2015 or 2016	54	50	-3	-	-	-	-
Luxembourg		**97**	**104**	**3**	**-**	**-4**	**3**	**3**
	2012	-	-	-	-	-	-	-
	2013 or 2014	47	49	2	-	-	2	2
	2015 or 2016	-	-	-	-	-	-	-
	2017 and later	50	55	1	-	-4	1	1
The Netherlands		**142**	**151**	**6**	**-**	-	**-**	**-**
	2012	56	57	0	-	-	-	-
	2013 or 2014	20	21	1	-	-	-	-
	2015 or 2016	33	36	2	-	-	-	-
	2017 and later	33	38	3	-	-	-	-
Poland		**0**	**0**	**-0**	**-**	-	**-**	**-**
	2013 or 2014	0	0	-0	-	-	-	-
Portugal		**21**	**12**	**-9**	**-**	-	**-**	**-**
	2012	-	-	-	-	-	-	-
	2013 or 2014	1	1	-0	-	-	-	-
	2015 or 2016	5	3	-2	-	-	-	-
	2017 and later	15	8	-7	-	-	-	-
Supranational		**475**	**494**	**7**	**-**	**-5**	**40**	**41**
	2012	16	16	0	-	-	1	1
	2013 or 2014	108	112	2	-	-	3	3
	2015 or 2016	189	198	5	-	-	20	21
	2017 and later	162	168	-0	-	-5	17	17
Spain		**138**	**139**	**-2**	**-**	**-1**	**-**	**-**
	2012	54	53	-2	-	-1	-	-
	2013 or 2014	38	39	0	-	-	-	-
	2015 or 2016	34	34	0	-	-	-	-
	2017 and later	12	12	-0	-	-	-	-
Sweden		**23**	**25**	**1**	**-**	-	**-**	**-**
	2012	-	-	-	-	-	-	-
	2013 or 2014	23	25	1	-	-	-	-
Switzerland		**49**	**53**	**1**	**-**	-	**-**	**-**
	2012	9	9	0	-	-	-	-
	2013 or 2014	25	26	0	-	-	-	-
	2015 or 2016	16	17	1	-	-	-	-
Rest		**24**	**23**	**4**	**-1**	**0**	**1**	**0**
	2012	5	5	0	-0	-	0	0
	2013 or 2014	-	-	-	-	-	0	0
	2015 or 2016	-	-	-	-	-	0	0
	2017 and later	19	18	4	-1	-	1	0
Total		**1,919**	**1,955**	**21**	**-23**	**-14**	**44**	**45**

NOTE 18 – AVAILABLE-FOR-SALE FINANCIAL ASSETS AND LOANS AND RECEIVABLES: BREAKDOWN BY PORTFOLIO AND QUALITY

(in EUR million)	Available-for-sale (AFS) financial assets	Loans and receivables (L&R)	TOTAL
31/12/2010			
Unimpaired assets	5,217	5,728	10,945
Impaired assets	128	123	250
Impairment	-66	-117	-184
TOTAL	5,278	5,733	11,012

(in EUR million)	Available-for-sale (AFS) financial assets	Loans and receivables (L&R)	TOTAL
31/12/2011			
Unimpaired assets	3,809	6,552	10,361
Impaired assets	168	57	225
Impairment	-94	-52	-146
Total	3,883	6,557	10,440

NOTE 19 – FINANCIAL ASSETS AND LIABILITIES: BREAKDOWN BY PORTFOLIO AND RESIDUAL MATURITY

ASSETS (in EUR million)	Held-for-trading (HFT) assets	Financial instruments at fair value (FIFV) through profit or loss	Available-for-sale (AFS) financial assets	Loans and receivables (L&R)	Hedging derivatives	Total
31/12/2010						
Less than or equal to 1 year	264	-	948	5,082	1	6,295
More than 1 but less than or equal to 5 years	159	14	2,692	209	0	3,075
More than 5 years	141	-	1,276	435	34	1,885
Indefinite period	3	1,822	292	-		2,117
Accrued interest	7	0	71	8	32	117
TOTAL	574	1,836	5,278	5,733	67	13,488
31/12/2011						
Less than or equal to 1 year	341	-	813	5,762	0	6,916
More than 1 but less than or equal to 5 years	177	15	1,686	316	34	2,228
More than 5 years	105	-	1,049	470	-	1,624
Indefinite period	2	1,791	276	-	-	2,069
Accrued interest	4	0	59	9	11	82
TOTAL	628	1,806	3,883	6,557	45	12,919

LIABILITIES (in EUR million)	Held-for-trading (HFT) liabilities	Financial instruments at fair value (FIFV) through profit or loss	Liabilities at amortised cost	Hedging derivatives	Total
31/12/2010					
Less than or equal to 1 year	221	-	9,791	1	10,013
More than 1 but less than or equal to 5 years	32	-	253	28	314
More than 5 years	82	-	433	39	554
Indefinite period	24	1,822	-	-	1,845
Accrued interest	0	-	40	21	62
TOTAL	360	1,822	10,518	89	12,788
31/12/2011					
Less than or equal to 1 year	241	-	10,113	5	10,359
More than 1 but less than or equal to 5 years	30	-	587	37	654
More than 5 years	59	-	5	30	95
Indefinite period	29	1,790	-	-	1,819
Accrued interest	0	-	17	21	39
TOTAL	359	1,790	10,722	94	12,965

NOTE 20 – SECURITIES LENDING AND SECURITIES GIVEN IN GUARANTEE

The Group regularly carries out transactions in which the assets transferred do not qualify for derecognition under IAS 39. This mainly concerns the following operations:

- repurchase agreements ("repo");
- securities lending; and
- securities given as collateral (in particular for securities borrowing or to guarantee credit lines received).

These transactions can be broken down as follows:

	Repo **	Securities lending		Other
(in EUR million)	Debt instruments	Debt instruments	Equity instruments	Debt instruments
31/12/2010				
Financial assets held-for-trading	-	6	-	-
Financial instruments at fair value through profit or loss	-	-	-	-
Available-for-sale financial assets	198	120	2	1,311
Total financial assets not derecognised	*198*	*126*	*2*	*1,311*
Other (*)	872	1,301	0	1,633
TOTAL	1,070	1,427	2	2,944
31/12/2011				
Financial assets held-for-trading	-	10	-	-
Financial instruments at fair value through profit or loss	-	-	-	-
Available-for-sale financial assets	298	88	-	1,062
Total financial assets not derecognised	*298*	*98*	*-*	*1,062*
Other (*)	185	494	31	1,580
TOTAL	483	592	31	2,642

(*) The item 'Other' relates to securities borrowed or received as collateral for other operations.

(**) The carrying amount of debts associated with repo operations is available in Note 17.

NOTE 21 – SECURITIES RECEIVED IN GUARANTEE

The Group mainly receives securities as collateral in relation to its reverse repurchase agreement operations and securities lending.
These securities are generally transferred under full ownership and the Group is able to re-use them in other operations.

The fair value of these guarantees can be broken down as follows:

(in EUR million)	31/12/2010	31/12/2011
Reverse repurchase agreements	2,522	4,502
Collateral received in securities lending	1,322	563
TOTAL	3,844	5,065
Of which, transferred to:		
Repurchase agreements	26	7
Securities lent	1	1
Collateral given for securities borrowing	1,633	633
Other	-	947
TOTAL	1,660	1,588

NOTE 22 – IMPAIRMENT OF AVAILABLE-FOR-SALE FINANCIAL ASSETS

(in EUR million)	Debt instruments	Equity instruments
CHANGES		
BALANCE AS AT 01/01/2010	55	31
Changes affecting the income statement	1	3
Allowances	4	3
Reversals	-3	-
Changes not affecting the income statement	-36	11
Securities sold/matured	-34	1
Other	-2	10
BALANCE AS AT 31/12/2010	21	46

(in EUR million)	Debt instruments	Equity instruments
CHANGES		
BALANCE AS AT 01/01/2011	21	46
Changes affecting the income statement	23	11
Allowances	23	11
Reversals	0	-
Changes not affecting the income statement	-2	-4
Securities sold/matured	-3	-3
Other	2	-1
BALANCE AS AT 31/12/2011	42	53

NOTE 23 – IMPAIRMENT OF LOANS AND RECEIVABLES

The annex to the consolidated management report contains information relating to non-performing receivables and the management of the related impairments.

(in EUR million)	31/12/2010	31/12/2011
TOTAL	118	52
BREAKDOWN BY TYPE		
Specific impairments of loans and receivables	116	50
Portfolio-based impairment	1	1
TOTAL	118	52
BREAKDOWN BY COUNTERPARTY		
Loans and advances to banks	-	-
Loans and advances to customers	117	52
TOTAL	118	52
GEOGRAPHIC BREAKDOWN		
On-shore	24	24
Off-shore	94	28
TOTAL	118	52

(in EUR million)	Specific impairments on loans and receivables	Portfolio-based impairment	Total
CHANGES			
BALANCE AS AT 01/01/2010	122	1	124
Changes affecting the income statement	-2	0	-2
Allowances	1	0	1
Reversals	-3	0	-3
Changes not affecting the income statement	-4	-	-4
Use of provision	-1	-	-1
Other / Change impact	-3	-	-3
BALANCE AS AT 31/12/2010	116	1	118

(in EUR million)	Specific impairments on loans and receivables	Portfolio-based impairment	Total
CHANGES			
BALANCE AS AT 01/01/2011	116	1	118
Changes affecting the income statement	2	0	2
Allowances	3	0	3
Reversals	-1	0	-1
Changes not affecting the income statement	-68	-	-68
Use of provision	-69	-	-69
Other / Change impact	1	-	1
BALANCE AS AT 31/12/2011	50	1	52

NOTE 24 – DERIVATIVES

31/12/2010 (in EUR million)	HELD-FOR-TRADING				HEDGING – FAIR VALUE HEDGING			
	Fair value		Notional value		Fair value		Notional value	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
TOTAL	284	336	28,266	28,313	35	67	1,880	1,882
INTEREST RATE CONTRACTS	73	84	19,539	19,539	35	65	1,873	1,873
Interest rate swaps	71	81	18,879	18,879	35	65	1,873	1,873
Futures	0	0	91	91	-	-	-	-
Forward rate agreements	-	-	-	-	-	-	-	-
Other	3	3	569	569	-	-	-	-
FOREIGN EXCHANGE CONTRACTS	88	129	5,580	5,628	-	2	7	9
Foreign exchange forward	87	129	5,571	5,615	-	-	-	-
Cross currency swaps	-	-	-	-	-	2	7	9
Futures	0	0	-	3	-	-	-	-
Options	0	0	-	1	-	-	-	-
Other	0	0	9	9	-	-	-	-
EQUITY CONTRACTS	121	121	3,112	3,112	-	-	-	-
Futures	1	1	188	188	-	-	-	-
Options	102	102	2,414	2,414	-	-	-	-
Other	18	18	510	510	-	-	-	-
LOAN CONTRACTS	0	0	3	3	-	-	-	-
COMMODITIES AND OTHER CONTRACTS	1	1	31	31	-	-	-	-

31/12/2011 (in EUR million)	HELD-FOR-TRADING				HEDGING: FAIR VALUE HEDGING			
	Fair value		Notional value		Fair value		Notional value	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
TOTAL	387	330	23,813	23,753	34	73	1,415	1,415
INTEREST RATE CONTRACTS	55	72	12,810	12,810	34	70	1,405	1,405
Options	0	0	27	27	-	-	-	-
Interest rate swaps	51	66	12,123	12,123	34	70	1,291	1,291
Futures	0	2	116	116	-	-	-	-
Other	4	4	544	544	-	0	114	114
FOREIGN EXCHANGE CONTRACTS	208	142	8,385	8,326	-	3	7	10
Foreign exchange forward	208	142	8,379	8,312	-	-	-	-
Cross currency swaps	-	-			-	3	7	10
Futures	-	0		7	-	-	-	-
Other	1	0	6	6	-	-	-	-
EQUITY CONTRACTS	123	116	2,597	2,597	-	-	-	-
Futures	4	4	257	257	-	-	-	-
Options	82	81	1,924	1,924	-	-	-	-
Other	37	30	416	416	-	-	-	-
LOAN CONTRACTS	0	0	2	2	-	-	-	-
COMMODITIES AND OTHER CONTRACTS	1	1	19	19	-	-	-	-

NOTE 25 – OTHER ASSETS

The heading 'Other assets' covers various short-term receivables such as dividends and coupons that clients bring to KBL *epb* group to be cashed and the value of which has already been paid.

NOTE 26 – TAX ASSETS AND LIABILITIES

(in EUR million)	31/12/2010	31/12/2011
CURRENT TAX ASSETS	21	1
DEFERRED TAX ASSETS	64	97
Employee benefits	-3	-2
Losses carried forward	67	79
Tangible and intangible assets	0	0
Provisions	-18	-18
Financial instruments at fair value through profit or loss	0	0
Available-for-sale financial instruments	-5	20
Other	22	17
TAX ASSETS	86	99
Tax losses and tax credits not capitalised [1]	78	94

[1] Tax losses and tax credits not capitalised concern tax losses of Group companies, which are not recognised because of uncertainty about future taxable profits.

(in EUR million)	31/12/2010	31/12/2011
CURRENT TAX LIABILITIES	5	1
DEFERRED TAX LIABILITIES	5	4
Employee benefits	-	-
Tangible and intangible assets	0	0
Provisions	0	-
Financial instruments at fair value through profit or loss	0	0
Available-for-sale financial instruments	2	1
Other	3	3
TAX LIABILITIES	10	5

Changes in deferred tax assets and liabilities are not equal to the deferred tax charge/income recognised in the income statement during the year. This is mainly due to the deferred tax linked to the recognition in the revaluation reserve of fair value changes in unimpaired available-for-sale financial instruments.

NOTE 27 – INVESTMENTS IN ASSOCIATES

Associates are companies over which the KBL *epb* group has a significant influence, either directly or indirectly, without having full or joint control.

(in EUR million)	31/12/2010	31/12/2011
TOTAL	14	13
OVERVIEW OF INVESTMENTS IN ASSOCIATES (INCLUDING GOODWILL)		
European Fund Administration S.A. and EFA Partners S.A.	14	13
GOODWILL IN ASSOCIATES		
Gross amount	-	-
Cumulative impairment	-	-

CHANGES	31/12/2010	31/12/2011
OPENING BALANCE	15	14
Share of profit for the year	2	1
Dividends paid	-3	-2
Changes in scope	-	-
ENDING BALANCE	14	13

Summary financial information

(in EUR thousand)	Total assets	Total liabilities excluding equity	Net profit
31/12/2011 (provisional figures)			
European Fund Administration S.A. (Group)	38,321	14,752	1,133
EFA Partners S.A.	2,912	4	822

NOTE 28 – GOODWILL AND OTHER INTANGIBLE ASSETS

(in EUR million)	Goodwill arising in a business combination	Purchased Portfolio of customers	Software developed in-house	Software purchased	Other	Total
CHANGES						
BALANCE AS AT 01/01/2010	322	38	10	5	-	374
Acquisitions	2	-	19	10	0	30
Disposals	-	-	-4	-	-	-4
Amortisation	-	-	-2	-2	-	-5
Impairment	-39	-1	-	-	-	-41
Allowances	-39	-1	-	-	-	-41
Reversals	-	-	-	-	-	-
Changes in scope	-	-	-	1	-	1
Other	-	-	0	0	0	0
BALANCE AS AT 31/12/2010	284	36	22	13	0	356
Of which, cumulative amortisation and impairment	-43	-49	-6	-28	0	-125
BALANCE AS AT 01/01/2011	284	36	22	13	0	356
Acquisitions	-	4	13	1	0	19
Disposals	-	0	0	-	-	0
Amortisation	-	-	-1	-4	-	-5
Impairment	-46	-17	-	-	-	-63
Allowances	-46	-17	-	-	-	-63
Reversals	-	-	-	-	-	-
Changes in scope	-	-	-	-	-	-
Other	-	0	0	0	0	0
BALANCE AS AT 31/12/2011	238	23	35	10	0	306
Of which, cumulative amortisation and impairment	-89	-66	-7	-29	0	-191

NOTE 29 – PROPERTY AND EQUIPMENT AND INVESTMENT PROPERTIES

(in EUR million)	31/12/2010	31/12/2011
PROPERTY AND EQUIPMENT	197	189
INVESTMENT PROPERTIES		
Carrying amount	37	36
Fair value	46	47
Investment properties – Rental income	2	2

(in EUR million)	Land and buildings	IT equipment	Other equipment	TOTAL PROPERTY AND EQUIPMENT	Investment properties
CHANGES					
BALANCE AS AT 01/01/2010	152	16	30	199	37
Acquisitions	3	7	3	13	1
Disposals	0	0	-1	-1	-
Depreciation	-7	-7	-5	-19	-1
Impairment	-	-	-	-	-
Allowances	-	-	-	-	-
Reversals	-	-	-	-	-
Translation differences	4	0	1	4	-
Changes in scope	-	0	0	0	-
Other	0	-2	2	0	0
BALANCE AS AT 31/12/2010	152	14	31	197	37
Of which, cumulative depreciation and impairment	-85	-46	-50	-182	-10

(in EUR million)	Land and buildings	IT equipment	Other equipment	TOTAL PROPERTY AND EQUIPMENT	Investment properties
CHANGES					
BALANCE AS AT 01/01/2011	152	14	31	197	37
Acquisitions	2	6	2	10	0
Disposals	-1		0	-1	0
Depreciation	-7	-6	-5	-18	-1
Impairment	-	-	-	-	-
Allowances	-	-	-	-	-
Reversals	-	-	-	-	-
Translation differences	1	0	0	1	-
Changes in scope	-	-	-	-	-
Other	0	-1	0	0	0
BALANCE AS AT 31/12/2011	147	13	28	189	36
Of which, cumulative depreciation and impairment	-91	-45	-54	-190	-11

NOTE 30 – GROSS TECHNICAL PROVISIONS, INSURANCE

(in EUR million)	31/12/2010	31/12/2011
TOTAL	475	429
Provision for unearned premiums	0	0
Life insurance provision	474	429
Discretionary participation features	0	0

(in EUR million)	31/12/2010	31/12/2011
CHANGES		
OPENING BALANCE	-	475
Net payments received/premiums receivable	3	2
Liabilities paid for surrenders, benefits and claims	-39	-51
(Theoretical) risk premiums deducted	-	-
Credit of interest or change in unit-prices	11	12
Attributed profit sharing	0	0
Translation differences	-	-
Other movements	-5	-8
Changes in scope	504	-
CLOSING BALANCE	475	429

NOTE 31 – PROVISIONS

(in EUR million)	Provisions for restructuring	Specific impairment for credit commitments	Other provisions [1]	TOTAL
CHANGES				
BALANCE AS AT 01/01/2010	8	0	18	26
Changes affecting the income statement	-	-	11	11
Allowances	-	-	14	14
Reversals	-	-	-4	-4
Other changes	-8	-	4	-4
BALANCE AS AT 31/12/2010	0	0	33	33

(in EUR million)	Provisions for restructuring	Specific impairment for credit commitments	Other provisions [1]	TOTAL
CHANGES				
BALANCE AS AT 01/01/2011	0	0	33	33
Changes affecting the income statement	-	0	2	2
Allowances	-	-	10	10
Reversals	-	-	-8	-8
Other changes	-	-	-8	-8
BALANCE AS AT 31/12/2011	-	0	27	28

(1) The column 'Other provisions' mainly contains provisions for the expenses relating to disputes, consultancy and miscellaneous fees.

NOTE 32 – OTHER LIABILITIES

The heading 'Other liabilities' in particular covers various items payable in the short term such as coupons and redeemable securities as paying agent.
The net liabilities related to staff pension funds (see Note 33) and restructuration plans are also included in this item.

NOTE 33 – RETIREMENT BENEFIT OBLIGATIONS

In addition to the legally prescribed plans, KBL *epb* group maintains various complementary pension plans, of both the defined contribution and defined benefit kind.

The staff of the various KBL *epb* group companies is covered by means of a number of funded and insured pension plans most of which are defined benefit plans. In order to be able to participate in some of these plans, a minimum period of service with the KBL *epb* group is required and the benefits may also depend on the employees' years of affiliation to the plans as well as on their remuneration in the years before retirement. The annual funding requirements for these various complementary pension plans are determined based on actuarial cost methods.

Defined benefit plans (in EUR million)	31/12/2010	31/12/2011
DEFINED BENEFIT PLAN OBLIGATIONS		
Value of obligations as at 01/01	183	196
Current service cost	7	7
Interest cost	8	8
Plan amendments	-	0
Actuarial gain/(losses)	7	-2
Benefits paid	-17	-12
Currency adjustments	8	2
Changes in scope	-	-
Other	1	1
Value of obligations as at 31/12	196	199
FAIR VALUE OF PLAN ASSETS		
Fair value of assets as at 01/01	115	125
Actual return on plan assets	6	-6
Employer contributions	7	8
Plan participants contributions	2	1
Benefits paid	-14	-9
Currency adjustments	7	2
Changes in scope	-	-
Other	2	0
Fair value of assets as at 31/12	125	121
Of which financial instruments issued by KBL *epb* group	-	-
FUNDED STATUS		
Plan assets in excess of defined benefit obligations	-71	-78
Unrecognised net actuarial gains (-) / losses (+)	17	25
Unrecognised past service costs	-	-
Unrecognised assets	-1	-1
Plan over-/(under-) funding	-55	-54

	31/12/2010	31/12/2011
CHANGES RELATING TO NET LIABILITY		
Net liability as at 01/01	-56	-55
Net period cost in the income statement	-10	-11
Employer contributions	6	7
Currency adjustments	1	1
Change in scope of consolidation	-	-
Other	4	3
Net liability as at 31/12	-55	-54
AMOUNTS RECOGNISED IN PROFIT OR LOSS		
Current service cost	-7	-7
Interest cost	-8	-8
Expected return on plan assets	5	5
Adjustments to asset limits recognised	0	0
Amortisation of unrecognised past service costs	0	-
Amortisation of unrecognised net actuarial (gains)/losses	-1	-1
Other	-	-
Change in scope	-	0
Net period cost in the income statement	-10	-11
Actual return on plan assets (in %)	5.29%	-4.41%
PRINCIPAL ACTUARIAL ASSUMPTIONS USED [1]		
Discount rate	from 3.50% to 5.70%	from 2.00% to 4.75%
Expected rate of return on plan assets	from 4.00% to 5.70%	from 3.00% to 5.30%
Expected rate of salary increase	from 2.50% to 3.00%	from 2.00% to 3.00%
Expected rate of pension increase	from 1.80% to 5.00%	from 1.80% to 2.80%

(1) Ranges of assumptions taking into account the local situation of each KBL *epb* group company.

Defined benefit plans

(in EUR million)	31/12/2007	31/12/2008	31/12/2009	31/12/2010	31/12/2011
Year-end amount of liability	138	150	183	196	199
Year-end fair value of assets	79	75	115	125	121
Plan assets in excess of obligations	-59	-75	-68	-71	-78
Plan excess/(under-) funding	-55	-53	-56	-55	-54

The estimate of the employer contribution payable to the defined benefit pension plan assets for 2012 is EUR 7 million.

Defined contribution plans

(in EUR million)	31/12/2010	31/12/2011
AMOUNT RECORDED IN THE INCOME STATEMENT	-6	-6

NOTE 34 – EQUITY ATTRIBUTABLE TO THE OWNERS OF THE PARENT

The subscribed and paid-up capital is EUR 187,2 million, represented by 18,186,877 ordinary shares without par value and by 1,949,711 non-voting preference shares without par value. Following article 6 of the Bank's articles of incorporation, the Board of Directors is authorized to increase the subscribed and paid-up capital to maximum EUR 300 million by issuing ordinary shares until 25 April 2012.

Holders of preference shares are entitled to receive an initial dividend of EUR 0.25 per share, as established in the Bank's articles of association, and are therefore guaranteed a minimum annual return. If there are no profits, this dividend entitlement is carried forward to subsequent periods. Any profits remaining once this first dividend has been paid are shared out between all shareholders, whether they hold ordinary or preference shares, in such a way that both categories of shareholders ultimately receive an identical dividend. The Bank is thus twice indebted of EUR 0.5 million to preference shareholders for 2010, where no dividend has been paid-up and for 2011, if the Annual General Meeting approves the proposal of the Board of Directors to allocate the loss in deduction of the retained earnings (see Note 35).

The Bank's articles of association specify that, if the Bank is wound up, holders of preference shares are guaranteed repayment of the capital initially invested, that is EUR 14.56. Holders of preference shares are not however entitled to receive a share of any accumulated reserves.

(in number of shares)	31/12/2010	31/12/2011
TOTAL NUMBER OF SHARES ISSUED	20,136,588	20,136,588
Ordinary shares	18,186,877	18,186,877
Preference shares	1,949,711	1,949,711
Of which: shares entitling the holder to a dividend payment	20,135,744	20,135,744
Of which: treasury shares, including commitments	844	844
Of which: shares representing equity under IFRS	20,135,744	20,135,744

Changes	Ordinary shares	Preference shares	Total
BALANCE AS AT 01/01/2010	18,186,877	1,949,711	20,136,588
Cancellation of shares bought back	-	-	-
BALANCE AS AT 31/12/2010	18,186,877	1,949,711	20,136,588

Changes	Ordinary shares	Preference shares	Total
BALANCE AS AT 01/01/2011	18,186,877	1,949,711	20,136,588
Cancellation of shares bought back	-	-	-
BALANCE AS AT 31/12/2011	18,186,877	1,949,711	20,136,588

NOTE 35 – RESULT ALLOCATION PROPOSAL

At its meeting on 22 February 2012, the Board of Directors proposes to allocate the 2011 loss of EUR 29.3 million of the Mother Company in deduction of the retained earnings.

On 21 March 2012, this affectation will be submitted to the approval of the Annual General Meeting.

NOTE 36 – LOANS COMMITMENTS, FINANCIAL GUARANTEES AND OTHER COMMITMENTS

(in EUR million)	31/12/2010	31/12/2011
Confirmed credits, unused	578	942
Financial guarantees	68	55
Other commitments (securities issuance facilities, spot transaction settlement, etc.)	594	39
TOTAL	1,241	1,036

In the course of 2000, several (current and former) directors, managers and members of KBL epb staff, were charged by a Belgian examining magistrate with offences relating to a tax suit as a result of their professional activities at the Bank. The case was brought before the Council Chamber of the Court of Brussels on 24 January 2006. After the order of this court on 11 January 2008, six persons from KBL *epb* were referred to the criminal court.

The case was brought before the Brussels Criminal Court on 3 April 2009. After several weeks of hearings where it was exclusively pleaded that the investigation had been conducted in an improper and even illegal manner, a judgement was issued on 8 December 2009. The Court considered that the evidence on which all the legal proceedings were based had been introduced into the procedure in a seriously irregular or even illegal manner by the policemen and by the magistrates in charge of the enquiry. The flaws were so serious that they were considered to have a structural effect on the investigation and so the whole legal suit was declared invalid and the proceedings inadmissible.

As a result, all the accused were discharged from all proceedings.

On 10 December 2009, the Public Prosecutor filed an appeal against this judgement. The proceedings were then brought before the Court of Appeal of Brussels. On 16 September 2010, the Court of Appeal, after hearing the pleadings of the defence, decided to split the proceedings in two: the admissibility of the prosecution would be judged first, followed by a separate decision on the merits of the accusation. Pleadings took place from 16 September 2010 to 8 October 2010. In its arrest dated 10 December 2010, the Court of Appeal confirmed the judgment of the Court dated 8 December 2009 and ruled that the legal suit against all accused persons were inadmissable.

Two recourses against the decision of the Court of Appeal were filed before the Supreme Court ("pourvois en cassation"): one by the Public Prosecutor on 20 December 2010 and the other by the Belgian State on 24 December 2010. On 31 May 2011, the Supreme Court rejected both recourses. This decision finally closes the KBL case.

NOTE 37 – ASSETS UNDER MANAGEMENT

Total assets under management as at 31 December 2011 are EUR 44.30 billion, of which EUR 35.12 billion relate to clients in the private banking sector (2010: EUR 48.66 billion, of which EUR 39.00 billion related to the private banking sector).

NOTE 38 – RELATED PARTY TRANSACTIONS

'Related parties' refers to the parent company of KBL *epb,* its subsidiaries and key management personnel. Transactions with related parties are carried out under conditions equivalent to those applicable to transactions subject to conditions of normal competition.

Transactions with associates are not included below because they are not material.

(in EUR million)	31/12/2010	31/12/2011
ASSETS	2,355	789
of which financial assets with KBC Group	*2,009*	*451*
Held-for-trading	27	111
At fair value through profit or loss	-	-
Available-for-sale	1,469	584
Loans and receivables	792	50
Hedging derivatives	66	44

LIABILITIES	294	255
of which financial liabilities with KBC Group	*294*	*255*
Held-for-trading	65	46
At amortised cost	201	165
Hedging derivatives	28	44

INCOME STATEMENT	74	52
Net interest income	65	42
Net realised gains on available-for-sale financial assets	3	-
Net fee and commission income	9	10
Other net income / (charges)	0	0
Operating expenses	0	-
Impairment of financial assets not measured at fair value through profit or loss	-2	-

With Key Management Personnel (in EUR million)	31/12/2010	31/12/2011
Amount of remuneration to key management personnel of KBL *epb* group on the basis of their activity, including the amount paid to former key management personnel	45	41
Credit facilities and guarantees granted	37	19
Loans outstanding	28	8
Guarantees outstanding	0	0
Pension commitments	68	62
Expenses for defined contribution plans	1	1

NOTE 39 – SOLVENCY

The table below gives the solvency ratios calculated pursuant to CSSF circular 06/273 as amended.

In accordance with CSSF instructions, Vitis Life S.A. is excluded from the scope of consolidation for the calculation of the solvency ratios.

(in EUR million)	31/12/2010	31/12/2011
REGULATORY CAPITAL	1,096	896
TIER 1 CAPITAL	680	653
Capital and reserves	1,028	1,007
Purchased portfolio of customers and intangible assets	-71	-67
Goodwill arising in business combinations	-284	-238
Hybrid capital	105	-
Non controlling interest	0	0
Eliminations:	-75	-24
Profit for the year, unaudited	-33	-47
Preference shares and relatives share premiums	-30	-30
Positive AFS revaluation reserve for equity instruments	-47	-24
AFS revaluation reserve for debt instruments	35	77
Deductions	-24	-24
TIER 2 CAPITAL	418	243
Preference shares and relative shares premiums	30	30
Hybrid capital not assimilated in Tier 1 (1)	79	-
Positive AFS revaluation reserve for equity instruments	47	24
Subordinated liabilities	285	213
Complementary equity (Tier 3)		
Deductions	-24	-24
OVERALL OWN FUNDS REQUIREMENTS	406	321
Credit risk	304	242
Market risk	26	11
Operational risk	75	69
SOLVENCY RATIOS		
Core Tier-1 ratio	11.3%	16.3%
Tier-1 ratio	13.4%	16.3%
CAD ratio	21.6%	22.3%

(1) Hybrid instrument redemption

NOTE 40 – MAXIMUM CREDIT RISK EXPOSURE

(in EUR million)	31/12/2010	31/12/2011
ASSETS	12,274	12,391
Balances with central banks	414	1,049
Financial assets	11,667	11,128
Held-for-trading	574	628
At fair value through profit or loss	15	15
Available-for-sale financial assets	5,278	3,883
Loans and receivables	5,733	6,557
Hedging derivatives	67	45
Tax assets	86	99
Other assets	108	115
OFF-BALANCE SHEET ITEMS	1,241	1,036
Loans commitments	578	942
Financial guarantees	68	55
Other commitments (securities issuance facilities, spot transaction settlement, etc.)	594	39
MAXIMUM CREDIT RISK EXPOSURE	13,515	13,427

For the instruments carried at fair value, the amounts disclosed above represent the current credit risk exposure and not the maximum credit risk that could apply as a consequence of future changes in the estimates made.

Collateral received to mitigate the maximum exposure to credit risk

(in EUR million)	31/12/2010	31/12/2011
Equity	-	-
Debt instruments	1,285	278
Loans and advances	3,644	5,606
of which designated at fair value	-	-
Derivatives	186	249
Other (including loans commitments given, undrawn amount)	126	151
COLLATERAL RECEIVED TO MITIGATE THE MAXIMUM EXPOSURE TO CREDIT RISK	5,241	6,284

The amount and type of collateral required depend on the type of business considered and the Group's assessment of the debtor's credit risk.

The main types of collateral received are as follows:

- Cash;
- Securities (in particular for reverse repo operations and securities lending); and
- Other personal and/or collateral guarantees (mortgages).

These guarantees are monitored on a regular basis to ensure their market value remains adequate as regards the assets they are intended to cover. If a guarantee is noted to be insufficient, margin calls are made in accordance with the agreements signed with the various counterparties concerned.

Following the Bank's request, the CSSF has approved an exemption from including in its calculation of the large risks exposures, in accordance with Part XVI, point 24 of the CSSF Circular 06/273, as amended, the risks to which the Group is exposed within the KBC Group. The exposures on related parties are disclosed in Note 38.

NOTE 41 – RISK MANAGEMENT

Information on risk management (credit risk, market risks, operational risks, etc) is given in the annex to the consolidated management report

NOTE 42 – AUDIT FEES

(in EUR thousand)	31/12/2010	31/12/2011
Standard audit services	2,485	2,548
Audit related services	---	721
Other services	432	25
TOTAL	**2,917**	**3,294**

NOTE 43 – LIST OF SIGNIFICANT SUBSIDIARIES AND ASSOCIATES

Company	Registered office	Ownership percentage as at 31/12/2011	Sector of activity
KBL European Private Bankers S.A.	Luxembourg - LU	100.00%	Bank
FULLY CONSOLIDATED SUBSIDIARIES (global method)			
Brown, Shipley & Co. Limited	London - GB	100.00%	Bank
Cawood Smithie & Co Limited	London - GB	100.00%	Other - financial
Fairmount Pension Trustee Limited	London - GB	100.00%	Other - financial
Fairmount Trustee Services Ltd	Leatherhead - GB	100.00%	Other - financial
The Brown Shipley Pension Portfolio Ltd	London - GB	100.00%	Other - financial
Slark Trustee Company Ltd	Leatherhead - GB	100.00%	Other - financial
White Rose Nominees Ltd	London - GB	100.00%	Other - financial
Fidef Ingénierie Patrimoniale S.A.	La Rochelle - FR	100.00%	Other - financial
Financière et Immobilière S.A.	Luxembourg - LU	100.00%	Other - financial
KB Lux Immo S.A.	Luxembourg - LU	100.00%	Real estate
Centre Europe S.A.	Luxembourg - LU	100.00%	Real estate
Rocher Ltd	Isle of Man - IoM	100.00%	Real estate
S.C.I. KB Luxembourg Immo III (Monaco)	Monaco - MC	100.00%	Real estate
KBL Monaco Private Bankers	Monaco - MC	100.00%	Bank
S.C.I. KB Luxembourg Immo I (Monaco)	Monaco - MC	100.00%	Real estate
KBL Monaco Conseil et Courtage en Assurance	Monaco - MC	100.00%	Insurance
KBL Beteiligungs A.G.	Mainz - DE	100.00%	Holding
Modernisierungsgesellschaft Lübecker Str. 28/29 Gbr	Mainz - DE	79.06%	Real estate
Merck Finck & Co.	Munich - DE	100.00%	Bank
Merck Finck Pension Universal Funds	Munich - DE	100.00%	Management (Funds, Pensions, Portfolios)
Merck Finck Treuhand A.G.	Munich - DE	100.00%	Other - financial
KBL Richelieu Banque Privée S.A.	Paris - FR	100.00%	Bank
KBL Richelieu Gestion (ex-KBL France Gestion)	Paris - FR	100.00%	Management (Funds, Pensions, Portfolios)
S.E.V.	Paris - FR	68.92%	Other - Commercial
Kredietbank Informatique G.I.E.	Luxembourg - LU	100.00%	IT
KBL (Switzerland) Ltd	Geneva - CH	99.99%	Bank
Privagest	Geneva - CH	99.99%	Management (Funds, Pensions, Portfolios)
Kredietrust Luxembourg S.A.	Luxembourg - LU	100.00%	Management (Funds, Pensions, Portfolios)
Puilaetco Dewaay Private Bankers S.A.	Brussels - BE	100.00%	Bank
Banque Puilaetco Dewaay Luxembourg S.A.	Luxembourg - LU	100.00%	Bank

Company	Registered office	Ownership percentage as at 31/12/2011	Sector of activity
Theodoor Gilissen Bankiers N.V.	Amsterdam - NL	100.00%	Bank
TG Fund Management B.V.	Amsterdam - NL	100.00%	Management (Funds, Pensions, Portfolios)
TG Ventures B.V	Amsterdam - NL	100.00%	Corporate Finance
Theodoor Gilissen Trust B.V.	Amsterdam - NL	100.00%	Management (Funds, Pensions, Portfolios)
Theodoor Gilissen Global Custody B.V.	Amsterdam - NL	100.00%	Custodian
Lange Voorbehout B.V.	Amsterdam - NL	100.00%	Real estate
Stroeve Asset Management B.V.	Amsterdam - NL	100.00%	Management (Funds, Pensions, Portfolios)
Wereldeffect B.V.	Amsterdam - NL	100.00%	Management (Funds, Pensions, Portfolios)
Vitis Life S.A.	Luxembourg - LU	100.00%	Insurance
Data Office	Brussels - BE	100.00%	Other - financial

Company	Registered office	Ownership percentage as at 31/12/2011	Sector of activity
ASSOCIATES			
EFA Partners S.A. (1)	Luxembourg - LU	52.70%	Holding
European Fund Administration S.A. (1)	Luxembourg - LU	51.13%	Fund administration
European Fund Administration France S.A.S.	Paris - FR	51.13%	Fund administration
NON-CONSOLIDATED COMPANIES (materiality threshold not reached)			
KBL *epb*			
Forest Value Management Investment S.A.	Luxembourg - LU	26.13%	
Horacio sarl	Luxembourg - LU	100.00%	
KBL Beteiligungs AG			
Steubag G. Betriebsw. & Bankendienst. GmbH	Mainz - DE	100.00%	
KB Lux Immo S.A.			
Plateau Real Estate Limited	Douglas - IoM	100.00%	
SCI KB Luxembourg Immo II (Monaco)	Monaco - MC	100.00%	
Theodoor Gilissen Bankiers N.V.			
Damsigt SCP	Utrecht - NL	24.60%	

Note:

(1) Despite the ownership percentage, KBL *epb* does not exercise control or joint control over EFA Partners S.A. or European Fund Administration S.A. These two companies are thus considered as associates over which KBL *epb* exercises a significant influence and are equity reported.

NOTE 44 – MAIN CHANGES IN THE SCOPE OF CONSOLIDATION

Company	Activity	Ownership percentage (direct + indirect) 31/12/2010	Comments
REMOVED FROM SCOPE OF CONSOLIDATION			
KBL Investment Funds Ltd	Management (Funds,Pensions, Portfolios)	100.00%	Liquidated by Brown Shipley & Co Ltd
Fairmount Group Nominees Ltd	Other – financial	100.00%	Liquidated by Brown Shipley & Co Ltd
Adm. Kantoor Interland B.V.	Company administration	100.00%	Liquidated by Theodoor Gilissen Bankiers N.V.
Trust- en Adm. My. Interland B.V.	Company administration	100.00%	Liquidated by Theodoor Gilissen Bankiers N.V.

NOTE 45 – ACQUISITATION OF VITIS LIFE S.A. IN 2010

The consolidation of Vitis Life S.A. following its acquisition in April 2010 generated a badwill of EUR 29 million as of 31 December 2010.

NOTE 46 – EVENTS AFTER THE BALANCE SHEET DATE

There was, after the closing date, no significant event requiring an update of the provided information or adjustments in the consolidated accounts as at 31 December 2011.

Annual accounts,
Report of
the independent auditor
and Management report
as at 31 December 2011

Contents

The quantitative tables in the following pages may sometimes show small differences due to the use of concealed decimals. These differences, however, do not in any way affect the true and fair view of the annual accounts of the Bank. Similarly, the value zero "0" in the following tables indicates the presence of a number after the decimal, while "-" represents the value nil.

Unqualified certification of the independent auditor

To the Board of Directors of KBL European Private Bankers S.A.
Société Anonyme Luxembourg

Report on the annual accounts

Following our appointment by the Board of Directors, we have audited the accompanying annual accounts of KBL European Private Bankers S.A., which comprise the balance sheet as at 31 December 2011, the income statement, the statement of comprehensive income, the statement of changes in equity, the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the annual accounts

The Board of Directors is responsible for the preparation and fair presentation of these annual accounts in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as the Board of Directors determines is necessary to enable the preparation and presentation of annual accounts that are free from material misstatement, whether due to fraud or error.

Responsibility of the "réviseur d'entreprises agréé"

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the judgement of the "réviseur d'entreprises agréé", including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the "réviseur d'entreprises agréé" considers internal control relevant to the entity's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the annual accounts.

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

Opinion

In our opinion, the annual accounts give a true and fair view of the financial position of KBL European Private Bankers S.A. as of 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

The management report, which is the responsibility of the Board of Directors, is consistent with the annual accounts.

ERNST & YOUNG
Société Anonyme
Cabinet de révision agréé

Sylvie TESTA

Luxembourg, 22 February 2012

Income statement

In EUR thousand	Notes	31/12/2010	31/12/2011
Net interest income	4, 33	98,873	90,832
Dividend income	5, 33	44,082	40,961
Net gains/losses on financial instruments designated at fair value through profit or loss	6	36,289	-17,837
Net realised gains/losses on financial assets and liabilities not measured at fair value through profit or loss	7	22,171	69,938
Net fee and commission income	8, 33	95,950	89,529
Other net income	9, 33	2,393	5,986
GROSS INCOME		299,758	279,408
Operating expenses	10, 33	-176,224	-142,897
Staff expenses	11, 28	-126,610	-95,684
General administrative expenses	37	-39,916	-36,355
Other	24, 25, 26	-9,698	-10,858
Impairment	12, 19, 20, 33	-48,747	-174,244
PROFIT BEFORE TAX		74,787	-37,732
Income tax (expenses) / income	13	-7,165	8,399
PROFIT AFTER TAX		67,622	-29,333

Statement of comprehensive income

In EUR thousand	31/12/2010	31/12/2011
PROFIT AFTER TAX	67,622	-29,333
Revaluation at fair value	26,157	-81,832
Net realised gains/losses on sales	-9,918	-14,302
Impairment	-	-171
Income tax (expenses) / income	-4,682	27,736
Available-for-sale financial assets	11,557	-68,569
Exchange differences on translation of foreign operations	146	30
OTHER COMPREHENSIVE INCOME	11,703	-68,539
TOTAL COMPREHENSIVE INCOME	79,325	-97,872

The notes refer to the ‘Notes to the annual accounts’.

Balance sheet

ASSETS

(In EUR million)	Notes	31/12/2010	31/12/2011
Cash and balances with central banks		339	875
Financial assets	14, 15, 16, 17, 18, 33	10,369	10,146
Held-for-trading	21	477	564
At fair value through profit or loss		14	15
Available-for-sale financial assets	19, 38	5,092	3,724
Loans and receivables	20	4,720	5,799
Hedging derivatives	21	66	44
Tax assets	23	54	81
Current tax assets		4	-
Deferred tax assets		49	81
Investment properties	25	14	13
Property and equipment	25	106	101
Intangible assets	24	115	125
Other assets	22	30	28
TOTAL ASSETS		11,026	11,369

Equity and liabilities

(In EUR million)		31/12/2010	31/12/2011
Financial liabilities	14, 16, 33	9,454	9,932
Held-for-trading	21	264	295
At amortised cost		9,115	9,563
Hedging derivatives	21	76	74
Provisions	26	8	6
Other liabilities	27, 28	173	138
TOTAL LIABILITIES		9,636	10,076
TOTAL EQUITY	29	1,391	1,293
TOTAL EQUITY AND LIABILITIES		11,026	11,369

The notes refer to the 'Notes to the annual accounts'.

Statement of changes in equity

2010 In EUR million	Issued and paid-up share capital	Share premium	Treasury shares	Revaluation reserve (AFS investments)	Reserves	Foreign currency translation reserve	Total equity
Balance as at 01/01/2010	187.2	321.3	-0.1	1.9	801.4	-0.2	1,311.5
Net movements on treasury shares	-	-	-	-	-	-	-
Dividends and profit-sharing	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	11.6	67.6	-	79.2
Other	-	-	-	-	-0.3	0.1	-0.1
Total variations	-	-	-	11.6	67.3	0.1	79.0
Balance as at 31/12/2010	187.2	321.3	-0.1	13.4	868.8	-0.0	1,390.6

2011 In EUR million	Issued and paid-up share capital	Share premium	Treasury shares	Revaluation reserve (AFS investments)	Reserves	Foreign currency translation reserve	Total equity
Balance as at 01/01/2011	187.2	321.3	-0.1	13.4	868.8	-0.0	1,390.6
Net movements on treasury shares	-	-	-	-	-	-	-
Dividends and profit-sharing	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-68.6	-29.3	-	-97.9
Other	-	-	-	-	-	0.0	0.0
Total variations	-	-	-	-68.6	-29.3	0.0	-97.9
Balance as at 31/12/2011	187.2	321.3	-0.1	-55.2	839.5	-	1,292.7

Cash flow statement

In EUR million	31/12/2010	31/12/2011
Profit before tax	74.8	-37.7
Adjustments for:		
Impairment of securities, amortisation and depreciation of property and equipment, intangible assets and investment properties	*57.8*	*181.7*
Profit/loss on the disposal of investments	*-0.2*	*-2.1*
Change in impairment for losses on loans and advances	*-0.2*	*2.5*
Change in other provisions	*0.8*	*0.9*
Unrealised foreign currency gains and losses	*-6.4*	*4.8*
Cash flows from operating activities, before tax and changes in operating assets and liabilities	126.7	150.1
Changes in operating assets (1)	-113.9	1,839.7
Changes in operating liabilities (2)	252.7	66.1
Income taxes	-1.0	10.9
Net cash from/(used in) operating activities	264.6	2,066.8
Purchase of subsidiaries or business units	-55.3	-3.3
Proceeds from sale of subsidiaries or business units	0.2	0.4
Purchase of intangible assets	-8.1	-0.1
Purchase of property and equipment	-4.0	-2.8
Proceeds from sale of property and equipment	0.5	2.7
Net cash flows from /(used in) investing activities	-66.7	-3.1
Purchase/sale of treasury shares	-	-
Issue/repayment of loans	-10.4	116.0
Issue/repayment of subordinated debts	-22.8	-571.0
Dividends paid and profit-sharing	-	-
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES	-33.2	-455.0
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (3)	164.7	1,608.7
CASH AND CASH EQUIVALENTS AS AT 01/01	2,348.3	2,513.0
Net increase/decrease in cash and cash equivalents	164.7	1,608.7
Net foreign exchange difference	-	-
CASH AND CASH EQUIVALENTS AS AT 31/12	2,513.0	4,121.7
ADDITIONAL INFORMATION		
Interest paid during the year	171.9	151.7
Interest received during the year	281.0	226.9
Dividends received (including equity method)	44.1	41.0
COMPONENTS OF CASH AND CASH EQUIVALENTS	2,513.0	4,121.7
Cash and balances with central banks (including legal reserve with the central bank)	338.8	874.7
Loans and advances to banks repayable on demand	3,396.5	4,895.0
Deposits from banks repayable on demand	-1,222.2	-1,648.0
Of which: not available (4)	323.6	123.6

(1) Including loans and advances to banks and customers, securities, derivatives and other assets.
(2) Including deposits from banks and customers, bonds issued, derivatives and other liabilities.
(3) Cash includes cash and deposits payable on demand; cash equivalents are short-term investments that are very liquid, easily convertible into a known cash amount and subject to a negligible risk of a change in value.
(4) Cash and cash equivalents not available mainly comprise of the legal reserve held with the Luxembourg Central Bank and the 'margin' accounts held with clearing houses (futures markets, etc.).

Notes to the annual accounts

NOTE 1 – GENERAL

KBL European Private Bankers S.A. (hereafter "KBL *epb*" or the "Bank") is specialised in private banking. In support of and complementary to this activity, KBL *epb* has also developed several niche activities specific to its various markets.

The business purpose of KBL *epb* is to carry out all banking and credit activities. In addition, KBL *epb* is allowed to carry out all commercial, industrial or other transactions, including real estate transactions, in order to achieve its main business purpose, either directly or through participation, or in any other manner, these provisions to be understood in the widest manner possible. KBL *epb* may carry out any activity which contributes in any way to the achievement of its business purpose. The Bank's main activities are described in Note 3a.

KBL *epb* is a public limited liability company (*société anonyme*) incorporated in Luxembourg and having its registered office at:

43, boulevard Royal,
L-2955 Luxembourg

KBL *epb* is part of the KBC Group. Born on 2 March 2005 from the merger of KBC Bank and Insurance Holding N.V. and its parent company Almanij, the KBC Group is today one of the major financial groups in Europe. As a multi-channel, independent bank-insurance group, active in Europe, the KBC Group provides individual clients, as well as small and medium-sized companies, with retail and private banking services. It is also active in asset management, corporate banking and private equity markets. The KBC Group is a major player on the Belgian and Central and Eastern European markets and has created a large network of private bankers in Western Europe. The KBC Group has also selectively developed a presence in certain other countries and regions across the world.

But, on 18 November 2009, the KBC Group communicated its strategic plan as requested by the European Commission to repay the support from Belgian national and Flemish governments. This plan was formally approved by the European Commission.

KBC wants to refocus on its basic business, namely bank-insurance on its domestic markets. It has decided to sell certain high-quality assets, of which KBL *epb*. The Executive Committee of KBL *epb* was designated by KBC to pilot the process of searching for a new shareholder.

On 10 October 2011, an agreement was concluded on the sale of KBL *epb* by KBC to a Qatari investment group represented by a Luxembourg entity, Precision Capital. The closing should take place during the first months of the financial year 2012.

The Bank prepares consolidated accounts in accordance with International Financial Reporting Standards as adopted by the European Union, as well as a consolidated management report, which are available at its head office.

The Bank's consolidated accounts are consolidated in the KBC Group consolidated accounts. KBC Group's consolidated accounts and management report are available at its head office.

KBL *epb*'s non-consolidated accounts include those of the Spanish branch opened on 7 April 2010 and of the Polish branch opened on 1 April 2009 and closed on 20 December 2011.

NOTE 2A – STATEMENT OF COMPLIANCE

The annual accounts presented in this report were approved by the Board of Directors of KBL *epb* on 22 February 2012.

KBL *epb*'s annual accounts have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS). Given its activity, KBL *epb* is not concerned *de facto* by IFRS 4 on insurance contracts. In preparing the annual accounts under IFRS, the Board of Directors is required to make estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities.

Use of available information and application of judgement are inherent in the formation of estimates. Actual results in the future could differ from such estimates and the differences may be material to the annual accounts.

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2011. Those newly applicable requirements have had no significant impact on the financial position and performance of the Bank:

- IAS 24 *Related Party Disclosures (amendment)* effective 1 January 2011.

- IAS 32 *Financial Instruments: Presentation (amendment)* effective 1 February 2010.

- Improvements to IFRSs (May 2010).

The adoption of the standards or interpretations is described below:

- *IAS 24 Related Party Transactions (Amendment)*

The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Bank.

- *IAS 32 Financial Instruments: Presentation (Amendment)*

The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given prorata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Bank because the Bank does not have this type of instruments.

- *Improvements to IFRSs*

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

The adoption of the following amendments resulted in changes to accounting policies, but had no impact on the financial position or performance of the Bank.

- IFRS 7 Financial Instruments - Disclosures: the amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

- IAS 1 Presentation of Financial Statements: the amendment clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Bank:

- IAS 27 *Consolidated and Separate Financial Statements*

- IAS 34 *Interim Financial Statements*

The following interpretation and amendment to interpretations did not have any impact on the accounting policies, financial position or performance of the Bank:

- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

KBL *epb* has also decided not to adopt the standards, amendments to standards and interpretations of the IFRIC which have been published but are not applicable for the year ending 31 December 2011. KBL *epb* will adopt these standards on the date of their effective application and when they will be approved by the European Union.

This basically concerns the following publications (only the standards, amendments to standards and IFRIC which may have an effect on KBL *epb* financial position or performance are mentioned below):

- *IFRS 9 Financial Instruments (Amended)*

  This standard, which is being developed to ultimately replace IAS 39 in its entirety, has been divided into three main phases. The first phase, which relates to the recognition and measurement of financial assets and financial liabilities, has already been completed. It introduces significant changes in the accounting requirements of financial assets, such as: a reduction in the number of available categories, business model-oriented classification rules and the prohibition to recycle (into P&L) any gains and losses on financial assets measured at fair value through other comprehensive income.
  The last two phases which concern impairment and hedge accounting are still to be finalized.
  The standard (including its first phase on a stand-alone basis) is applicable for annual periods beginning on or after 1 January 2015. Earlier application is permitted.
  Up to now, however, no portion of the standard has been endorsed by the European Union.

- *IAS 1 Financial Statements Presentation - Presentation of Items of Other Comprehensive Income (OCI)*

  The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has there no impact on the Bank's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

- *IAS 19 Employee Benefits (Amendment)*

  The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

- *IAS 27 Separate Financial Statements (as revised in 2011)*

  As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

- *IFRS 7 Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements*

  The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Bank's annual accounts to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011.

- *IFRS 13 Fair Value Measurement*

  IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. This standard becomes effective for annual periods beginning on or after 1 January 2013.

NOTE 2B – SIGNIFICANT ACCOUNTING POLICIES

A. FOREIGN CURRENCY TRANSLATION

KBL European Private Bankers S.A.'s accounts are presented in EUR, which is also its functional currency.

KBL European Private Bankers S.A. maintains a multi-currency accounting system under which any transaction is registered in its original foreign currency.

In preparing the annual accounts, assets and liabilities in foreign currencies are translated into EUR. Monetary items denominated in foreign currencies are converted at the closing rate prevailing at the reporting date; differences arising from such conversion are recorded in the income statement. Non-monetary items denominated in foreign currencies that are measured in terms of historical cost are translated at the historical exchange rate prevailing at the date of the transaction. Non-monetary items denominated in foreign currencies measured at fair value are translated using the spot exchange rate at the date when the fair value is determined and translation differences are reported together with changes in fair value.

Income and expense items denominated in foreign currencies are recognised in the income statement in their respective currencies and periodically translated at the average monthly exchange rate.

B. FINANCIAL ASSETS AND LIABILITIES

General principles of recognition and derecognition of financial instruments

A financial instrument is recognised in the balance sheet when and only when the Bank becomes a party to the contractual provisions of the instrument.

A financial asset is derecognised when and only when the contractual rights to receive cash flows from the asset have expired or KBL European Private Bankers S.A. transfers the financial asset.

A financial liability is derecognised when and only when the contractual liability is settled, cancelled or expires.

The purchases and sales of financial assets are recognised on the payment date, which is the date on which the asset is delivered. Any variation in the fair value of the asset to be received during the period from the transaction date to the payment date is recognised in the same way as for the asset acquired. In other words, the change in value is not recognised for assets measured at cost or at amortised cost; it is recognised in the income statement for assets classified as financial assets at fair value through profit or loss and in equity for those classified as available-for-sale.

In the case of sales, the assets at fair value are measured at their sale price during the period between the transaction date and the payment date.

Pursuant to the provisions of IAS 39 on derecognition, the Bank keeps securities lent in its securities portfolio but securities borrowed are not recorded on the balance sheet. Similarly, the securities transferred through repurchase agreements are kept in the securities portfolio but those under reverse repurchase agreements are not recorded on the balance sheet.

Definition of IAS 39 categories of financial assets and financial liabilities

All financial assets and liabilities – including derivatives – must be measured on the balance sheet according to their IAS 39 category. Each category is subject to specific measurement rules.

The IAS 39 categories are:

- *Held-to-maturity assets* are all non-derivative financial assets with fixed maturities and fixed or determinable payments that KBL European Private Bankers S.A. intends and is able to hold to maturity. The Bank's management has decided not to class financial instruments in this category.

- *Loans and receivables* are all non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

- *Financial assets at fair value through profit or loss* include held-for-trading assets and any other financial assets initially designated at fair value through profit or loss. Held-for-trading assets are those acquired principally for the purpose of selling them in the near term and those which are part of a portfolio with indications of recent short-term profit-taking. All derivative assets are considered as being held for trading unless designated as effective hedging instruments. Other assets at fair value through profit or loss are valued in the same way as held-for-trading assets, even if there is no intention of short-term profit taking. The 'fair value option' may be used when a contract contains one or more embedded derivatives under certain conditions or when its application produces more pertinent information:

- either because a group of financial assets/liabilities is managed on a fair value basis and its performance measured on a fair value basis, following a documented investment or risk management strategy,
- or because the application of this option reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

This option is mainly used by the Bank firstly for contracts with one or more embedded derivatives and secondly as an alternative to hedge accounting (aligning the valuation of the hedged instrument with that of the hedging instrument).

- *Available-for-sale financial assets* are all non-derivative financial assets which do not fall into one of the above categories.

- *Financial liabilities at fair value through profit or loss* encompass *held-for-trading liabilities* and *financial liabilities initially designated at fair value through profit or loss*. *Held-for-trading liabilities* are liabilities held mainly with the intention of repurchasing them in the near term. All derivative liabilities are considered as being held for trading unless designated as effective hedging instruments.
  Financial liabilities initially designated at fair value through profit or loss are those liabilities accounted for under the 'fair value option'.

  No liability is currently recognized under this category in the KBL *epb*'s annual accounts.

- *Other financial liabilities* are all other financial instruments not at fair value through profit or loss.

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

Evaluation of financial instruments

Financial assets and liabilities are initially recognised at fair value and are subsequently measured in accordance with the principles governing the IAS 39 category in which they are placed.

General principles

Loans and receivables with a fixed maturity are measured at amortised cost using the effective interest rate (hereinafter "EIR") method, that is the rate that precisely discounts the future cash inflows or outflows to obtain the carrying amount. Instruments without a fixed maturity are measured at cost.

The *available-for-sale financial assets* are measured at fair value with changes in fair value recognised in equity ('Revaluation reserve (available-for-sale financial instruments)') until the sale or impairment of these instruments. In the latter cases, the cumulative result of the revaluation is transferred from equity to the income statement of the period.
Non listed participating interests in subsidiaries, controlled entities and associates are measured at cost, less possible impairment.

The *financial assets and liabilities at fair value through profit or loss* are measured at fair value with changes in fair value recognised in the income statement.

Other financial liabilities are measured at amortised cost. The difference between the amount made available and the nominal amount is recognised in the income statement (net interest income) *prorata temporis*, on an actuarial basis using the EIR method.

Other participating interests are valued according to IAS 39 at fair value or at cost less possible impairment if the fair value cannot be measured reliably.

Impairment

Available-for-sale financial assets and *loans and receivables* are also subject to impairment tests and impairment losses are recognised if evidence of impairment exists on the balance sheet date.

- *Available-for-sale financial assets*

For listed shares, an impairment is recognised if the market value is less than 70% of the purchase value or if the market price of the share is less than the acquisition price over one year. For debt and other equity instruments, the impairment amount is measured from the recoverable value.

Impairment losses are always recognised in the income statement. Impairment reversals are recognised in the income statement for debt instruments and in other comprehensive income (available-for-sale revaluation reserve) for listed shares and other equity instruments.

- *Loans and receivables*

The amount of the impairment loss is the excess of the carrying amount over the recoverable amount of the asset. The Bank firstly evaluates if there is an impairment loss for each individually significant loan or receivable or for each group of loans or receivables not individually significant. If the Bank considers that there is no evidence of an impairment loss for a given loan or receivable, individually significant or not, it includes it in a group of financial assets presenting the same credit risk characteristics and examines the possibility of an impairment loss on a collective basis. The assets evaluated individually and for which an impairment loss is recognised are not examined collectively.

Embedded derivatives

Derivatives embedded in financial instruments that are not measured at fair value through profit or loss are separated from the financial instrument and measured at fair value through profit or loss if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.
In practice, financial assets 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 from the hybrid (combined) instrument, since the entire financial instrument is measured at fair value, with changes in fair value being recognised in the income statement.

Hedge accounting

The Bank applies micro-hedge accounting when all the following conditions are met: the hedging relationship must be designated at inception and formally documented, the hedge is expected to be highly effective, and it must be possible to reliably measure the effectiveness of the hedge, forecast transactions (for cash flow hedges) must be highly probable and the hedge is measured on an ongoing basis and is determined actually to have been highly effective throughout the periods covered by the annual accounts for which the hedge was designated.

Fair value hedge accounting is used by the Bank to cover the exposure of a financial instrument (participating interests in foreign currency, available-for-sale financial assets and certain financial liabilities) to changes in fair value attributable to changes in interest rates or exchange rates. In this case those derivatives designated as hedging instruments (mainly interest rate swaps and cross-currency interest rate swaps) are measured at fair value with changes in fair value recognised in the income statement. Furthermore, the gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged element and is also recognised in the income statement. If the hedged item is an available-for-sale financial asset already measured at fair value under other IFRS requirements, applying hedge accounting leads to splitting the change in the instrument fair value between the portion addressed by the hedge relationship, recognised in the income statement, and the portion that relates to unhedged risks, recognised in the revaluation reserve in equity.

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, and for debt instruments, the cumulative change to the carrying amount of the hedged instrument (relating to hedged risks) is transferred to the income statement *prorata temporis* until the instrument expires.

As regards to cash flow hedge (not currently used by the Bank) hedging instruments are measured at fair value. The portion of the gain or loss that is determined to be an effective hedge is recognised in other comprehensive income. The ineffective portion is recognised in the income statement. Hedge accounting shall be discontinued if the hedge accounting criteria are no longer met. In this case, the hedging instruments shall be treated as held-for-trading instruments and measured accordingly.

Foreign currency financing of a net investment in a foreign entity is accounted for as a hedge of that net investment. Translation differences (taking account of deferred taxes) on the financing are recorded in equity, along with translation differences on the net investment.
This only applied to the Polish branch.

Determination of fair value

When available, published price quotations on active markets are used to determine the fair value of financial assets or liabilities.

If such quotations are not available, fair value can be obtained:

- by reference to recent 'at arm's length' market transactions between knowledgeable, willing parties;
- by using a valuation technique (discounted cash flow analysis and option pricing models). The valuation technique must then incorporate all factors that market participants would consider in setting a price and be consistent with accepted financial methodologies used for pricing financial instruments;
- by using the European Venture Capital Association (EVCA) guidance for private equity instruments.

C. INTANGIBLE ASSETS

Intangible assets acquired are initially measured at cost. Value adjustments or impairment are then recognised according to the nature of the assets and the duration of its life (finite or indefinite).

The purchase of a portfolio of customers generally includes the transfer of the client assets under management to the Bank and the recruitment of all or part of the account officers in charge of client relationships.
This type of intangible assets is not amortised, but is tested for impairment at least annually. The criteria and methodologies used for impairment testing are those initially used to measure the purchase price (percentage of assets under management, gross margin multiple, etc.). Whenever available, the result of the impairment test is compared with an estimate based on the parameters deduced from similar transactions.

When the recognition criteria are met and when the amounts are not immaterial, software is recognised as an intangible asset. Internal and external expenses incurred during the development phase of internally generated strategic software are recognised in assets and amortised using the straight-line method over the estimated useful life (average annual rate: 25%).
However, the useful life of two specific IT projects (Corporate Action Management - CAMA - and Globus T24) has been estimated at 7 years (average annual rate: 14.3%).

Research expenses for these projects and all expenses that relate to non-strategic projects are recognised directly in the income statement.

D. PROPERTY AND EQUIPMENT

Property and equipment are initially recognised at cost.

Property and equipment the use of which is limited in time are depreciated using the straight-line method over their estimated useful lives.

Overview of average depreciation rates

Type of investment	***Depreciation rate***
Land	Non depreciable
Buildings	2%-3%
Technical installations	5%-10%
Furniture	25%
IT hardware	25%
Vehicles	25%
Works of art	Non depreciable

An impairment loss must be recognised if the carrying value exceeds the recoverable value (which is the greater of the asset's value in use and its fair value less costs to sell).

When property or equipment is sold, the realised gains or losses are recognised in the income statement. If property or equipment is destroyed, the carrying amount to be written off is immediately recognised in the income statement.

E. INVESTMENT PROPERTIES

Investment property is property held to earn rentals or for capital appreciation or both.

Investment property is recognised only when it is probable that future economic benefits associated with the investment property will flow to KBL *epb* and if its cost can be measured reliably.

Investment properties are measured at cost less any accumulated depreciation and impairment. They are depreciated using the straight-line method over their estimated useful life (average rate: 2% - 3%).

F. PENSIONS

In addition to the general and legally prescribed retirement plans, the Bank maintains a certain number of complementary systems in the form of both defined contribution and defined benefit pension plans. Defined benefit plans are those under which the Bank has a legal or constructive obligation to pay further contributions if the pension fund does not hold sufficient assets to pay all employee benefits for the current and past periods. Defined contribution plans are those under which the Bank has no further legal or constructive liability beyond the amount it pays into the fund.

In the case of defined benefit pension plans, the pension cost in the income statement and liability on the balance sheet are calculated in accordance with IAS 19, based on the Projected Unit Credit Method, which sees each period of service as giving rise to an additional unit of benefit entitlement. The calculations are made each year by independent actuaries.

Actuarial gains and losses are recognised using what is known as the 'corridor method'.

The portion of gains and losses exceeding 10% of the greater of the two values below shall be recognised in the income statement on a straight-line basis over a period representing the expected average remaining working-lives of the employees participating in the plan :

- the discounted value of the defined benefit obligation at the balance sheet date (before deducting plan assets), and
- the fair value of the plan assets at the balance sheet date.

In the case of defined contribution plans, the contributions payable are expensed when the employees render the corresponding service which generally coincides with the year in which the contributions are actually paid.

G. TAX ASSETS AND TAX LIABILITIES

These balance sheet headings include both current and deferred tax assets and liabilities.

Current tax is the amount expected to be paid or recovered, using the tax rate which has been enacted at 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 valued using the tax rates in effect for the periods when the assets are realised or the liabilities settled, on the basis of the tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised for the carryforward of unused tax losses and unused tax credits and for all deductible temporary differences between the carrying value of the assets and liabilities and their tax base, to the extent that it is probable that future taxable profit will be available against which these losses, tax credits and deductible temporary differences can be utilised.

Where required by IAS 12, tax assets and liabilities are offset.

H. PROVISIONS

A provision is recognised when and only when the following three conditions are met:
- KBL *epb* has a present obligation (at the reporting date) as a result of a past event,
- it is more likely than not that an outflow of resources embodying economic benefits will be required to settle this obligation, and
- the amount of the obligation can be estimated reliably.

I. FINANCIAL GUARANTEES CONTRACTS

Financial guarantees contracts are initially recognised at fair value and subsequently measured at the higher of (i) the amount initially recognized less, when appropriate, cumulative amortisation and (ii) the Bank's best estimate of the expenditure required to settle the present obligation at the reporting date.

J. EQUITY

Equity is the residual interest in the assets of KBL *epb* after all its liabilities have been deducted.

Equity instruments have been differentiated from financial instruments in accordance with the provisions of IAS 32.

The acquisition cost of KBL *epb* treasury shares that have been or are being purchased is deducted from equity. Gains and losses realised on sale or cancellation of treasury shares are recognised directly in equity.

The revaluation reserve for available-for-sale financial assets is included in equity until any impairment or sale. In such a case, the gains and losses are transferred to the income statement of the period.

As regards to cash flow hedges and hedges of a net investment in a foreign operation, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity.

K. REVENUE

KBL *epb* recognises revenue relating to ordinary activities if and only if the following conditions are met:
- it is probable that the economic benefits associated with the transaction will flow to KBL *epb,* and
- the amount of revenue can be measured reliably.

The specific conditions below must also be met before recognising the related revenue:

Net interest income

Interest is recognised *prorata temporis* using the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or liability.

All interests paid and received on financial instruments are recorded under the heading "Net interest income" except interests on held-for-trading derivative instruments, which are presented under the heading "Net gains/losses on financial instruments at fair value" in the income statement.

Dividends

Dividends are recognised when the right of the shareholder to receive the payment is established. They are presented under the heading "Dividend income" in the income statement irrespective of the IFRS category of the related assets.

Rendering of services

Revenue from services is recognised by reference to the stage of completion at the balance sheet date. According to this method, the revenue is recognised in the periods when the services are provided.

NOTE 3A – OPERATING SEGMENTS BY BUSINESS SEGMENT

KBL distinguishes between the following primary segments:

- The ‘PRIVATE BANKING’ segment includes the advisory and wealth management activities provided to KBL *epb* private clients.

- The ‘GLOBAL INVESTOR SERVICES’ segment includes services provided to institutional clients. This segment includes custodian bank and fund domiciliation and administration activities, paying agent activities, central securities depository Clearstream / Euroclear activities, as well as intermediation and portfolio management services for KBL *epb* institutional clients.

- The ‘ALM ACTIVITIES' segment includes "Client Dealing and Treasury" activities, which represent the extension of intermediation activities provided to KBL *epb* clients and operates cash management within the Group by means of treasury activities, securities lending and repos / reverse repos, as well as 'Credit & Securities' portfolios, which cover “credit” exposure (including direct loans to non-private clients of KBL *epb*) and securities held on its own behalf by KBL *epb*.

- The ‘OTHER’ segment includes support activity provided by KBL *epb* to the network of subsidiaries, acting in its capacity as parent company, and all other elements not directly linked to the previous three segments, including reallocation of excess equity, net of the cost of financing of the holdings, and extraordinary elements not directly linked to other business segments.

The various items of the income statement include inter-segment transfers, calculated on an arm’s length or cost recovery basis.

Income statement

In EUR million	PRIVATE BANKING 2010	PRIVATE BANKING 2011	GLOBAL INVESTOR SERVICES 2010	GLOBAL INVESTOR SERVICES 2011	ALM ACTIVITIES 2010	ALM ACTIVITIES 2011	OTHER 2010	OTHER 2011	KBL *epb* 2010	KBL *epb* 2011
Net interest income	13.9	16.9	15.2	15.9	58.9	45.8	10.9	12.2	98.9	90.8
Dividend income	-	-	-	-	4.2	1.2	39.9	39.8	44.1	41.0
Net gains/losses on financial instruments designated at fair value through profit or loss	2.2	1.3	5.2	5.3	24.7	-11.6	4.2	-12.9	36.3	-17.8
Net realised gains/losses on financial assets and liabilities not measured at fair value through profit or loss	2.2	0.3	1.1	0.1	13.0	13.4	5.9	56.1	22.2	69.9
Net fee and commission income	57.6	50.4	32.1	34.3	-1.1	-3.0	7.2	7.9	96.0	89.5
Other net income	-0.4	0.0	0.2	0.0	0.6	2.8	1.9	3.2	2.4	6.0
GROSS INCOME	75.5	69.0	53.9	55.6	100.3	48.5	70.1	106.3	299.8	279.4
Operating expenses	-56.9	-54.7	-29.2	-29.2	-21.8	-20.7	-68.4	-38.3	-176.2	-142.9
Impairment	0.1	-0.1	0.0	0.0	-0.2	-3.9	-48.6	-170.3	-48.7	-174.2
PROFIT BEFORE TAX	18.7	14.3	24.7	26.4	78.3	23.9	-46.9	-102.3	74.8	-37.7
Income tax (expense) / income	-8.5	-6.8	-8.4	-7.6	-22.1	-6.9	31.9	29.6	-7.2	8.4
PROFIT AFTER TAX	10.2	7.5	16.3	18.8	56.1	17.0	-14.9	-72.6	67.6	-29.3

Balance sheet

In EUR million	PRIVATE BANKING 2010	PRIVATE BANKING 2011	GLOBAL INVESTOR SERVICES 2010	GLOBAL INVESTOR SERVICES 2011	ALM ACTIVITIES 2010	ALM ACTIVITIES 2011	OTHER 2010	OTHER 2011	KBL *epb* 2010	KBL *epb* 2011
Cash and balances with central banks	-	-	-	-	339	875	-	-	339	875
Financial assets	505	818	185	169	8,064	7,439	1,615	1,720	10,369	10,146
Held-for-trading	-	-	-	-	457	537	20	27	477	564
At fair value through profit or loss	-	-	-	-	14	15	-	-	14	15
Available-for-sale financial assets	302	532	115	104	3,437	1,953	1,237	1,136	5,092	3,724
Loans and receivables	203	286	70	66	4,156	4,934	291	513	4,720	5,799
Hedging derivatives	-	-	-	-	-	-	66	44	66	44
Tax assets	-	-	-	-	-	-	54	81	54	81
Current tax assets	-	-	-	-	-	-	4	-	4	-
Deferred tax assets	-	-	-	-	-	-	49	81	49	81
Investment properties	-	-	-	-	-	-	14	13	14	13
Property and equipment	87	85	12	11	6	6	-	-	106	101
Intangible assets	-	-	-	-	-	-	115	125	115	125
Other assets	30	28	-	-	-	-	-	-	30	28
TOTAL ASSETS	622	931	197	180	8,409	8,319	1,798	1,939	11,026	11,369
Financial liabilities	1,827	1,723	2,000	2,417	2,079	2,493	3,549	3,299	9,454	9,932
Held-for-trading	-	-	-	-	236	286	28	9	264	295
At amortised cost	1,827	1,723	2,000	2,417	1,783	2,133	3,505	3,289	9,115	9,563
Hedging derivatives	-	-	-	-	60	74	16	-	76	74
Provisions	-	-	-	-	-	-	8	6	8	6
Other liabilities	173	138	-	-	-	-	-	-	173	138
TOTAL LIABILITIES (excluding equity)	2,000	1,861	2,000	2,417	2,079	2,493	3,558	3,305	9,636	10,076

Management monitors the operating results of its operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the annual accounts.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

NOTE 3B – OPERATING SEGMENTS BY GEOGRAPHIC SECTOR

The Bank carries out most of its activities in Western Europe.

NOTE 4 – NET INTEREST INCOME

In EUR thousand	31/12/2010	31/12/2011
BREAKDOWN BY PORTFOLIO		
INTEREST INCOME	267,648	220,760
Available-for-sale financial assets	138,305	101,968
Loans and receivables	43,292	75,168
Other	37	30
Sub-total of interest income from financial assets not measured at fair value through profit or loss	*181,634*	*177,166*
Financial assets held-for-trading	8,423	8,736
Net interest on hedging derivatives	73,989	34,678
Other financial assets at fair value through profit or loss	3,601	180
INTEREST EXPENSE	-168,774	-129,928
Financial liabilities at amortised cost	-87,608	-85,297
Other	-967	-496
Sub-total of interest expense on financial liabilities not measured at fair value through profit or loss	*-88,575*	*-85,792*
Net interest on hedging derivatives	-80,199	-44,136
NET INTEREST INCOME	98,873	90,832

NOTE 5 – DIVIDEND INCOME

In EUR thousand	31/12/2010	31/12/2011
Participating interests	39,926	39,770
Other equity instruments available-for-sale	4,156	1,191
Other equity instruments held-for-trading	-	-
DIVIDEND INCOME	44,082	40,961

NOTE 6 – NET GAINS/LOSSES ON FINANCIAL INSTRUMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

In EUR thousand	31/12/2010	31/12/2011
Held-for-trading (including interest and valuation of trading derivatives)	23,749	-20,771
Other financial instruments at fair value	638	434
Exchange differences	12,877	2,406
Fair value adjustments in hedge accounting	-975	94
Fair value micro-hedging	*-975*	*94*
Fair value of hedged items	*11,635*	*-8,675*
Fair value of hedging items	*-12,610*	*8,769*
NET GAINS/LOSSES ON FINANCIAL INSTRUMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS	36,289	-17,837

NOTE 7 – NET REALISED GAINS/LOSSES ON FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

In EUR thousand	31/12/2010	31/12/2011
Available-for-sale financial assets	22,171	21,646
Debt instruments	16,903	13,557
Equity instruments	5,268	8,089
Loans and receivables	-	-31
Financial liabilities measured at amortised cost	-	48,323
NET REALISED GAINS/LOSSES ON FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	22,171	69,938

[1] EUR 48,3 million generated by the early redemption of an hybrid instrument

NOTE 8 – NET FEE AND COMMISSION INCOME

In EUR thousand	31/12/2010	31/12/2011
FEE AND COMMISSION INCOME	137,335	136,412
Asset management	92,670	96,108
Securities transactions	31,471	27,622
Other	13,195	12,683
FEE AND COMMISSION EXPENSE	-41,385	-46,883
Asset management	-36,374	-42,673
Securities transactions	-3,480	-2,626
Other	-1,531	-1,584
NET FEE AND COMMISSION INCOME	95,950	89,529

NOTE 9 – OTHER NET INCOME

In EUR thousand	31/12/2010	31/12/2011
OTHER NET INCOME	2,393	5,986
Of which :		
Net proceeds from precious metals transactions	2,641	2,825
Net proceeds from the sale of "Gestoland" building	-	2,086
Write-back of provisions	743	825
Withholding tax on dividends	-2,002	-210
Net proceeds from the partial sale of European Fund Administration	378	-

NOTE 10 – OPERATING EXPENSES

Operating expenses include staff costs, amortisation and depreciation of investment properties, amortisation and depreciation of property and equipment and intangible assets, changes in provisions and general administrative expenses.

General administrative expenses include in particular repair and maintenance expenses, advertising expenses, rent, professional duties, IT costs and various (non-income) taxes.

In EUR thousand	31/12/2010	31/12/2011
Staff expenses	-126,610	-95,684
General administrative expenses	-39,916	-36,355
Depreciation and amortisation of property and equipment, intangible assets and investment properties	-8,879	-9,971
Net provision allowances	-819	-887
OPERATING EXPENSES	-176,224	-142,897

NOTE 11 – STAFF

	31/12/2010	31/12/2011
TOTAL AVERAGE NUMBER OF PERSONS EMPLOYED (IN FULL-TIME EQUIVALENTS)	1,047	938
Breakdown by business segment (1)		
Private Banking	379	326
Global Investor Services	223	195
ALM activities	134	120
Other	311	297

(1) The breakdown of commercial, administrative and support staff has been made on the same basis than for drawing up Note 3a on operating segments by business segment.

NOTE 12 – IMPAIRMENT

In EUR thousand	31/12/2010	31/12/2011
(Impairment)/reversal of impairment of:		
Loans and receivables	170	-2,514
Available-for-sale financial assets	-48,917	-171,730
IMPAIRMENT	-48,747	-174,244

Impairment on loans and receivables

More detailed information on impairment is provided in the management report.

In EUR thousand	31/12/2010	31/12/2011
TOTAL	170	-2,514
Breakdown by type		
(Impairment)/reversal of impairment		
Specific impairment on loans and receivables	101	-2,652
Portfolio-based impairments	69	138

See also Note 20 – Impairment on loans and receivables

Impairment on available-for-sale financial assets

In EUR thousand	31/12/2010	31/12/2011
TOTAL	-48,917	-171,730
(Impairment)/reversal of impairment of:		
Debt instruments	-334	-2,447
Equity instruments	-48,583	-169,283
On participating interests	-46,200	-160,617
KBL Richelieu Banque Privée – France	-46,200	-83,469
KBL Beteiligungs – Germany	-	-45,890
Theodoor Gilissen Bankiers – The Netherlands	-	-31,258

See also Note 19 – Impairment on available-for-sale financial assets

The values of the Bank's subsidiaries as well as the values of goodwill in its annual accounts are subject to an impairment test which is performed at least annually in the course of the fourth quarter.

These impairment tests are primarily based on the Discounted Cash Flow (DCF) method according to the following main assumptions :

- For all periods, cash flows are discounted at annual rate of 11.5%.
- For the period covering the next three years, cash flows are based on each available subsidiary's business plan as approved by the KBL *epb* Executive Committee.
- For the period from three years to ten years, two key assumptions are considered:
  - Annual growth of the gross income by 5.0%.
  - Annual growth of the operating expenses by 4.0%.

- For the period after 10 years, a terminal value is calculated based on a long term (LT) growth rate of cash flows of 5.0%. For reference, the combination in the terminal value of a [LT growth rate of 5% and a discount rate of 11.5%] corresponds to an implied PER valuation at terminal value of "15.3x".

Other cross-check methods such as the "NAV + multiple of AuM" are used to corroborate the results of the DCF method.

NOTE 13 – INCOME TAX (EXPENSES) / INCOME

In EUR thousand	31/12/2010	31/12/2011
TOTAL	-7,165	8,399
BREAKDOWN BY TYPE	-7,165	8,399
Current tax	-	4,616
Deferred tax	-7,165	3,783
of which: Losses carried forward	*-4,462*	*6,506*
BREAKDOWN BY MAJOR COMPONENTS:	-7,165	8,399
Profit before tax excluding branches	82,372	-28,536
Luxembourg income tax rate	28.80%	28.80%
INCOME TAX CALCULATED AT THE LUXEMBOURG INCOME TAX RATE	-23,723	8,218
Plus/minus tax effects attributable to:		
Tax-free income	19,616	11,631
Other non-deductible expenses	-526	-1,536
Adjustments related to prior years	-	4,616
Adjustments opening deferred tax due to change in tax rate	456	-
Unused tax losses and unused tax credits	-	-11,860
Other	-2,988	-2,669
INCOME TAX ADJUSTMENTS	16,558	181

Details of tax assets are given in Note 23.

In 2002, under Article 164 bis of the Luxembourg Income Tax Law (LIR), the Bank obtained approval for the fiscal consolidation of the following subsidiaries : Kredietrust Luxembourg S.A., Financière et Immobilière S.A., Centre Europe S.A., Renelux (sold in 2007) and KB Lux Immo S.A..

In 2011, the Bank has not recognised EUR 11.9 million of deferred tax based on its available business plan as approved by its Executive Committee and the remaining existing stock of deferred tax relating to 2008 loss. It has therefore booked in 2011 EUR 6.5 million of deferred tax for losses carried forward.

NOTE 14 – CLASSIFICATION OF FINANCIAL INSTRUMENTS: BREAKDOWN BY PORTFOLIO AND BY PRODUCT

- Financial instruments are classified into several categories ("portfolios"). Details of these various categories and the valuation rules linked to them are given in Note 2b, point b dealing with financial assets and liabilities (IAS 39).
- The balance sheet analyses below have been conducted at the clean price. Thus the accrued interest is presented separately, except for trading derivatives, which are presented at the dirty price.

CARRYING AMOUNT

31/12/2010

ASSETS In EUR million	Held-for-trading (HFT) assets	Financial instruments at fair value (FIFV) through profit or loss	Available-for-sale (AFS) financial assets	Loans and receivables (L&R)	Hedging derivatives	Total
LOANS AND ADVANCES TO BANKS AND INVESTMENT FIRMS	-	-	-	4,235	-	4,235
Loans and advances to customers	-	14	-	482	-	496
Consumer credits	-	-	-	6	-	6
Mortgage loans	-	-	-	67	-	67
Term loans	-	-	-	253	-	253
Current accounts	-	-	-	109	-	109
Other	-	14	-	47	-	61
EQUITY INSTRUMENTS	1	-	1,212	-		1,214
DEBT INSTRUMENTS issued by	279	-	3,830	-	-	4,109
- government bodies	40	-	1,395	-	-	1,435
- banks and investment firms	119	-	237	-	-	356
- corporates	120	-	2,199	-	-	2,319
FINANCIAL DERIVATIVES	189	-	-	-	35	224
ACCRUED INTEREST	7	0	49	2	31	90
TOTAL	477	14	5,092	4,720	66	10,369
Of which reverse repos	-	-	-	2,534	-	2,534

CARRYING AMOUNT

31/12/2011

ASSETS In EUR million	Held-for-trading (HFT) assets	Financial instruments at fair value (FIFV) through profit or loss	Available-for-sale (AFS) financial assets	Loans and receivables (L&R)	Hedging derivatives	Total
LOANS AND ADVANCES TO BANKS AND INVESTMENT FIRMS	-	-	-	5,022	-	5,022
Loans and advances to customers	-	15	-	769	-	784
Consumer credits	-	-	-	5	-	5
Mortgage loans	-	-	-	89	-	89
Term loans	-	-	-	483	-	483
Current accounts	-	-	-	128	-	128
Other	-	15	-	64	-	79
EQUITY INSTRUMENTS	1	-	1,052	-	-	1,053
Debt instruments issued by	235	-	2,631	-	-	2,867
- government bodies	45	-	1,264	-	-	1,309
- banks and investment firms	59	-	176	-	-	236
- corporates	131	-	1,191	-	-	1,322
FINANCIAL DERIVATIVES	323	-	-	-	34	357
ACCRUED INTEREST	4	0	41	7	10	63
TOTAL	564	15	3,724	5,799	44	10,146
Of which reverse repos	-	-	-	4,388	-	4,388

CARRYING AMOUNT

31/12/2010

LIABILITIES In EUR million	Held-for-trading (HFT) liabilities	Hedging derivatives	Financial liabilities at amortised cost	Total
DEPOSITS FROM BANKS AND INVESTMENT FIRMS	-	-	4,335	4,335
DEPOSITS FROM CUSTOMERS	-	-	3,898	3,898
Current accounts/demand deposits	-	-	2,626	2,626
Time deposits	-	-	1,252	1,252
Other deposits	-	-	20	20
DEBT CERTIFICATES	-	-	840	840
Deposit certificates	-	-	0	0
Customer savings bonds	-	-	4	4
Non-convertible bonds	-	-	3	3
Non-convertible subordinated liabilities	-	-	833	833
FINANCIAL DERIVATIVES	239	59	-	298
SHORT SALES	24	-	-	24
Equity instruments	0	-	-	0
Debt instruments	24	-	-	24
ACCRUED INTEREST	0	17	41	58
TOTAL	264	76	9,115	9,454
Of which repos	-	-	1,220	1,220

CARRYING AMOUNT

31/12/2011

LIABILITIES In EUR million	Held-for-trading (HFT) liabilities	Hedging derivatives	Financial liabilities at amortised cost	Total
DEPOSITS FROM BANKS AND INVESTMENT FIRMS	-	-	4,917	4,917
DEPOSITS FROM CUSTOMERS	-	-	4,241	4,241
Current accounts/demand deposits	-	-	3,125	3,125
Time deposits	-	-	1,107	1,107
Other deposits	-	-	9	9
DEBT CERTIFICATES	-	-	385	385
Deposit certificates	-	-	0	0
Customer savings bonds	-	-	3	3
Debt certificates	-	-	114	114
Non-convertible bonds	-	-	6	6
Non-convertible subordinated liabilities	-	-	262	262
FINANCIAL DERIVATIVES	267	57	-	324
SHORT SALES	28	-	-	28
Equity instruments	0	-	-	0
Debt instruments	28	-	-	28
ACCRUED INTEREST	0	17	19	36
TOTAL	295	74	9,563	9,932
Of which repos	-	-	751	751

FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table summarises the carrying amounts and fair values of the financial assets and liabilities not measured at fair value (excluding accrued interest).

	CARRYING AMOUNT		FAIR VALUE	
In EUR million	31/12/2010	31/12/2011	31/12/2010	31/12/2011
ASSETS				
Loans and advances to banks and investment firms	4,235	5,022	4,236	5,023
Loans and advances to customers	482	769	482	769
Consumer credits	6	5	6	5
Mortgage loans	67	89	67	89
Term loans	253	483	253	483
Current accounts	109	128	109	128
Other	47	64	47	64
LIABILITIES				
Deposits from banks and investment firms	4,335	4,917	4,336	4,918
Deposits from customers	3,898	4,241	3,896	4,241
Current accounts/demand deposits	2,626	3,125	2,625	3,125
Time deposits	1,252	1,107	1,252	1,107
Other deposits	20	9	20	9
Debt certificates	840	385	830	366
Deposit Certificates	0	0	0	0
Customer savings bonds	4	3	4	3
Debt certificates	-	114	-	114
Non-convertible bonds	3	6	3	6
Non-convertible subordinated liabilities	833	262	823	243

FAIR VALUE HIERARCHY

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) price in active market for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

31/12/2010 In EUR million	Level 1	Level 2	Level 3	Accrued interest	TOTAL
ASSETS					
Financial assets at fair value through profit or loss					
Equity instruments held-for-trading	0	1	-	-	1
Debt instruments held-for-trading	227	52	-	7	286
Derivatives held-for-trading	0	189	-	-	189
Financial assets designated at fair value through profit or loss	-	14	-	0	14
Available-for-sale financial assets					
Equity instruments	152	4	38	-	194
Debt instruments	1,950	1,849	-	49	3,848
Hedging derivatives	-	35	-	31	66
TOTAL	2,329	2,145	38	87	4,599
LIABILITIES					
Financial liabilities at fair value through profit or loss					
Equity instruments held-for-trading	0	0	-	-	0
Debt instruments held-for-trading	21	2	-	0	24
Derivatives held-for-trading	-	239	-	-	239
Hedging derivatives	-	59	-	17	76
TOTAL	21	301	-	17	339

31/12/2011 In EUR million	Level 1	Level 2	Level 3	Accrued interest	Total
ASSETS					
Financial assets at fair value through profit or loss					
Equity instruments held-for-trading	0	1	-	-	1
Debt instruments held-for-trading	151	84	-	4	239
Derivatives held-for-trading	-	323	-	-	323
Instruments designated at fair value through profit or loss	-	15	-	0	15
Available-for-sale financial assets					
Equity instruments	168	18	-	-	186
Debt instruments	1,878	753	-	41	2,673
Hedging derivatives	-	34	-	10	44
TOTAL	2,197	1,226	-	55	3,481
LIABILITIES					
Financial liabilities at fair value through profit or loss					
Equity instruments held-for-trading	-	0	-	-	0
Debt instruments held-for-trading	28	0	-	0	28
Derivatives held-for-trading	-	267	-	-	267
Hedging derivatives	-	57	-	17	74
TOTAL	28	324	-	17	369

Level 3 financial instruments measured at fair value

In EUR million	Financial instruments designated at fair value through profit or loss	Available-for-sale financial assets	Total
BALANCE AS AT 01/01/2010	4	33	36
Total profit / loss for the year			
- recognised in the income statement	0	-2	-2
- recognised in the other comprehensive income	-	1	1
Purchases	-	6	6
Sales	-4	-1	-5
Transfers from / to level 3	-	-	-
BALANCE AS AT 31/12/2010	-	38	38

In EUR million	Financial instruments designated at fair value through profit or loss	Available-for-sale financial assets	Total
BALANCE AS AT 01/01/2011	-	38	38
Total profit / loss for the year			
- recognised in the income statement	-	0	0
- recognised in the other comprehensive income	-	-	-
Purchases	-	-	-
Sales	-	-38	-38
Transfers from / to level 3	-	-	-
BALANCE AS AT 31/12/2011	-	-	-
Total profit / loss for the year recognised in the income statement and relating to assets held as at 31/12/2011	-	0	0

Transfers between the level 1 and level 2 categories

Transfers between the level 1 and level 2 categories which occur in 2011 were not significant. Reasons for the transfers were mainly linked to evolution in the liquidity of the related instruments.
No transfer between the level 1 and level 2 categories occurred in 2010.

GOVERNEMENT BONDS BY COUNTRY

	Available-for-sale financial assets					Held-for-trading assets	
In EUR million 31/12/2010	Nominal	Carrying amount	Available-for-sale reserve	Impairment	Related hedging derivatives	Nominal	Carrying amount
Austria	-	-	-	-	-	1	1
Bulgaria	-	-	-	-	-	-	-
Belgium	300	308	3	-	-3	4	4
Czech Republic	-	-	-	-	-	-	-
Cyprus	10	10	-0	-	-0	0	0
Finland	-	-	-	-	-	-	-
France	47	50	0	-	-	-	-
Germany	15	16	1	-	-	-	-
Greece	1	1	-0	-	-	-	-
Ireland	-	-	-	-	-	-	-
Italy	156	158	-0	-	-	0	0
Luxembourg	94	97	3	-	1	7	7
The Netherlands	230	237	3	-	-	-	-
Poland	-	-	-	-	-	-	-
Portugal	-	-	-	-	-	-	-
Slovakia	-	-	-	-	-	-	-
Spain	108	109	-2	-	-3	-	-
Sweden	21	22	1	-	-	0	0
Supranational	256	266	7	-	2	22	22
Rest	112	119	11	-1	-1	7	6
Total	1.349	1.394	27	-1	-4	40	40

In EUR million		Available-for-sale financial assets					Held-for-trading assets	
31/12/2011	Maturity	Nominal	Carrying amount	Available-for-sale reserve	Impairment	Related hedging derivatives	Nominal	Carrying amount
Austria		32	34	1	-	-	0	0
	2012	-	-	-	-	-	0	0
	2013 or 2014	-	-	-	-	-	0	0
	2017 and later	32	34	1	-	-	-	-
Belgium		267	269	-3	-	-4	-	-
	2012	170	172	1	-	-0	-	-
	2013 or 2014	47	48	0	-	-	-	-
	2015 or 2016	50	50	-4	-	-4	-	-
	2017 and later	-	-	-	-	-	-	-
Cyprus		10	10	0	-	0	-	-
	2012	10	10	-0	-	-0	-	-
France		175	183	3	-	-	-	-
	2012	40	42	0	-	-	-	-
	2013 or 2014	93	97	1	-	-	-	-
	2015 or 2016	20	21	1	-	-	-	-
	2017 and later	22	24	1	-	-	-	-
Germany		47	52	2	-	-	-	-
	2013 or 2014	9	10	0	-	-	-	-
	2015 or 2016	15	16	1	-	-	-	-
	2017 and later	23	26	1	-	-	-	-
Greece		1	1	-	-1	-	0	0
	2012	1	1	0	-1	-	-	-
	2013 or 2014	-	-	-	-	-	0	0
Italy		5	4	0	-	-	-	-
	2012	0	0	0	-	-	-	-
	2013 or 2014	4	4	-0	-	-	-	-
Luxembourg		94	101	3	-	-4	3	3
	2012	-	-	-	-	-	-	-
	2013 or 2014	44	46	2	-	-	2	2
	2015 or 2016	-	-	-	-	-	-	-
	2017 and later	50	55	1	-	-4	1	1
The Netherlands		101	106	4	-	-	-	-
	2012	44	45	0	-	-	-	-
	2013 or 2014	20	21	1	-	-	-	-
	2015 or 2016	28	30	2	-	-	-	-
	2017 and later	9	10	1	-	-	-	-
Spain		94	94	-1	-	-1	-	-
	2012	50	50	-2	-	-1	-	-
	2013 or 2014	21	22	0	-	-	-	-
	2015 or 2016	23	23	0	-	-	-	-
Sweden		21	22	1	-	-	-	-
	2012	-	-	-	-	-	-	-
	2013 or 2014	21	22	1	-	-	-	-
Supranational		350	363	3	-	-5	40	41
	2012	-	-	-	-	-	1	1
	2013 or 2014	92	95	1	-	-	3	3
	2015 or 2016	120	125	3	-	-	20	21
	2017 and later	139	144	-1	-	-5	17	17
Rest		24	23	4	-1	0	1	0
	2012	5	5	0	-	-	0	0
	2013 or 2014	-	-	-	-	-	0	0
	2015 or 2016	-	-	-	-	-	0	0
	2017 and later	19	18	4	-0	-	1	0
TOTAL		1,221	1,264	17	-2	-14	44	45

NOTE 15 – AVAILABLE-FOR-SALE FINANCIAL ASSETS AND LOANS AND RECEIVABLES: BREAKDOWN BY PORTFOLIO AND QUALITY

In EUR million	Available-for-sale (AFS) financial assets	Loans and receivables (L&R)	TOTAL
31/12/2010			
Unimpaired assets	4,796	4,719	9,514
Impaired assets	471	98	569
Impairment	-175	-97	-272
TOTAL	5,092	4,720	9,812

In EUR million	Available-for-sale (AFS) financial assets	Loans and receivables (L&R)	TOTAL
31/12/2011			
Unimpaired assets	3,335	5,797	9,133
Impaired assets	730	34	764
Impairment	-341	-32	-373
TOTAL	3,724	5,799	9,523

NOTE 16 – FINANCIAL ASSETS AND LIABILITIES: BREAKDOWN BY PORTFOLIO AND RESIDUAL MATURITY

ASSETS In EUR million	Held-for-trading (HFT) assets	Financial instruments at fair value (FIFV) through profit or loss	Available-for-sale (AFS) financial assets	Loans and receivables (L&R)	Hedging derivatives	TOTAL
31/12/2010						
Less than or equal to 1 year	238	-	741	4,562	1	5,543
More than 1 but less than or equal to 5 years	163	14	2,057	67	0	2,302
More than 5 years	68	-	1,032	89	34	1,222
Indefinite period	1	-	1,212	-	-	1,213
Accrued interest	7	0	49	2	31	90
TOTAL	477	14	5,092	4,720	66	10,369
31/12/2011						
Less than or equal to 1 year	319	-	564	5,541	0	6,424
More than 1 but less than or equal to 5 years	182	15	1,194	147	34	1,572
More than 5 years	57	-	873	103	-	1,034
Indefinite period	1	-	1,052	-	-	1,053
Accrued interest	4	0	41	7	10	63
TOTAL	564	15	3,724	5,799	44	10,146

LIABILITIES In EUR million	Held-for-trading (HFT) liabilities	Hedging derivatives	Liabilities at amortised cost	TOTAL
31/12/2010				
Less than or equal to 1 year	194	1	8,641	8,835
More than 1 but less than or equal to 5 years	51	27	30	109
More than 5 years	17	31	234	283
Indefinite period	1	-	168	169
Accrued interest	0	17	41	58
TOTAL	264	76	9,115	9,454
31/12/2011				
Less than or equal to 1 year	218	5	9,172	9,396
More than 1 but less than or equal to 5 years	53	32	368	453
More than 5 years	24	19	3	46
Indefinite period	0	-	0	0
Accrued interest	0	17	19	36
TOTAL	295	74	9,563	9,932

NOTE 17 – SECURITIES LENDING AND SECURITIES GIVEN IN GUARANTEE

The Bank regularly carries out transactions in which the assets transferred do not qualify for derecognition under IAS 39. This mainly concerns the following operations:

- repurchase agreements ("repo"),
- securities lending,
- securities given as collateral (in particular for securities borrowing or to guarantee credit lines received).

These transactions can be broken down as follows:

In EUR million	Repo (**)	Securities lending		Other
	Debt instruments	Debt instruments	Equity instruments	Debt instruments
31/12/2010				
Held-for-trading financial assets	-	6	-	-
Available-for-sale financial assets	257	120	2	1,456
Total financial assets not derecognised	257	126	2	1,456
Other (*)	955	1,301	0	2,237
TOTAL	1,212	1,427	2	3,693

In EUR million	Repo (**)	Securities lending		Other
	Debt instruments	Debt instruments	Equity instruments	Debt instruments
31/12/2011				
Held-for-trading financial assets	-	10	-	51
Financial assets at fair value through profit or loss	4	-	-	-
Available-for-sale financial assets	450	88	-	1,312
Total financial assets not derecognised	455	98	-	1,363
Other (*)	284	494	31	2,424
TOTAL	739	592	31	3,787

(*) The item 'Other' relates to securities borrowed or received as collateral for other operations.

(**) The carrying amount of debts associated with repo operations is available in Note 14.

NOTE 18 – SECURITIES RECEIVED IN GUARANTEE

The Bank mainly receives securities as collateral in relation to its reverse repurchase agreement operations and securities lending.
These securities are generally transferred under full ownership and the Bank is able to re-use them in other operations.

The fair value of these guarantees can be broken down as follows:

In EUR million	31/12/2010	31/12/2011
Reverse repurchase agreements	2,529	4,508
Collateral received in securities lending	1,322	563
TOTAL	3,851	5,072
Of which, transferred to:		
Repurchase agreements	51	74
Securities lent	1	1
Collateral given for securities borrowing	1,633	633
Other	604	1,791
TOTAL	2,289	2,499

NOTE 19 – IMPAIRMENT OF AVAILABLE-FOR-SALE FINANCIAL ASSETS

In EUR million	Debt instruments	Equity instruments
CHANGES		
BALANCE AS AT 01/01/2010	54	105
Changes affecting the income statement	0	49
Allowances	3	49
Reversals	-3	-
Changes not affecting the income statement	-36	3
Securities sold / matured	-34	-
Other	-2	3
BALANCE AS AT 31/12/2010	19	156
BALANCE AS AT 01/01/2011	19	156
Changes affecting the income statement	2	169
Allowances	3	169
Reversals	0	-
Changes not affecting the income statement	-3	-3
Securities sold / matured	-3	-2
Other	-	-1
BALANCE AS AT 31/12/2011	18	323

NOTE 20 – IMPAIRMENT OF LOANS AND RECEIVABLES

The annex to the management report contains information relating to non-performing receivables and the management of the related impairments.

In EUR million	31/12/2010	31/12/2011
TOTAL (BALANCE SHEET)	97	32
BREAKDOWN BY TYPE	97	32
Specific impairments on loans and receivables	95	31
Collective impairment	1	1
BREAKDOWN BY COUNTERPARTY	97	32
Loans and advances to banks	-	-
Loans and advances to customers	97	32

In EUR million	Specific impairments on loans and receivables	Collective impairment	TOTAL
CHANGES			
BALANCE AS AT 01/01/2010	99	1	100
Changes affecting the income statement	0	0	0
Allowances	0	0	0
Reversals	0	-	0
Changes not affecting the income statement	-3	-	-3
Use of provision	-7	-	-7
Other / Change impact	4	-	4
BALANCE AS AT 31/12/2010	95	1	97

In EUR million	Specific impairments on loans and receivables	Collective impairment	Total
CHANGES			
BALANCE AS AT 01/01/2011	95	1	97
Changes affecting the income statement	3	0	2
Allowances	3	0	3
Reversals	0	0	0
Changes not affecting the income statement	-67	-	-67
Use of provision	-67	-	-67
Other / Change impact	0	-	0
BALANCE AS AT 31/12/2011	31	1	32

NOTE 21 – DERIVATIVES

The notional value of the foreign-exchange contracts represents the nominal to be delivered.

31/12/2010	HELD-FOR-TRADING			FAIR-VALUE MICRO-HEDGING		
	Fair value		Notional value	Fair value		Notional value
In EUR million	Assets	Liabilities		Assets	Liabilities	
TOTAL	189	239	26,208	66	76	1,657
INTEREST RATE CONTRACTS	88	97	19,989	66	73	1,648
Interest rate swaps	85	94	19,342	66	73	1,648
Futures	0	0	78	-	-	-
Other	3	3	569	-	-	-
FOREIGN EXCHANGE CONTRACTS	81	121	5,601	-	3	9
Foreign exchange forwards	80	121	5,591	-	-	-
Foreign exchange options	0	0	1	-	-	-
Foreign exchange futures	0	0	3	-	-	-
Cross currency swaps	-	-	-	-	3	9
Other	0	0	7	-	-	-
EQUITY CONTRACTS	20	20	584	-	-	-
Equity futures	0	0	29	-	-	-
Equity options	2	2	44	-	-	-
Other	18	18	510	-	-	-
COMMODITIES AND OTHER CONTRACTS	1	1	35	-	-	-

In EUR million 31/12/2011	HELD-FOR-TRADING Fair value Assets	 Liabilities	 Notional value	FAIR-VALUE MICRO-HEDGING Fair value Assets	 Liabilities	 Notional value
TOTAL	323	267	22,146	44	74	1,208
INTEREST RATE CONTRACTS	75	92	13,207	44	71	1,198
Options	0	0	32	-	-	-
Interest rate swaps	71	86	12,550	44	71	1,084
Futures	-	1	80	-	-	-
Other	4	4	544	0	0	114
FOREIGN EXCHANGE CONTRACTS	206	140	8,308	-	3	10
Foreign exchange forwards	206	140	8,294	-	-	-
Foreign exchange futures	0	0	7	-	-	-
Cross currency swaps	-	-	-	-	3	10
Other	1	0	6	-	-	-
EQUITY CONTRACTS	41	34	610		-	-
Equity futures	0	0	3	-	-	-
Equity options	4	4	192	-	-	-
Other	37	30	416	-	-	-
COMMODITIES AND OTHER CONTRACTS	1	1	21		-	-

The notional value of the foreign-exchange contracts represents the nominal to be delivered.

NOTE 22 – OTHER ASSETS

The heading 'Other assets' covers various short-term receivables such as dividends and coupons that clients bring to KBL *epb* to be cashed and the value of which has already been paid.

NOTE 23 – TAX ASSETS

In EUR million	31/12/2010	31/12/2011
CURRENT TAX ASSETS	4	-
DEFERRED TAX ASSETS	49	81
Losses carried forward	58	64
Provisions	-22	-22
Available-for-sale financial instruments	-5	22
Other	19	16
TAX ASSETS	54	81

Changes in deferred tax assets and liabilities are not equal to the deferred tax charge recognised in the income statement during the year. This is mainly due to the deferred tax linked to the recognition in the revaluation reserve of fair value changes in unimpaired available-for-sale financial instruments.

NOTE 24 – INTANGIBLE ASSETS

In EUR million	Goodwill	Software developed in-house	Software purchased	TOTAL
CHANGES				
BALANCE AS AT 01/01/2010	84	10	0	94
Acquisitions	-	19	8	27
Disposals	-	-4	-	-4
Depreciation	-	-2	0	-2
Impairment	-	-	-	-
Allowances	-	-	-	-
Reversals	-	-	-	-
Other	-	-	-	-
BALANCE AS AT 31/12/2010	84	22	8	115
Of which: cumulative amortisation and impairment	-	-6	-1	-7
BALANCE AS AT 01/01/2011	84	22	8	115
Acquisitions	-	13	0	13
Disposals	-	0	0	0
Depreciation	-	-1	-2	-3
Impairment	-	-	-	-
Allowances	-	-	-	-
Reversals	-	-	-	-
Other	-	0	-	0
BALANCE AS AT 31/12/2011	84	35	6	125
Of which: cumulative amortisation and impairment	-	-7	-1	-8

NOTE 25 – PROPERTY AND EQUIPMENT AND INVESTMENT PROPERTIES

In EUR million	31/12/2010	31/12/2011
PROPERTY AND EQUIPMENT	106	101
INVESTMENT PROPERTIES		
Net carrying value	14	13
Fair value	21	22
Investment properties – Rental income	1	2

	Land and buildings	IT equipment	Other equipment	Total property and equipment	Investment properties
CHANGES					
BALANCE AS AT 01/01/2010	91	4	13	109	14
Acquisitions	2	0	1	4	0
Disposals	-	0	0	0	-
Depreciation	-5	0	-1	-6	0
Impairment	-	-	-	-	-
Allowances	-	-	-	-	-
Reversals	-	-	-	-	-
Other	0	-2	2	0	0
BALANCE AS AT 31/12/2010	89	1	15	106	14
Of which: cumulative amortisation and impairment	-56	-4	-9	-69	-7
BALANCE AS AT 01/01/2011	89	1	15	106	14
Acquisitions	2	0	1	3	-
Disposals	-1	-	0	-1	0
Depreciation	-5	0	-2	-7	0
Impairment	-	-	-	-	-
Allowances	-	-	-	-	-
Reversals	-	-	-	-	
Other	0	0	0	0	0
BALANCE AS AT 31/12/2011	85	1	14	101	13
Of which: cumulative amortisation and impairment	-60	-4	-11	-75	-8

NOTE 26 – PROVISIONS

In EUR million	Specific impairment for credit commitments	Other provisions [1]	TOTAL
BALANCE AS AT 01/01/2010	0	10	10
Changes affecting the income statement	-	1	1
Allowances	-	1	1
Reversals	-	0	0
Other changes	0	-2	-2
BALANCE AS AT 31/12/2010	0	8	8

(1) The column 'Other provisions' mainly contains provisions for the expenses relating to disputes, consultancy and miscellaneous fees.

In EUR million	Specific impairment for credit commitments	Other provisions [1]	TOTAL
BALANCE AS AT 01/01/2011	0	8	8
Changes affecting the income statement	0	1	1
Allowances	0	2	3
Reversals	-	-2	-2
Other changes	0	-3	-3
BALANCE AS AT 31/12/2011	0	6	6

(1) The column 'Other provisions' mainly contains provisions for the expenses relating to disputes, consultancy and miscellaneous fees.

NOTE 27 – OTHER LIABILITIES

The heading 'Other liabilities' in particular covers various items payable in the short term such as coupons and redeemable securities as paying agent.
The net liabilities related to staff pension funds (see Note 28) and restructuration plans are also included in this item.

NOTE 28 – RETIREMENT BENEFIT OBLIGATIONS

In addition to the legally prescribed plans, KBL *epb* maintains various complementary pension plans, of both the defined contribution and defined benefit kind.

The staff of KBL *epb* is covered by means of a number of funded and insured pension plans most of which are defined-benefit plans. In order to be able to participate in some of these plans, a minimum period of service with KBL *epb* is required and the benefits may also depend on the employees' years of affiliation to the plans as well as on their remuneration in the years before retirement. The annual funding requirements for these various complementary pension plans are determined based on actuarial cost methods.

Defined benefit plans

In EUR million	31/12/2010	31/12/2011
DEFINED BENEFIT PLAN OBLIGATIONS		
Value of obligations as at 01/01	59	58
Current service cost	2	3
Interest cost	2	3
Plans amendments	-	-
Actuarial gains/(losses)	2	-1
Benefits paid	-7	-3
Other	-	-
Value of obligations as at 31/12	58	59
FAIR VALUE OF PLAN ASSETS		
Fair value of assets as at 01/01	45	45
Actual return on plan assets	3	-3
Employer contributions	3	3
Plan participants contributions	1	1
Benefits paid	-7	-3
Other	-	-
Fair value of assets as at 31/12	45	42
Of which: financial instruments issued by KBL *epb*	-	
FUNDED STATUS		
Plan assets in excess of defined benefit obligations	-14	-17
Unrecognised net actuarial gains	9	12
Unrecognised past service costs	-	-
Unrecognised assets	-1	-1
Plan over-/(under-) funding	-6	-6
CHANGES RELATING TO NET LIABILITY		
Net liability as at 01/01	-6	-6
Net period cost in the income statement	-3	-3
Employer contributions	3	3
Other	0	0
NET LIABILITY AS AT 31/12	-6	-6

In EUR million	31/12/2010	31/12/2011
AMOUNTS RECOGNISED IN THE INCOME STATEMENT		
Current service cost	-2	-3
Interest cost	-2	-3
Expected return on plan assets	2	2
Adjustments to asset limits recognised	0	0
Amortisation of unrecognised past service costs	-	-
Amortisation of unrecognised net actuarial (gains)/losses	0	0
Other	-	-
NET PERIOD COST IN THE INCOME STATEMENT	-3	-3
Actual return on plan assets (in %)	7.03%	-6.55%
PRINCIPAL ACTUARIAL ASSUMPTIONS USED		
Discount rate	4.15%	4.10%
Expected rate of return on plan assets	4.00%	4.00%
Expected rate of salary increase	3.00%	3.00%
Expected rate of pension increase	2.00%	2.00%

DEFINED BENEFIT PLANS In EUR million	31/12/2007	31/12/2008	31/12/2009	31/12/2010	31/12/2011
Year-end amount of liability	55.2	56.1	58.5	58.3	58.9
Year-end fair value of assets	45.3	39.2	45.1	44.5	42.2
Plan assets in excess of obligations	-10.0	-16.9	-13.4	-13.8	-16.7
Plan excess/(under-) funding	-7.0	-6.5	-6.1	-5.8	-5.5

The estimate of the employer contribution payable to the defined benefit pension plan assets for 2012 is EUR 4.1 million.

DEFINED CONTRIBUTION PLANS In EUR million	31/12/2010	31/12/2011
Amount recorded in the income statement	1	1

NOTE 29 – EQUITY

The subscribed and paid-up capital is EUR 187.2 million, represented by 18,186,877 ordinary shares without par value and by 1,949,711 non-voting preference shares without par value. Following article 6 of the Bank's articles of incorporation, the Board of Directors is authorized to increase the subscribed and paid-up capital to maximum EUR 300 million by issuing ordinary shares until 25 April 2012.

Holders of preference shares are entitled to receive an initial dividend of EUR 0.25 per share, as established in the Bank's articles of association, and are therefore guaranteed a minimum annual return. If there are no profits, this dividend entitlement is carried forward to subsequent periods. Any profits remaining once this first dividend has been paid are shared out between all shareholders, whether they hold ordinary or preference shares, in such a way that both categories of shareholders ultimately receive an identical dividend. The Bank is thus twice indebted of EUR 0.5 million to preference shareholders for 2010, where no dividend has been paid-up and for 2011, if the Annual General Meeting approves the proposal of the Board of Directors to allocate the loss in deduction of the retained earnings (see Note 30).

The Bank's articles of association specify that, if the Bank is wound up, holders of preference shares are guaranteed repayment of the capital initially invested, that is EUR 14.56. Holders of preference shares are not however entitled to receive a share of any accumulated reserves.
As at 31 December 2011, the legal reserve is EUR 18.7 million representing 10% of the paid-up capital, the free reserves and the reserve for the reduction of wealth tax amount to EUR 752.5 million and EUR 29.9 million respectively. The retained earnings amount to EUR 67.6 million.

In number of shares	31/12/2010	31/12/2011
TOTAL NUMBER OF SHARES ISSUED	20,136,588	20,136,588
Ordinary shares	18,186,877	18,186,877
Preference shares	1,949,711	1,949,711
Of which: those that entitle the holder to a dividend payment	20,135,744	20,135,744
Of which: treasury shares, including commitments	844	844
Of which: shares representing equity under IFRS	20,135,744	20,135,744

CHANGES	Ordinary shares	Preference shares	TOTAL
BALANCE AS AT 01/01/2011	18,186,877	1,949,711	20,136,588
Cancellation of shares bought back	-	-	-
BALANCE AS AT 31/12/2011	18,186,877	1,949,711	20,136,588

NOTE 30 – RESULT ALLOCATION PROPOSAL

At its meeting on 22 February 2012, the Board of Directors proposes to allocate the 2011 loss of EUR 29.3 million in deduction of the retained earnings.

On 21 March 2012, this affectation will be submitted to the approval of the Annual General Meeting.

NOTE 31 – LOANS COMMITMENTS, FINANCIAL GUARANTEES AND OTHER COMMITMENTS

In EUR million	31/12/2010	31/12/2011
Confirmed credits, unused	470	916
Financial guarantees	233	38
Other commitments (securities issuance facilities, spot transaction settlement, etc.)	594	39
TOTAL	1,297	993

In the course of 2000, several (current and former) directors, managers and members of KBL *epb* staff, were charged by a Belgian examining magistrate with offences relating to a tax suit as a result of their professional activities at the Bank. The case was brought before the Council Chamber of the Court of Brussels on 24 January 2006. After the order of this court on 11 January 2008, six persons from KBL *epb* were referred to the criminal court.

The case was brought before the Brussels Criminal Court on 3 April 2009. After several weeks of hearings where it was exclusively pleaded that the investigation had been conducted in an improper and even illegal manner, a judgement was issued on 8 December 2009. The Court considered that the evidence on which all the legal proceedings were based had been introduced into the procedure in a seriously irregular or even illegal manner by the policemen and by the magistrates in charge of the enquiry. The flaws were so serious that they were considered to have a structural effect on the investigation and so the whole legal suit was declared invalid and the proceedings inadmissible.

As a result, all the accused were discharged from all proceedings.

On 10 December 2009, the Public Prosecutor filed an appeal against this judgement. The proceedings were then brought before the Court of Appeal of Brussels. On 16 September 2010, the Court of Appeal, after hearing the pleadings of the defence, decided to split the proceedings in two: the admissibility of the prosecution would be judged first, followed by a separate decision on the merits of the accusation. Pleadings took place from 16 September 2010 to 8 October 2010. In its arrest dated 10 December 2010, the Court of Appeal confirmed the judgment of the Court dated 8 December 2009 and ruled that the legal suit against all accused persons were inadmissable.

Two recourses against the decision of the Court of Appeal were filed before the Supreme Court ("pourvois en cassation") : one by the Public Prosecutor on 20 December 2010 and the other by the Belgian State on 24 December 2010. On 31 May 2011, the Supreme Court rejected both recourses. This decision finally closes the KBL case.

NOTE 32 – ASSETS UNDER MANAGEMENT

Total assets under management as at 31 December 2011 were 11.1 EUR billion, of which EUR 6.1 billion relates to clients in the private banking sector (2010: EUR 12.2 billion, of which EUR 6.9 billion related to the private banking sector).

NOTE 33 – RELATED PARTY TRANSACTIONS

'Related parties' refers to the parent company of KBL *epb,* its subsidiaries and key management personnel. Transactions with related parties are carried out under conditions equivalent to those applicable to transactions subject to conditions of normal competition.
Transactions with associates are not included below because they are not material.

In EUR million	31/12/2010	31/12/2011
FINANCIAL ASSETS	3,293	1,798
of which financial assets with KBC Group	*1,971*	*435*
Held-for-trading	79	138
At fair value through profit or loss	-	-
Available-for-sale financial assets	2,077	1,111
Loans and receivables	1,070	506
Hedging derivatives	66	44
FINANCIAL LIABILITIES	2,967	3,151
of which financial liabilities with KBC Group	*284*	*246*
Held-for-trading	70	52
At amortised cost	2,869	3,056
Hedging derivatives	28	44
INCOME STATEMENT		
Net interest income	23	14
Dividends	40	40
Net fee and commission income	8	-6
Other net income	1	1
Operating expenses	8	7
Impairment of financial assets not measured at fair value through profit or loss	-48	-162

WITH KEY MANAGEMENT PERSONNEL	31/12/2010	31/12/2011
Amount of remuneration to key management personnel of KBL *epb* on the basis of their activity, including the amounts paid to former key management personnel	10	9
Credit facilities and guarantees granted	36	17
Loans outstanding	27	8
Guarantees outstanding	0	0
Pension commitments	27	21
Expenses for defined contribution plans	-	-

NOTE 34 – SOLVENCY

The table below discloses the solvency ratios calculated according to the IFRS definition of own funds and applying the prudential filters as defined by CSSF circular 06/273 as amended.

In EUR million	31/12/2010	31/12/2011
REGULATORY CAPITAL	1,662	1,413
TIER 1 CAPITAL	1,349	1,193
Capital and reserves (including profit/loss carried forward)	1,279	1,347
Hybrid capital	184	-
Intangible assets	-115	-125
Treasury shares	-0	-0
Negative revaluation of AFS bonds (1)	-	-
Audited net loss	-	-29
TIER 2 CAPITAL	360	268
Preference shares	30	30
Positive revaluation of AFS shares	45	25
Subordinated liabilities	285	213
DEDUCTIONS	-47	-47
OVERALL OWN FUNDS REQUIREMENTS	361	289
Credit risk, counterparty risk, securitisation and incomplete transaction risk	309	255
Exchange risk	11	1
Position risk linked to debt securities trading	14	9
Position risk linked to equities	0	0
Settlement risk linked to trading securities	-	0
Operational risk	26	24
SOLVENCY RATIOS		
Basic solvency ratio (Tier 1 ratio)	29.37%	32.38%
Solvency ratio (CAD ratio)	36.82%	39.14%

(1) In July 2009, KBL *epb* notified the Commission de Surveillance du Secteur Financier (CSSF) of its choice to cease including unrealised profits or losses on available-for-sale debt instruments when calculating its prudential capital figures.

NOTE 35 – MAXIMUM CREDIT RISK EXPOSURE AND COLLATERAL RECEIVED TO MITIGATE

MAXIMUM CREDIT RISK EXPOSURE

In EUR million	31/12/2010	31/12/2011
ASSETS	10,777	11,112
Balances with central banks	324	857
Financial assets	10,369	10,146
Held-for-trading	477	564
At fair value through profit or loss	14	15
Available-for-sale financial assets	5,092	3,724
Loans and receivables	4,720	5,799
Hedging derivatives	66	44
Tax assets	54	81
Other assets	30	28
OFF-BALANCE SHEET ITEMS	1,297	993
Loans commitments	470	916
Financial guarantees	233	38
Other commitments (securities issuance facilities, spot transaction settlement, etc.)	594	39
MAXIMUM CREDIT RISK EXPOSURE	12,074	12,106

For the instruments measured at fair value, the amounts disclosed above represent the current credit risk exposure and not the maximum credit risk that could apply as a consequence of future changes in the estimates made.

COLLATERAL RECEIVED TO MITIGATE THE MAXIMUM EXPOSURE TO CREDIT RISK

In EUR million	31/12/2010	31/12/2011
Equity	-	-
Debt instruments	1,285	278
Loans and advances	2,748	4,677
of which designated at fair value	-	-
Derivatives	186	249
Other (including loans commitments given, undrawn amount)	12	11
COLLATERAL RECEIVED TO MITIGATE THE MAXIMUM EXPOSURE TO CREDIT RISK	4,232	5,214

The amount and type of collateral required depend on the type of business considered and the Bank's assessment of the debtor's credit risk.

The main types of collateral received are as follows:

- cash,
- securities (in particular for reverse repo operations and securities lending), and
- other personal and/or collateral guarantees (mortgages).

These guarantees are monitored on a regular basis to ensure their market value remains adequate as regards the assets they are intended to cover. If a guarantee is noted to be insufficient, margin calls are made in accordance with the agreements signed with the various counterparties concerned.

Following the Bank's request, the CSSF has approved an exemption from including in its calculation of the large risks exposures, in accordance with Part XVI, point 24 of the CSSF Circular 06/273, as amended, the risks to which the Bank is exposed within the KBC Group. The exposures on related parties are disclosed in Note 33.

NOTE 36 – RISK MANAGEMENT

Information on risk management (credit risk, market risks, operational risks, etc) is given in the appendix to the management report.

NOTE 37 – AUDIT FEES

in EUR thousand	31/12/2010	31/12/2011
Standard audit services	643	627
Other services	-	25
TOTAL	643	652

NOTE 38 – SIGNIFICANT SUBSIDIARIES

As at 31 December 2011, the list of the consolidated companies in which the Bank has a significant holding of at least 20% of the capital is as follows :

NAME AND HEAD OFFICE	CAPITAL HELD	EQUITY Excluding result of the year (2)		RESULT (2)	
Brown, Shipley & Co, Ltd – U.K. (1) and (3)	100.00%	37,512,273	GBP	3,056,938	GBP
KBL (Switzerland) Ltd - Switzerland	99.99%	89,405,643	CHF	404,149	CHF
KBL Richelieu Banque Privée – France	100.00%	157,158,691	EUR	-17,962,456	EUR
KBL Monaco Private Bankers S.A.– Monaco	100.00%	12,450,191	EUR	67,302	EUR
Financière et Immobilière S.A. – Luxembourg (1)	100.00%	2,417,569	EUR	304,725	EUR
KB Lux Immo S.A. – Luxembourg (1)	100.00%	35,721,182	EUR	1,264,586	EUR
Centre Europe S.A. – Luxembourg (1)	100.00%	25,212,225	EUR	979,303	EUR
Merck Finck & Co – Germany (1)	100.00%	139,167,578	EUR	545,653	EUR
European Fund Administration – Luxembourg (1)	51.13%	22 396 319	EUR	1 122 301	EUR
Kredietrust Luxembourg S.A. – Luxembourg (1)	100.00%	7,198,513	EUR	9,264,507	EUR
Theodoor Gilissen Bankiers N.V. – The Netherlands (3)	100.00%	93,298,709	EUR	1,258,351	EUR
Fidef Ingenièrie Patrimoniale S.A. – France	100.00%	-2,810,882	EUR	0	EUR
Puilaetco Dewaay Private Bankers S.A. – Belgium (1)	100.00%	84,308,400	EUR	10,614,774	EUR
KBL Beteiligungs A.G.	100.00%	58,216,782	EUR	-26,338,364	EUR
Vitis Life S.A.	100.00%	64,907,990	EUR	-24,312,235	EUR

(1) : percentage of direct and indirect holdings.
(2) : provisional, social, local GAAP figures.
(3) : Local GAAP = IFRS ; equity excluding reserves on the available-for-sale portfolio and cash flow hedge effects.

NOTE 39 – EVENTS AFTER THE BALANCE SHEET DATE

There was, after the closing date, no significant event requiring an update of the provided information or adjustments in the annual accounts as at 31 December 2011.