KBL EUROPEAN PRIVATE BANKERS

ANNUAL REPORT
2012

Contents

KBL EUROPEAN PRIVATE BANKERS

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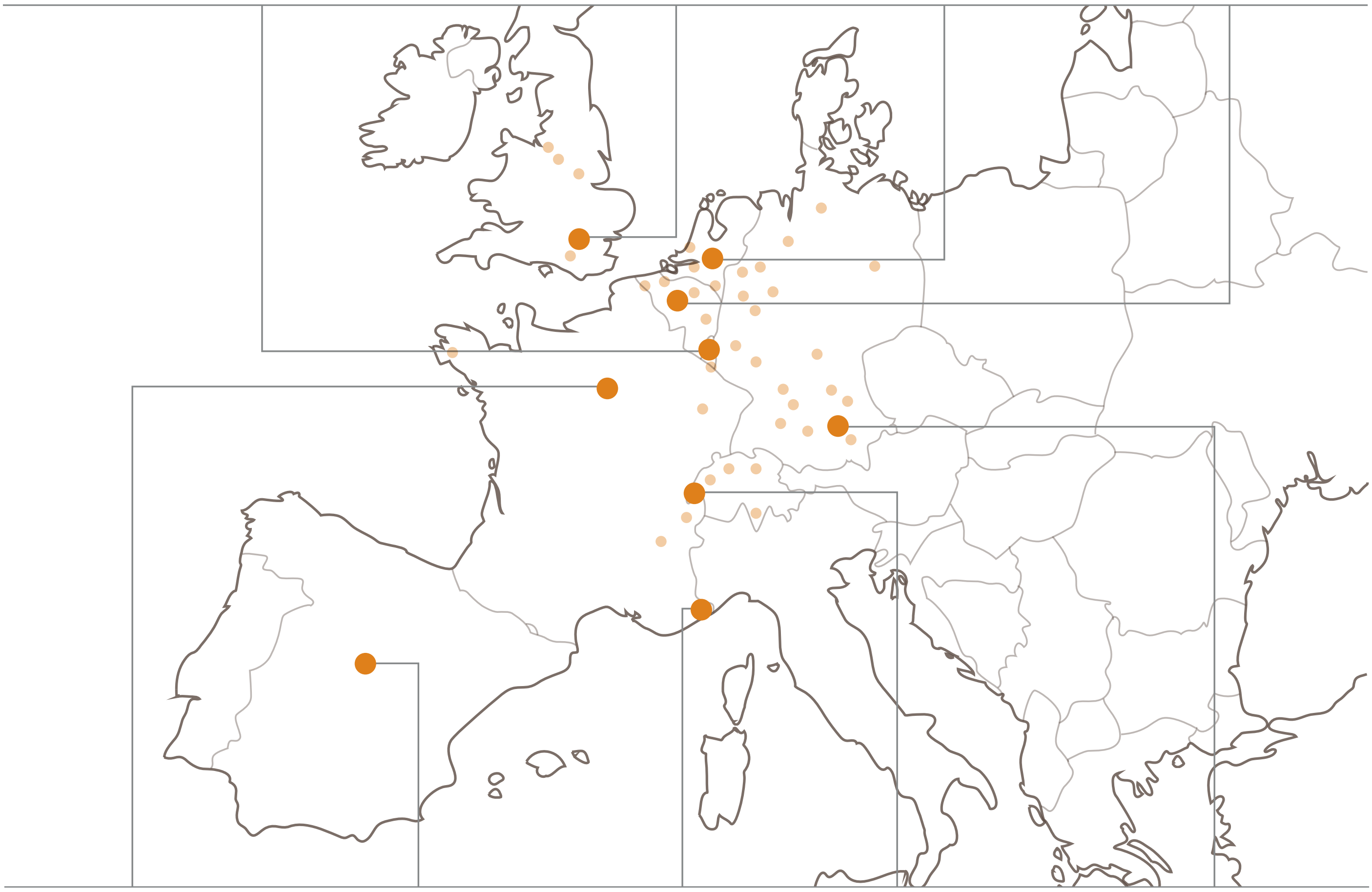

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POSITION AS AT 31 DECEMBER 2012

BOARD OF DIRECTORS

Jan HUYGHEBAERT
Chairman of the Board

George NASRA
Vice Chairman

Jan Maarten de JONG
Director

Frank ERTEL
Director
Staff representative

Marc GLESENER
Director
Staff representative

Francis GODFROID
Director
Staff representative

Christian HOELTGEN
Director
Staff representative

Laurent MERTZ
Director
Staff representative

Alan MORGAN
Director

Edmond MULLER
Director

Jacques PETERS
Group CEO

Mathias RAUEN
Director
Staff representative

Anne REULAND
Director

Philippe RYELANDT
Director
Staff representative

Albert WILDGEN
Director

Andreas WÖLFER
Director

EXECUTIVE COMMITTEE

Jacques PETERS
Group CEO

Frédéric GENET
(since 01/05/2013)

Olivier de JAMBLINNE de MEUX

Marc LAUWERS
(since 01/04/2013)

Philippe PAQUAY
(until 31/01/2013)

Yves PITSAER

Yves STEIN
(since 15/03/2013)

SENIOR MANAGEMENT

Philippe AUQUIER
Finance (until 31/12/2012)
ALM (since 01/01/2013)

Jean-Yves DOURTE
Credits

Rafik FISCHER
Global Investor Services

Stephen FRIEDLOS
ITS & PPD
(since 01/01/2013)

Wouter GESQUIERE
KTL & Asset Management

Michel GODFRAIND
Risk Control

Guillaume de GROOT-HERZOG
Real Estate & Logistics

Olivier HUBERT
Tax

Bernard JACQUEMIN
KBL Wealth Management

Siegfried MARISSENS
Corporate Center & Legal

Nicholas NESSON
Corporate Communications
(since 01/01/2013)

Vincent SALZINGER
Group Compliance

Bernard SIMONET
Human Resources

Thierry THOUVENOT
Group Internal Audit

Philippe VAN DOOREN
Operations

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

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 came to an end on 10 October 2011, when an agreement was signed between Precision Capital and KBC Group for the sale of KBL *epb*.

The deal was finally closed on 31 July 2012, after having been approved by all the supervisory authorities concerned. This agreement for a total consideration of around EUR 1 billion guarantees Precision Capital a 99.9% interest in KBL *epb*. Precision Capital is a Luxembourg-based company governed by Luxembourg law. It represents the interests of a group of Qatari private investors.

2. REFOCUSING ACTIVITIES AND ADAPTING RESOURCES

KBL *epb* has suffered from the effects of the global financial crisis, volatility within the eurozone and the ongoing transformation process within the private banking sector.

These external factors, among others, have had a negative impact on our performances, including on our market share and our profitability.

Furthermore, the nature of the business and transactions that we are carrying out for our clients today is developing considerably. This is why we gave the McKinsey consultancy the task of assisting us in developing a strategic direction. The results of this will be seen in the first half of 2013.

Despite all the measures taken, including a reduction of staff in Luxembourg at the end of 2010, staff costs in 2011 and 2012 rose, even though staff numbers fell over the same period. The drawing up of the 2013 budget and the strategic review begun in summer 2012 revealed a cost structure which was no longer in line with income. Since its founding in 1949, KBL *epb*'s human resources policy has always been to ensure stable employment for a maximum number of employees. This has not changed. However, the Bank has had to recognise that in the face of international economic circumstances, overstaffing is no longer tenable. Consequently, to preserve the largest number of jobs and give itself the means to navigate through the current economic and financial crisis, the Executive Committee decided to reduce the Bank's staff in Luxembourg by some 150 people through a mass redundancy programme in December 2012, effective in 2013.

3. RESULTS: TOWARDS A RELAUNCH OF ACTIVITY WITH THE NEW SHAREHOLDER

After the direct impact of extraordinary items, the net consolidated profit of KBL *epb* was EUR -251.1 million, as against EUR 20.1 million the previous year.

The combination of volume and price effects took private client assets under management to EUR 40.9 billion as at 31 December 2012, compared to EUR 39.8 billion as at 31 December 2011 (including Vitis Life), an overall increase of +2.8% (EUR +1.1 billion).

In this respect, our future approach should be in an international direction to seize the exceptional opportunities which are presenting themselves on the booming emerging markets.

4. EMPLOYEES

As at 31 December 2012, the total staff of the KBL *epb* network amounted to 2,406 as against 2,457 at the end of 2011, down by -2.1%. This change was due to a decrease in employees at the parent company, as well as at certain subsidiaries. Of the 2,406 staff in the KBL *epb* network, some 55% work in the subsidiaries outside Luxembourg.

5. AN AMBITIOUS STRATEGY

KBL *epb* intends to remain a center 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.

To support this transformation process we are implementing new organisational models, including an improved governance structure. We will enlarge the Group's Executive Committee and define more clearly its role at Group level as well as its responsibilities in regard to governance and the supervision of our business.

This process of change will not be exclusively operational. Like our organisational models, our corporate culture must develop to guarantee our competitiveness at the dawn of this new era. Within the framework of this process, a programme of change at Group level was launched at the beginning of 2013 in order to facilitate the Bank's long-term transformation. Among other things, this programme will aim to strengthen our commercial approach across the Group through initiatives such as Salesforce Effectiveness and to increase our asset management skills, in particular using initiatives aimed at optimising our investment model in this field and implementing skill centers at Group level.

KEY CONSOLIDATED FIGURES

KEY CONSOLIDATED FIGURES (Consolidated figures as at 31 December)	2009	2010	2011	2012
Results (in EUR million)				
Net banking income	664.9	602.6	549.3	**393.5**
Operating expenses	-504.4	-503.2	-438.8	**-562.5**
Impairments	-24.7	-44.6	-99.4	**-76.0**
Share in results of associated companies	2.7	1.6	0.6	**0.0**
Badwill		29.0		
Pre-tax profit	138.5	85.4	11.8	**-245.0**
Income taxes	-19.4	-17.7	8.3	**-6.1**
Net consolidated profit, Group share	119.2	67.7	20.1	**-251.1**
Financial ratios (in %)				
Core Tier one ratio – Basel II	9.1%	11.3%	16.3%	**12.6%**
Tier one ratio – Basel II	10.7%	13.4%	16.3%	**12.6%**
Solvency ratio – Basel II	18.4%	21.6%	22.3%	**18.7%**
Regulatory capital / balance sheet total	7.9%	8.8%	7.0%	**6.0%**
Loan-to-Deposit Ratio	14.1%	17.2%	19.0%	**21.5%**
ROAE	12.9%	6.6%	2.0%	**-25.9%**
ROAA	0.8%	0.5%	0.1%	**-1.8%**
Cost/Income Ratio	75.9%	83.5%	79.9%	**142.9%**

(Consolidated figures as at 31 December)	2009	2010	2011	2012
Balance sheet total (in EUR billion)	13.9	14.7	14.8	**12.9**
ASSETS				
Loans and advances to credit institutions	4.5	4.1	4.9	**2.2**
Loans and advances to others than credit institutions	1.7	1.6	1.7	**1.9**
Equity and debt instruments	6.2	5.5	4.1	**4.4**
LIABILITIES				
Deposits from credit institutions	3.3	2.4	2.5	**1.2**
Deposits from others than credit institutions	8.6	8.1	8.2	**7.4**
of which, Subordinated debt	0.8	0.8	0.3	**0.3**
Total equity	1.0	1.1	1.0	**0.9**
AuM (in EUR billion)				
Assets under management (Private Banking)	41.6	44.1	39.8	**40.9**
Volume impact	-4.4%	+0.4%	-3.9%	**-4.8%**
Price impact	+10.6%	+5.7%	-6.0%	**+7.6%**
AuC (in EUR billion)				
Assets under custody (funds & institutionals)	42.8	44.1	39.9	**38.6**

CONSOLIDATED MANAGEMENT REPORT

1. GENERAL COMMENTS ON THE RESULTS

Summer 2012 saw the completion of KBC Group's sale of the KBL *epb* group to Precision Capital, a Luxembourg company belonging to a group of Qatari investors. Due to this sales process lasting some three years, the Group found itself in a particular situation which put the brakes on any redeployment or initiative.

Net consolidated profit, Group share, as at 31 December 2012 was EUR -251.1 million compared to EUR 20.1 million as at 31 December 2011.

This negative result is explained by the combination of several particular elements described below.

With the aim of reducing risks and on the occasion of the change of shareholder, the sale of a certain number of bond positions, mainly securitisations (ABS) with underlyings in the peripheral countries of the eurozone, generated an overall loss of EUR 79.9 million.

It should be noted that in 2011 a one-off capital gain of EUR 48.3 million was booked on the early redemption by KBL *epb* of a hybrid capital instrument.

In 2012 net banking income fell by 28% to EUR 393.5 million compared to the previous year. This was impacted by a 34% reduction in the interest margin. This contraction is linked both to extremely low capital market rates and the ongoing policy of reducing balance sheet risks undertaken in recent years. The same was seen with regard to net commissions where the 5.4% fall can be explained by the drop in transactions and investor caution in a period of crisis.

Following the fall in net banking income and the continued improvement in operating processes, the Group implemented restructuring measures within the framework of mass redundancy plans which led to a reduction in staff numbers. The costs related to these measures also weighed on staff costs which rose 23.8%.

The Group also sought external advice to draw up an inventory of its IT platform. On the basis of these conclusions, it has shifted its implementation axes, giving rise both to new developments and accelerated depreciations of intangibles of some EUR 30 million.

As at 31 December 2012, impairments were EUR 76.0 million (EUR 99.4 million in 2011). A total impairment of EUR 46.9 million was booked on goodwill (EUR 34.7 million at Theodoor Gilissen Bankiers, EUR 6.4 million at KBL Richelieu and EUR 5.8 million at Merck Finck & CO). Impairments of EUR 19 million on the available-for-sale portfolio and EUR 10 million on the loan portfolio were also booked.

The losses carried forward generated in 2012 were not entered on the Bank's balance sheet, in accordance with the rules of limitation imposed by IFRS standards. Consequently, no deferred tax income has been recognised in the income statement with the exception of the updating of deferred taxes in line with the evolution of taxation rates.

The balance sheet total of EUR 12,937 million is 12% down on the year for the various reasons already mentioned and the reduction of interbank transactions.

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 780.5 million. Consolidated solvency ratio on Tier One equity and Core Tier One ratio stand at 12.6%. In 2012 the CSSF gave its agreement for the integration of Vitis Life into the scope of consolidation for prudential purposes, however it requested that the deferred tax assets be excluded from equity from now on.

2. A DECLARATION OF INTERDEPENDENCE

We live in a world that is increasingly interdependent.

Thanks to the rise of new technology, what happens in one corner of the globe can now be seen and known, in nearly real time, almost anywhere on earth. Successive waves of trade liberalization – supported by the communications revolution – have led to a world economy that is nearly completely globalized.

This large, decades-long trend has brought us closer. It also, of course, led us to the brink of global financial collapse.

Despite the perils of globalization, our greater interconnectedness has fostered a stronger sense of individual accountability. Because we understand that every action will lead to a reaction somewhere else, we recognize that we have a collective responsibility to do what is right.

This interdependence is transforming business – and, at KBL *epb*, it is transforming the business of private banking.

Our mission is to preserve and create value for our clients, employees, shareholder and other stakeholders, generating personal and professional growth opportunities and contributing to the well-being of communities in all the markets in which we operate.

Based on our core belief in the principle of interdependence – among our stakeholders and staff, across our network of more than 2,000 professionals in nine European offices – KBL *epb* recognizes the vital importance of a shared commitment to sustainable growth.

For more than six decades, we have realized this vision through a client-focused approach to private banking, founded upon the values of integrity, discretion, entrepreneurship, collaboration and general excellence.

From our central hub in Luxembourg – with the ability to share information and resources seamlessly and efficiently across our footprint – we will continue to serve our clients through an operational model that allows us to combine pan-European perspective and deep local insight.

At KBL *epb*, we are focused on delivering value every day. That is the commitment we make to our clients – and to each other across the Group.

Securing the future. Together.
That is the promise of KBL epb.

2.1 STRATEGIC OBJECTIVES

KBL *epb* seeks to become a top 20 European private bank by 2015.

As an established leader in private banking, KBL *epb* will further consolidate this position over the next three years, supported by the full commitment of its shareholder. At the same time, we will continue to reinforce the services provided by our Asset Management, Global Investor Services and Global Financial Markets departments.

As a Group, the Bank seeks to establish a leading presence in every market in which it currently operates, while also expanding its horizons to capture future opportunities in high-growth emerging markets such as the Middle East and Asia.

Through its central hub in Luxembourg, supported by best practice corporate governance structures and highly efficient operational and IT platforms, the Group remains focused on service and product excellence through its commitment to innovation and client care.

2.2 A CULTURE OF EXCELLENCE & TRUST

Despite the challenges posed by the impact of the global financial crisis and ongoing volatility in the eurozone, KBL *epb* maintains its commitment to a culture of excellence.

As a Group, we recognize that we can only achieve excellence through a constant focus on innovation – adapting our products and services to meet the evolving requirements of our clients.

Reflecting this client-centric approach, our private bankers build powerful long-term relationships, founded upon transparency and maintained through ongoing dialogue. They serve as trusted advisors, whose goals are wholly aligned with those of their clients.

That same spirit is reflected across our portfolio – including in our Asset Management, Global Investor Services and Global Financial Markets departments – and across our network.

2.3 NETWORK CONSOLIDATION

Over the next three years, KBL *epb* will focus on strengthening and consolidating its presence across Europe.

While continuing to encourage innovation and entrepreneurship at the individual country level – adapting products and services to meet the needs of local clients – we recognize the critical role of operating a strong central hub.

From Luxembourg, we set standards of excellence across the Group. Through this agile hub-and-spoke model, KBL *epb* is able to operate efficiently across Europe, providing holistic insights and geography-specific solutions.

Our immediate focus is therefore on enhancing the network and bringing all our operations to scale. However, we will also continue to plant the seeds for future geographic expansion – planning beyond the present to position KBL *epb* to seize emerging opportunities in the years to come.

2.4 CORPORATE GOVERNANCE

KBL *epb* is committed to the highest standards of corporate governance in all its activities, and has put in place enhanced organizational structures to meet the needs of the Group – and its clients – today and in the future.

Through an enlarged and restructured Executive Committee – staffed by highly respected industry leaders who are empowered to oversee and manage the Bank's operations – we are ensuring that the Bank's sustained growth journey will be informed by the core values of transparency, accountability and integrity.

2.5 EMPLOYEE COMMITMENT

At KBL *epb*, we put people first.

Informed by our core belief in the principle of interdependence, we promote both entrepreneurship and collaboration among all our staff. Within this framework of positive accountability, every employee understands the importance of their individual contribution to our shared success.

To that end, we provide ongoing professional development opportunities so that all KBL *epb* staff, across our network, can realize their full potential.

As an employer of choice in all the markets in which we are present, KBL *epb* encourages its staff to be active participants in their local communities, including through the Bank's various corporate social responsibility initiatives.

3. PRIVATE BANKING: OUR CORE PROFESSION

At KBL *epb*, our core profession is private banking.

Already a firmly established European leader, we will further consolidate this position over the next three years, supported by the full commitment of our shareholder.

With a first-class team of over 400 dedicated private bankers – who offer local insight informed by knowledge of international best practices – we will continue to expand our private banking operations, maintaining our client-centric focus and committing ourselves to innovation, including an increased emphasis on digital banking products and services.

Across the Group, our wealth management services are distinguished not only by their range and quality, but also by an overall partnership approach, informed by long-term analysis and founded upon our belief in the importance of holistic portfolio management.

Indeed, our private bankers do not believe in one-size-fits-all products or strategies. Whether we are managing today's wealth or structuring tomorrow's inheritance, our clients benefit from an approach that is open, independent and individualized to their specific needs.

TRUSTED ADVISORS

Our mission is to serve as a trusted advisor to our private banking clients, acting as a trusted investor on their behalf, earning their confidence by committing ourselves to:

→ Listening carefully to each client's needs

→ Developing personalized, long-term relationships

→ Communicating with every client clearly and transparently

→ Managing each portfolio proactively and with foresight

Recognizing the vital importance of building and sustaining such relationships by adhering to these principles, we offer ongoing, objective advice adapted to the profile of each individual investor.

Through sustained dialogue with our private banking clients, KBL *epb* provides tailored investment strategies, which are flawlessly executed by our specialist advisors based in Luxembourg and across our European network.

RICH EXPERIENCE

Our team is rich in professional experience in key areas such as portfolio management, investment advisory, and long-term financial planning, including inheritance.

At KBL *epb*, our broad array of portfolio management services provides significant added value for our clients. By highlighting strategic investment opportunities and offering tailored solutions, we adapt our approach to the specific requirements and risk appetite of each client.

Our experienced investment advisors – including portfolio management specialists, analysts, lawyers and tax experts – guide each client to the right solutions to meet their needs, spanning the full array of products available in the market.

Our ongoing focus is to safeguard and grow the wealth of our clients. Whether by investing in shares, derivatives, fixed-income or structured products, or KBL or third-party funds selected by our specialist team, we take into account the risk-return potential of every investment, tailored to the ambitions of each client.

When it comes to financial planning and succession, our goal is to provide bespoke investment strategies and wealth management solutions – based on a detailed analysis of each client's assets – so that capital is preserved, developed and passed on to future generations.

CLIENT FOCUS

At KBL *epb*, we recognize that our success is a reflection of the fact that, as an organization, we are wholly focused on our clients.

We also understand the importance of communication, especially during periods of increased volatility, and remain in constant contact with our clients, providing regular, transparent reporting of the management of each portfolio.

As we mark a new beginning in the more than 60-year history of the Group, we will therefore continue to build upon our heritage as European private bankers, demonstrating our ongoing commitment to earning the trust of our clients each and every day.

4. THE HUB SERVICE CENTER

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 S.A.), the United Kingdom (Brown, Shipley & Co Ltd), in Belgium (Puilaetco Dewaay Private Bankers S.A.), in Spain (KBL España European Private Bankers) 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 particularly the case in Belgium in 2012 (Puilaetco Dewaay Private Bankers S.A.) where the platform was modernised and provided with new state-of-the-art tools, in particular for portfolio management.

On the operational side, all KBL *epb* members are using (some fully, others partially due to local constraints) the common Hub platform.

Initiatives aimed at improving service efficiency and quality are a constant preoccupation for the Hub Service Center. In 2012, there were several targeted actions to optimise resources and improve the competitiveness of the intra-group offer.

At Hub Operations level, the GOLD (Generate Excellence in Operations, Lean Processes and Dashboards) project launched in March 2012 was the key event. This project, aiming to implement a Lean approach within Operations, includes a complete revision of back office and support tasks. The first aim is the improvement of our services to clients to which can be added more efficient cost management through development of synergies, review of processes, development of performance dashboards and centralisation of support functions. Operations is acquiring a flexible and evolving organisation to face new challenges by introducing innovative principles in matters of governance and continued improvement. The GOLD project is already a success thanks to the mobilisation of the staff. It is currently being rolled out and should show results for the end of the first half of 2013.

These various actions and efforts will continue in 2013 with increased vigilance aimed at keeping costs down without compromising operational risk management while keeping or improving the quality of the service delivered.

With the Hub, KBL *epb* has firmly focused on a new role, a high-quality proactive 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*.

5. COMPLEMENTARY NICHE ACTIVITY

5.1. GLOBAL INVESTOR SERVICES

Next to our private banking activities, in Luxembourg we have a second core business line closely linked to the specifics of the financial centre. Since 2007 our Global Investor Services (GIS) have been centralising all the securities, market access and ancillary services and skills offered by the Bank and making them available to institutional and professional clients. These activities are primarily targeted towards the investment fund industry, domestic and international, as well as towards servicing the needs of professional and institutional customers for their market- based and custody related activities.

The GIS professionals, some 50 experts, provide tailor-made services to these professional and institutional clients, including specific financial product development in close collaboration with our Dealing Room, one of the last still operational in Luxembourg. They are assisted in their task by a state of the art technical infrastructure, such as the Hub's integrated operational platform and top-flight financial communication and information systems from Bloomberg and Reuters, to name only a few.

Private investor confidence in collective investment products improved only hesitantly in 2012 and the generally good market performances largely evaded them as private investors often stayed away from the markets so that the future, despite a positive outlook, is not without question marks. Despite limited investor appetite for collective investment products and the increased number of liquidations of non-performing products, 2012 saw a stabilisation of net asset volumes. 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 many new products were launched but were also able to extend business relationships to new entrants to the collective investment industry. In this way our penetration of the Latin American market and Brazil in particular met with considerable success. (For more details see under 5.2 UCI). The excellent ongoing evolution and the impressive continued increase in assets entrusted with our Global Custody activities in general and for non-domiciled funds on deposit with KBL *epb* in particular, should also be noted.

Activities linked to our market activities reflect the prevailing market circumstances and client behavior and progressed in ups and downs, in particular regarding equities and third-party funds, while transactional volumes for foreign exchange remained at a very high level. Cross-selling with clients on deposit (funds and other institutionals) continued to increase, short-term bonds still finding favour with investors as an alternative to poor-paying cash deposits.

5.2. CENTRAL ADMINISTRATION FOR UNDERTAKINGS FOR COLLECTIVE INVESTMENTS (UCI)

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

Despite the debt crisis and euro crisis being daily news in 2012, the Luxembourg investment fund sector was able to rise on an almost continual basis throughout the year. At the end of December 2012, net assets had risen 13.70% to reach an all time high of EUR 2,384 billion against EUR 2,097 billion at the end of 2011. Over the 12 months of 2012 net assets only fell twice, in May and August. The rise of EUR 287 billion was made up of 42% net issues (EUR 123 billion) and 58% positive financial market effect (EUR 164 billion).

In 2012 promoters from an increasing number of countries restructured their UCI ranges: mergers, liquidations, ... The net number of UCI structures fell slightly (-4), whereas the number of sub-funds rose by 126 units in 2012. UCI under Part I and Part II of the 2010 Law fell – minus 69 and minus 46 units respectively – while Specialised Investment Funds (SIF) saw a net rise with 111 new units.

Luxembourg is thus defending its No. 1 position in Europe and with its 3,841 structures and 13,420 sub-funds it remains, after the USA, the world's second market for investment funds.

The Top 3 countries (market share in % of total net assets) for promoters are the USA (23%), Germany (16%) and Switzerland (15%).

Through various initiatives (ALFI (Association of the Luxembourg Fund Industry), LFF (Luxembourg for Finance)) the financial center 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.

Once again in 2012, alternative investment funds in the form of Specialised Investment Funds (1,485 units at the end of 2012) or in the form of venture capital investment companies (SICAR - Sociétés d'Investissement en Capital à Risque) (275 units at the end of 2012) met with clear success. The SIF, a flexible but regulated private equity investment vehicle introduced a little over five years ago, again did well: 111 structures net as mentioned above, an increase of more than 8%. 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 and has to be transposed into the various national legislations by 21 July 2013 at the latest. After the publication in mid-December 2012 of Level 2 legislative measures, Luxembourg is counting on finalising the transposition into national law of the said Directive very quickly.

→ 2012 was marked by the entry into practice of the requirements of the European UCITS Directive (UCITS IV) and also by discussions on the next version of the Directive. Indeed, UCITS V is on the horizon and will deal with subjects such as the responsibility of the custodian bank and the remuneration of managers.

5.2.2. Evolution of assets managed by KTL

In a difficult global financial environment which is still unstable and to which can be added KBL *epb*'s recent change of shareholder, net assets remained at a very satisfactory level of EUR 28.6 billion for 81 UCI structures totalling 636 sub-funds under administration. A considerable number of new business relationships with promoters with very different backgrounds also started in 2012.

5.2.3. European Fund Administration

Since 1998 KTL – a specialist subsidiary of KBL *epb* – 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 major shareholder. At the end of 2012, EFA was managing over 2,508 sub-funds containing total net assets worth EUR 91 billion for 214 clients.

Since its launch in 2007 EFA Private Equity, the business line handling services for real-estate funds and Venture Capital / Private Equity, has been offering its specialised services to more than 100 clients. With more than EUR 9 billion in assets under management EFA Private Equity is the main provider of administrative and accounting services for regulated capital investment and real-estate vehicles in Luxembourg.

Finally, within the context of new regulations and requirements introduced by UCITS IV and AIFMD, EFA has developed numerous additional services to help the various players in fields such as risk management and performance analysis, investment limits, eligibility and the valuation of targeted investments.

5.3. GLOBAL FINANCIAL MARKETS

Supporting the needs of institutional investors and professional traders, KBL *epb*'s Global Financial Markets (GFM) department provides a full range of solutions across the public and private sector. As its name suggests, this truly global platform offers international reach, covering fixed-income products, equities, currencies, rates and commodities – with a particular focus on emerging markets.

The GFM sales and trading desks work closely with investors to achieve sustained, superior returns, offering ease of market access and the opportunity to trade online and in real time. In addition, a dedicated team of market specialists provides bespoke research, informed by rich analytic tools, to evaluate investment opportunities across the different asset classes.

Capable of handling almost any order for nearly any fund – whether KBL or third party – the GFM department works with nearly 1,000 transfer agents throughout the fund universe. With state-of-the-art IT tools and straight-through-processing platforms, order management, settlement and custody are both highly efficient and fully personalized.

Complementing our core business of private banking, KBL *epb*'s Global Financial Markets department remains an additional pillar of the future growth of the Group.

5.4. VITIS LIFE

VITIS LIFE offers high-quality life insurance solutions allowing our clients to realise their financial ambitions. These are global solutions (tax, financial and legal) which best correspond to their financial situation and their specific needs.

VITIS LIFE works under the freedom to provide services in Belgium, France, Italy, Luxembourg and the Netherlands. The products marketed by the company are mainly Unit Linked products, whose premiums are invested in the funds offered by the company. The value of the policy is linked to the value of the funds comprising the insurance policy. This type of policy offers no guarantee of return and the risk is borne by the policyholder.

It is also possible to take out an additional life insurance policy.

However, VITIS LIFE remains very little exposed to insurance risk, given that most of the products it markets contain little – or no – life cover. It should be noted that exposure to this type of risk, life cover, is fully covered by a re-insurance contract.

Re-assurance is an operation which, in the case of VITIS LIFE, consists of insuring itself with another specialist company, called reassurance.

The seller (VITIS LIFE) grants the assignee (the reinsurer) a part of the premium received from policyholders to cover the capital at risk.

The seller must however constitute the entire actuarial reserve accruing to the life insurance (provisions for ongoing risks). These provisions are on the liabilities side of the VITIS LIFE balance sheet.

Given the modalities of our reinsurance contract, the entire claim (linked to life cover) will be paid by the reinsurer. The risk covered by the reinsurer is entered in the company's assets.

NON-CONSOLIDATED MANAGEMENT REPORT

For detailed figures please refer to the Annual Accounts.

1. GENERAL BALANCE SHEET PERFORMANCE

Summer 2012 saw the completion of KBC Group's sale of the KBL *epb* group to Precision Capital, a Luxembourg company belonging to a group of Qatari investors. Due to this sales process lasting some three years, the Bank found itself in a particular situation which put the brakes on any redeployment or initiative.

This particular situation combined with the sluggishness of the markets and the few available opportunities are the root cause of the -28% (EUR -3.2 billion) fall in the balance sheet compared to the end of 2011 to approach EUR 8.2 billion as at 31 December 2012.

In the wake of the change of shareholder, the Bank decided to unwind a certain number of bond positions, mainly securitisations (ABS) with underlyings in the peripheral countries of the eurozone which were entered under the "Available-for-sale" heading. The Bank also reinvested a part of its cash in a new bond portfolio for EUR 0.5 billion. These two elements together with a slight market recovery at the end of the year increased the valuation of the reserve of available-for-sale assets by some EUR 135 million.

The Bank also sought external advice to draw up an inventory of its IT platform. On the basis of these conclusions, it has shifted its implementation axes, giving rise both to new developments and accelerated depreciation of intangibles.

The relaunch of loan activity (essentially on a secure basis) should be seen in 2013.

The Bank's liquidity and solvency remain comfortable with ratios of 48.0% and 32.3% respectively as at 31 December 2012. Core Tier 1 ratio is 25.4%. In 2012 the CSSF gave its agreement for the integration of Vitis Life into the scope of consolidation. However it requested that the deferred tax assets be excluded from equity from now on.

2. NET INTEREST AND COMMISSION MARGIN

The trend in the contraction of margins and the lessening of balance sheet risks of the last few years continued in 2012 and the Bank posted a fall in its interest margin of a little under 40% with EUR 56.8 million.

The same was seen with regard to net commissions where the fall of 5.5% is explained by the drop in transactions and investor caution in a period of crisis, despite the improvement in management commissions. Net commission showed a result of EUR 84.6 million.

3. DIVIDEND

Dividend income (EUR 25.6 million) fell by 37.5%, mainly with KBL *epb* group companies.

4. SALE OF PIIGS POSITIONS

The sale of the abovementioned bonds exposed to the peripheral countries generated an overall loss of EUR 70.5 million.

5. OTHER INCOME

Other income rose by 26% to reach EUR 7.5 million. This rise is due to the sale of a property in Luxembourg city.

6. OPERATING EXPENSES

Following the fall in income and the continued improvement in operating processes, the Bank decided to launch a mass redundancy plan for economic reasons at the end of the year. Staff expenses, strained by restructuring costs, rose by 52.6% to EUR –146 million.

Other administrative costs increased by almost 68% on the back of numerous IT projects (heading balance EUR –61.0 million). As mentioned, the Bank also opted for accelerated depreciation on certain IT projects (EUR –32.1 million).

7. IMPAIRMENT

The annual impairment tests led to a write-down in the value of several consolidated KBL group holdings: Theodoor Gilissen Bankiers EUR –106.1 million, KBL (Switzerland) EUR –50.0 million, KBL Beteiligungs EUR –14.5 million, KBL Richelieu Banque Privée EUR –8.9 million and Puilaetco Dewaay Private Bankers EUR –1.2 million.

8. 2012 NET RESULT

Due to the above elements, the Bank recorded a net consolidated loss of EUR –305.8 million as at 31 December 2012.

APPENDICES

APPENDIX 1:

MINORITY SHAREHOLDERS AND TREASURY SHARES HELD

As at 31 December 2012, 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.
- 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.

APPENDIX 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 tasks of KBL & Group Compliance encompass the identification and management of compliance risks, as well as the implementation of an awareness-raising policy, corrective measures, internal reporting and relations with the Public Prosecutor and the CSSF in the field of money laundering. It actively helps the managing bodies in the management and control of these risks.

Its major areas of intervention are:

- the fight against money laundering and the financing of terrorism;
- investor protection (MiFID , Market Abuse, customer complaints, conflicts of interest…);
- 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 the Governance Charter for Control Functions in the Group further strengthens the functional link between local bodies and those in Luxembourg.

Furthermore a specific Committee entitled the Board Compliance & Legal Committee is informed of, and regularly monitors, the adequacy of Compliance measures. It consists of three directors with expertise in the field.

2.1. ADVICE AND PREVENTION

In 2012 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 processes.

It should be noted that the Committee on the Authorisation and Supervision of Financial Products (CAS), of which Compliance is a permanent member, meets on a regular basis to approve products which are to be offered to clients. Informing clients so that they can correctly 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.

Apart from being available to answer questions of interpretation and its constant monitoring of the subsidiaries, Compliance Advisory and the Money Laundering Reporting Officer (MLRO) paid particular attention to carrying out a Compliance Awareness programme 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 level of exposure to Compliance risks of the concerned persons. The programme is accompanied by regular information for employees and managers on Compliance risks according to what is topical (internal or external).

Compliance continues to strengthen Compliance practices within the Group with forums, regular exchanges with the Compliance Officers in our European network and by adopting new codes of conduct (anti-corruption policy, cross-border policy...).

2.2. CONTROL

Compliance continued its risk monitoring role. Its control framework is part of the Bank's general internal control framework. In addition to refining and strengthening certain controls, the Compliance Monitoring entity 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 necessary, suggestions for improving the plan are put forward.

The correct execution of these controls by our subsidiaries was also monitored from Luxembourg. Where appropriate, support was given to certain Group bodies.

After several years of effort, a dedicated anti-money laundering software (SIRON) is now in place in all KBL *epb* Group subsidiaries of significant size. This solution seeks to improve the review processes for the Group's clients, whether new or existing, either by analysing client behaviour (before and after) or by screening the client database versus 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 looking for adapting its control procedures and making staff aware of the need to protect clients.

Group Compliance carried out regular checks in the Group's various subsidiaries.

APPENDIX 3:

RISK MANAGEMENT

3.1. MISSION AND ACHIEVEMENTS 2012

To more accurately reflect its work, Risk Management was renamed "Risk Control" at KBL *epb* in 2011. This name change is consistent with the terminology used in the EBA's Guidelines on Internal Governance published in September 2011 (GL44) and the new CSSF circular 12/552 on "central administration, internal governance and risk management," which will enter into force in July 2013.

Since 31 July 2012, when KBL *epb*'s sale to Precision Capital was completed, KBL *epb* has again been acting as parent company to a multinational banking group. In 2012, Risk Control prepared for this change by introducing completely autonomous risk governance suited to the Group's specific businesses. Several founding documents were written and approved by bodies (ExCo and Board Risk Committee / Audit, Compliance and Risk Committees / Board of Directors) of the Group and affiliated companies.

Although not required by the new CSSF circular 12/552, a Risk Control charter has been drawn up for relevant Group entities, inspired by the EBA's Guidelines for Internal Governance and similar in content to existing Compliance and Audit charters. This charter formalizes the work of Risk Control entities along with risk management principles, responsibilities, rules and guidelines. A risk map has been drawn, showing a common taxonomy of the main risks to our core businesses and aimed at ensuring that all risks to the Group are covered, using consistent terminology.

Furthermore, operating rules for Risk Control at Group and subsidiary/branch levels and specific provisions targeting the role of Group functions in the recruitment, assignment and appraisal of Risk Control managers at affiliated entities have been set out in a Rule Book between Group Risk Control and Local Risk Control. Several documents describing a risk framework by main "silo" of risks, primarily intended to formalise Risk Control entities' current practices, are close to completion at the time of writing. These "founding" documents on the methods applied to risk measurement and control could, if necessary, be adapted to any changes that the new shareholder wishes to make when determining risk appetite.

After the closing of the sale of KBL in July 2012, Precision Capital reorganized all management and supervisory bodies. A new Board Risk Committee (BRiC) assumed responsibility for all risks previously covered by KBL's Audit, Compliance and Risk Committee. Separate committees were set up for Compliance and Audit. In subsidiaries/branches, existing committees dealing with the three areas have been kept. At the beginning of 2013, McKinsey was asked to review the Group's overall governance, including a section on risk control committees.

Given the strategic review underway, the first two BRiC meetings in November 2012 and January 2013 allowed the Directors to acknowledge KBL's current risk profile.

The method used to determine risk appetite, which the Management Board approved in 2011, was presented and approved by the BRiC in January 2013. A workstream was therefore launched to draw up a risk appetite statement reflecting the new Board of Directors' risk appetite. This statement will be shown as a coherent series of limits, taking into account all existing business limits and extended to subsidiaries. Awaiting confirmation of the new Board of Director's exact risk appetite, the bank has managed its risks diligently.

Noting in the middle of 2012 that the European crisis was deepening, and working in collaboration with the new shareholder, a heavily discounted portfolio of RMBS in peripheral countries with a nominal value of EUR 280 million was sold at a loss of EUR 66 million. This portfolio had been the main focus of credit risk for many years and was under constant surveillance by the Group's ALCO. At the end of the year, the portfolio's few remaining RMBS positions were essentially in AAA rated securities on the Belgian and Dutch markets. The total nominal amounts to just EUR 212 million.

At the time of the sale of RMBS in peripheral countries, certain smaller sovereign debt positions were also closed in the riskiest PIIGS (Greece, Portugal and Spain), generating a total loss (with the RMBS) of EUR 80 million, i.e. just under a third of the loss in FY 2012. As at 31 December 2012, total nominal sovereign debt outstanding on these countries amounted to EUR 284 million with EUR 78 million in Ireland, EUR 180 million in Italy and EUR 26 million in Spain.

The consolidated balance sheet is down 12%, mainly due to the decrease in interbank deposits and institutional customer deposits (mostly undertakings for collective investment), which remain the two least stable components. Against a general backdrop of zero interest rates, the fall in private banking customers' deposits was limited to 3% over the year.

As private and custodian banking operations are structurally cash-generating, the bank remains a net lender to the market with the ratio of loans to deposits reaching just 21.5% compared with 19% a year earlier. Noting the fall in interbank market returns following the ECB's two LTRO in December 2011 and February 2012, the bank decided to reinvest a larger proportion of its surplus cash in diversified bond portfolios. Outside Luxembourg, several portfolios of limited maturities have been created in certain subsidiaries including Merck Finck & CO, Puilaetco BE and Theodoor Gilissen Bankiers. The consolidated nominal amount of bond portfolios amounted to EUR 3.9 billion at the end of 2012. 98% is investment grade with an average rating of A, calculated using the Moody's WARF method.

Investments on the interbank market (essentially reverse repos, which now offer a gross margin of just a few basis points) have decreased significantly and the cash management team has kept larger deposits with central banks - BuBa, BoE and BCL in particular - throughout the year. Furthermore, customer credit in the form of lombard and mortgage-backed loans continued to grow steadily over the year.

At a consolidated level and for all debt assets and bond portfolios (excluding trading room outstanding on banking counterparties for which no provisions have been made), net provisions amount to EUR 18.7 million, i.e. 0.35% of average outstanding. Consolidated non-performing loans, which total just EUR 48.5 million, are almost entirely covered by provisions or collateral.

Alongside these developments, which Group Risk Control has been closely monitoring at all times, KBL *epb* finalised the introduction of different autonomous risk control systems in the first half of the year with a view to separation from KBC Group. At closing at the end of July 2012, all risk calculation and control systems had been adapted and have delivered their outputs without any break. The Asset and Liabilities Committee (ALCO) has met each month to manage the balance sheet as business continues.

A group insurance programme completely independent of KBC's own had already been arranged at the beginning of 2011. Given that excesses had been raised to provide more effective cover of tail risks at a broadly identical cost, no insurance claims have been made. Risk Control has not seen any increase in operational risk following the year-end sale with the number of incidents down 7% on 2011, while the absolute amount of incidents (losses, profits and provisions) was stable on the previous year.

During the year, Group Operational Risk Control provided the Group's private banking entities with a database that lists around 200 principles/rules covering operational risks to be controlled at level one. Each entity must assess compliance and report and explain any discrepancies. The Common Operational Risk Rules System (CORRS) must replace and build on Group standards and become one of the main bases of our operational risk management system, extending to all Group operations. Work to cover lending activity and external asset management (EAM) is well on the way to completion.

In constructing new portfolios to reinvest surplus cash, a system of concentration limits based on the system for managing theoretical interbank limits was approved by the ExCo and implemented to ensure constant monitoring of consolidated outstanding. This concerns sovereign debt, bank bonds (distinguishing between "systemic" banks and the rest) and corporates. The country position system inherited from KBC was adapted to take into account default risk within the eurozone and is based on a formula that considers countries' size, rating and reputation on the markets. Limits have also been set for each wider region.

Work to copy VaR calculations with our specificities in the banking book's ALM, carried out centrally by KBC, has been completed and throughout the year Group Market Risk Control introduced ways of calculating new liquidity ratios (LCR and NSFR). A simplified LCR calculation is made each day for non-consolidated KBL. An initial assessment of the consolidated ratio and entity-by-entity LCR has been carried out. In accordance with new Basel Committee provisions introduced at the beginning of January 2013, a new assessment is underway.

Whether for credit risk, market risk or operational risk, the bank applies the standard Basel II method to all entities and the consolidated group. As already announced in the 2011 report, and recognising that since its sale to Precision Capital our Group has stood alone and been concentrated on a limited number of core businesses (in particular private banking and, for the bank in Luxembourg, Global Custody for undertakings for collective investment and trading room activities in support of these two segments), and that risk management methods should be proportionate to the size and complexity of activities, and that one of the main objectives is for the Bank's management and bodies to be able to understand them easily, a decision was made to simplify methods from those used at KBC Group, especially at credit and trading risk levels.

At the end of 2009 when KBC Group announced its intention to sell KBL *epb*, the project to implement the IRB Foundation method for the regulatory calculation of credit risk was suspended as its use required substantial investment in terms of specialized human resources, IT upgrades and extending the scope of the entities concerned. At Risk Control's instigation, a decision was taken to apply the comprehensive method to treating collateral as something that reduces credit risk for all subsidiaries. The first improvements were made in December 2012 but implementation will not be complete and effective on a consolidated basis until the first quarter of 2013.

For pillar 2, the bank uses an economic capital model inherited from KBC and which has been refined over the years. For credit risk, the Bank adopted an "adapted pillar 1" approach a year ago. HVaR applied to trading risk has also been replaced with the pillar 1 market risk calculation. A presentation of banking risks and the model used in pillar 2 was made by Group Risk Control at the first College of Supervisors in November 2012, attended by most regulators of countries in which our Group is present. Discussed improvements to the model will be applied in 2013.

We continued our efforts to enhance private banking controls in most Group entities in 2012. Apart from enhancement in terms of "pure" operational risk as described above (cf. CORRS), controls linked to assets deposited by customers are another aspect that always needs to be more strictly overseen. As the euro crisis has shown, these controls are especially important as the notion of what is "risk free" or "risky" may change quickly and the client in question may not realise this. Overall with regard to the euro crisis, however, our private banking clients have very little direct exposure to "peripheral" countries' sovereign debt risk. Depending on the entity, level two client risk management takes place either in a middle office working in close collaboration with sales teams (private bankers or portfolio managers), or in Risk Control entities, as it does for some aspects of Compliance. Overall, controls cover three areas: respect for investment universes, respect for portfolio allocations which may be restricted to varying degrees, and identification of concentrations and risky situations. In the last of these areas, which requires permanent attention, Group Credit Risk Control introduced a new alert system at the end of 2012 for issuers whose credit risk worsened.

In terms of structured products sold to private banking clients, the Group's standards are very strict and in line with tighter legal requirements being applied in most countries and at a European level. All decisions on whether to accept new issuers are concentrated on a specialized committee in Luxembourg. The list of authorised issuers is frequently reviewed and issuance volumes are subject to quotas for some issuers. Particularly close attention is paid to potential investors' information files. This Committee also discusses more specific or one-off transactions for informed investors as well as the development of types of product such as Islamic finance. Furthermore, in terms of controlling asset management activities and in accordance with CSSF circular 11/512, KTL's management draws up a full report on the risk management process for collective investment fund management in Luxembourg and sends this to the CSSF. Risk governance has been enhanced for KTL by assigning the task and granting independence to KTL's Risk Management team, which now reports on operational matters to Group Risk Control like other Group entities.

As regards Global Custody, the Bank actively manages its risk exposure to its sub-custodians and this has led it to reassess some of them, especially in the light of the sovereign debt crisis. The Operations department has drawn up an annual report monitoring custodian banks and external counterparties, having discussed this with managers of the business lines concerned and with Compliance and Risk Control, sending this to the CSSF. News Flashes have been sent to all individuals concerned and Group Credit Risk Control notes changes in our professional counterparties' ratings each week.

The risk management scope remained exactly the same in 2012. However, some subsidiaries have undergone major development and require close scrutiny by Risk Control teams in Luxembourg. This was notably the case for Brown, Shipley & CO whose ICAAP and ILAA projects - the equivalent of the ICAAP report for liquidity risk - required a significant investment in local teams, which grew substantially at the end of 2011. Brown, Shipley & CO is also the first and only Group entity to have prepared a recovery and resolution plan.

In the Netherlands, efforts culminated in the summer when the bank submitted its first ILAA report to the authorities. Furthermore Group Credit Risk Control provided methodological support to Theodoor Gilissen's Credit Department to carry out an in-depth assessment of the mortgage portfolio, involving a line by line review of files. Its conclusions are due at the end of Q1 2013.

At a team level and following the introduction of new governance rules concerning the resignation/recruitment/transfer of local Risk Control managers at our subsidiaries, the head of Risk Control in Luxembourg with the support of two senior risk managers responsible for closely monitoring affiliated companies, has intervened directly in human resource management issues at subsidiaries, in particular Theodoor Gilissen, Brown, Shipley & CO, Puilaetco and KBL España.

3.2. STRUCTURE AND ORGANISATION

Coordination of risk issues throughout the KBL Group was enhanced in 2012 with the creation of a special unit for closely monitoring subsidiaries. Group Risk Control is now based around five departments with a total of 28.5 full time equivalent staff:

- the new Integrated Risk department (with two FTE), which is the subsidiaries' single point of contact with Group Risk Control, responsible for coordinating general risk issues within the Group and for overseeing specific local files. Amongst other things, it prepares subsidiaries' Risk Committee meetings. Work relating to pillar II of Basel II (ICAAP report for the Group) is carried out within this department. Several projects to improve the integration of subsidiaries/branches are underway such as the launch of a dedicated Risk Control intranet site, the harmonisation of quarterly reports and organisation of regular Risk Control Days;
- the Operational Risk Control and Process Management department (with 5.6 FTE), responsible for overseeing operational risk issues and updating procedures. The main operational risk monitoring tools are incident analyses recorded in a shared Loss Event Reporter, as they are for the whole Group, the Common Operational Risk Rules System aimed at centralising all operational risk rules and standards in a common system, Risk Self Assessments and Case Studies. It also manages the insurance programme for the whole KBL *epb* Group. Process management is intended to establish a consistent, exhaustive set of interdisciplinary procedures, mainly for the parent company but also for certain subsidiaries/branches that use its services;
- the Market Risk Control department (with 4.8 FTE), tasked with modelling market risk problems in the KBL *epb* Group, as well as more specific control of ALM and liquidity risks. Controls to identify potential risks in client portfolios are also developed in this entity. One of the entity's senior risk managers closely monitors KTL and Vitis Life in a similar way to the integrated risks unit.

The department also takes responsibility for reporting on, and the regulatory watch over, all risks covered by Risk Control, as well as certain specific aspects;

→ the Credit Risk Control department (with 3.8 FTE), in charge of credit risk control for the KBL *epb* Group. Credit risk stems mainly from lombard/mortgage loans issued to private banking customers, bond investment portfolios (as part of the medium/long-term reinvestment of surplus cash), unconfirmed banking lines covering counterparty risk (professional operations including the replacement/management of short-term cash) and credit lines issued to investment funds. The department also controls Group country risk and credit risk concentration (limits on major risks and internal limits on credit risk concentration for government, banking and corporate issuers) and has a role in drawing up and ensuring respect for the criteria for accepting securities as collateral, as well as in credit risk monitoring for custodian banking;

→ the Middle Office and Collateral Management department (with 11.5 FTE) responsible for regular level two controls of Market operations, in particular:

- ensuring the integrity, reliability and reporting of trading positions and results for the trading room in Luxembourg;
- controlling uses/breaches of limits and monitoring and consolidating subsidiaries' residual trading risk (mainly forex);
- monitoring counterparty/country risk (unconfirmed positions), i.e. credit risk on the Luxembourg trading room's professional operations;
- managing the Bank's collateral, mainly in relation to repo, securities lending and derivatives transactions, as well as monitoring the quality of pledges received from counterparties on the basis of framework contracts.

In total, there are around 25 FTE risk managers in affiliated companies. Merck Finck & Co, Theodoor Gilissen Bankiers and Brown, Shipley & Co have up to 5 FTE. The other teams are much smaller (from 1 to 3 FTE). As subsidiaries' operations are more uniform and certain risks are non-material (absence of trading activity, ALM risk present in only some cases and closely monitored, very limited liquidity risk for most entities, limited credit risk), the bulk of resources is allocated to managing and controlling client and operational risks.

APPROPRIATION OF RESULT

At its meeting on 21 February 2013, the Board of Directors proposes to allocate the result available for distribution to retained earnings.

On 20 March 2013, this appropriation will be submitted to the approval of the Annual General Meeting.

	EUR
2012 loss (KBL company)	-305,771,455
Retained earnings	38,288,971
Result available for distribution	**-267,482,484**
Retained earnings	**-267,482,484**

COMPOSITION OF THE BOARD OF DIRECTORS

Messrs Jan Huyghebaert, Franky Depickere, Olivier de Jamblinne de Meux, Diego du Monceau, Edmond Muller, Philippe Paquay, Luc Philips, Yves Pitsaer, Mrs Marie-Christine Vanthournout-Santens, Messrs Philippe Vlerick and Marc Wittemans resigned as directors at the Ordinary General Meeting of 31 July 2012, at which the appointment of Messrs Jan Huyghebaert, George Nasra, Alan Morgan, Edmond Muller and Albert Wildgen was unanimously approved for a period of one year.

The Ordinary General Meeting of 10 October 2012 approved the appointment of Mrs Anne Reuland and Mr Andreas Wölfer as directors of KBL *epb*.

This report is available in English and French.

Only the English version is authentic.

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Fixed Income Pricing & Advisory	T. (+352) 2621-0122

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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 2012, 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 2012, 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, including the corporate governance statement, which is the responsibility of the Board of Directors, is consistent with the consolidated accounts and includes the information required by the law with respect to the corporate governance statement.

ERNST & YOUNG
Société Anonyme
Cabinet de révision agréé

Sylvie Testa

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Consolidated accounts,
Report of the independent auditor
and Consolidated management report
as at 31 December 2012

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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 2012, 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.

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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.

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The consolidated management report, including the corporate governance statement, which is the responsibility of the Board of Directors, is consistent with the consolidated accounts and includes the information required by the law with respect to the corporate governance statement.

Ernst & Young
Société Anonyme
Cabinet de révision agréé

Sylvie Testa

Luxembourg, 21 February 2013

CONSOLIDATED INCOME STATEMENT

(In EUR thousand)	Notes	31/12/2011	31/12/2012
Net interest income	4, 38	145,253	95,214
Gross earned premiums, insurance	5	2,271	1,553
Gross technical charges, insurance	6	-11,489	-9,182
Ceded reinsurance result, insurance		-399	-265
Dividend income	7	3,866	4,255
Net gains / losses on financial instruments measured at fair value through profit or loss	8	-9,176	49,746
Net realised gains/losses on financial assets and liabilities not measured at fair value through profit or loss	9	62,381	-83,376
Net fee and commission income	10, 38	348,878	330,194
Other net income	11, 38	7,697	5,377
GROSS INCOME		549,283	393,516
Operating expenses	12, 38	-438,769	-562,529
Staff expenses	13, 32, 33, 38	-292,097	-361,510
General administrative expenses	42	-120,060	-140,906
Other	28, 29, 31	-26,612	-60,114
Impairment	14, 22, 23, 28, 38	-99,354	-76,015
Share of profit of associates	15, 27	604	35
PROFIT / (LOSS) BEFORE TAX		11,763	-244,993
Income tax (expenses) / income	16	8,345	-6,090
PROFIT / (LOSS) AFTER TAX		20,109	-251,083
Attributable to: Non-controlling interest		-9	-8
Owners of the parent		20,118	-251,075

The notes refer to the “Notes to the consolidated accounts”.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(In EUR thousand)	31/12/2011	31/12/2012
PROFIT / (LOSS) AFTER TAX	20,109	-251,083
Revaluation at fair value	-87,946	144,996
Net realised gains / losses on sales	-8,978	97,970
Impairment	5,858	7,279
Income tax (expenses) / income	25,631	-68,494
Available-for-sale financial assets	-65,435	181,750
Exchange differences on translation of foreign operations	-3,337	-2,911
OTHER COMPREHENSIVE INCOME	-68,772	178,840
TOTAL COMPREHENSIVE INCOME	-48,663	-72,243
Attributable to: Non-controlling interest	-9	-8
Owners of the parent	-48,654	-72,235

The notes refer to the “Notes to the consolidated accounts”.

CONSOLIDATED BALANCE SHEET

ASSETS (In EUR million)	Notes	31/12/2011	31/12/2012
Cash and balances with central banks	40	1,076	1,330
Financial assets	17, 18, 19, 20, 21, 38, 40	12,919	10,996
Held-for-trading	24	628	502
At fair value through profit or loss		1,806	2,110
Available-for-sale financial assets	22	3,883	4,270
Loans and receivables	23	6,557	4,069
Hedging derivatives	24	45	45
Reinsurers' share in technical provisions, insurance		0	1
Tax assets	26, 40	99	33
Current tax assets		1	5
Deferred tax assets		97	28
Investments in associates	27	13	12
Investment properties	29	36	27
Property and equipment	29	189	180
Goodwill and other intangible assets	28	306	231
Other assets	25, 40	115	128
TOTAL ASSETS		14,752	12,937

EQUITY AND LIABILITIES (In EUR million)		31/12/2011	31/12/2012
Financial liabilities	17, 19, 38	12,965	11,158
Held-for-trading	24	359	301
At fair value through profit or loss		1,790	2,095
At amortised cost		10,722	8,655
Hedging derivatives	24	94	107
Gross technical provisions, insurance	30	429	355
Tax liabilities	26	5	9
Current tax liabilities		1	2
Deferred tax liabilities		4	7
Provisions	31	28	25
Other liabilities	32, 33, 38	319	457
TOTAL LIABILITIES		13,747	12,003
TOTAL EQUITY		1,006	934
Equity attributable to the owners of the parent	*34*	*1,005*	*934*
Non-controlling interest		*0*	*0*
TOTAL EQUITY AND LIABILITIES		14,752	12,937

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(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
2011									
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

(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**
2012									
Balance as at 01/01/2012	**187.2**	**321.3**	**-0.1**	**551.8**	**-61.4**	**6.6**	**1,005.4**	**0.3**	**1,005.7**
Net movements on treasury shares	-	-	-	-	-	-	**-**	-	**-**
Dividends and profit-sharing	-	-	-	-	-	-	**-**	-	**-**
Total comprehensive income for the year	-	-	-	-251.1	181.8	-2.9	**-72.2**	-0.0	**-72.2**
Changes in scope of consolidation	-	-	-	-	-	-	**-**	-	**-**
Effects of acquisitions/disposals on non-controlling interest	-	-	-	-	-	-	**-**	-	**-**
Other	-	-	-	0.7	-	-	**0.7**	-	**0.7**
Balance as at 31/12/2012	**187.2**	**321.3**	**-0.1**	**301.5**	**120.3**	**3.7**	**933.9**	**0.3**	**934.2**

CONSOLIDATED CASH FLOW STATEMENT

(In EUR million)	Notes	31/12/2011	31/12/2012
Profit before tax		11.8	-245.0
Adjustments for:		119.0	128.5
Impairment on securities, amortisation and depreciation on property and equipment, intangible assets and investment properties	*12, 14*	*121.3*	*123.4*
Profit/loss on the disposal of investments	*11*	*-2.3*	*-5.7*
Change in impairment for losses on loans and advances	*14*	*2.2*	*10.1*
Change in gross technical provisions – insurance	*6*	*-11.5*	*9.2*
Change in the reinsurers' share in the technical provisions	*5*	*-0.4*	*0.3*
Change in gross earned premiums	*5*	*-2.3*	*-1.6*
Change in other provisions	*12*	*2.5*	*2.6*
Unrealised foreign currency gains and losses and valuation differences		*10.2*	*-9.8*
Income from associates	*15*	*-0.6*	*0.0*
Cash flows from operating activities, before tax and changes in operating assets and liabilities		130.8	-116.6
Changes in operating assets [1]		1,840.6	-2,739.6
Changes in operating liabilities [2]		101.8	1,061.4
Income taxes		17.4	-
NET CASH FLOWS FROM / (USED IN) OPERATING ACTIVITIES		2,090.4	-1,794.8
Purchase of subsidiaries or business units, net of cash acquired/disposed of		-2.4	-
Proceeds from sale of subsidiaries or business units, net of cash acquired/disposed of		0.0	-
Purchase of investment property	29	-0.3	-0.2
Proceeds from sale of investment properties	11, 29	0.3	13.7
Purchase of intangible assets	28	-1.6	-2.6
Proceeds from sale of intangible assets	28	0.2	-
Purchase of property and equipment	29	-10.2	-10.2
Proceeds from sale of property and equipment	11, 29	3.0	1.9
NET CASH FROM / (USED IN) INVESTING ACTIVITIES		-11.1	2.5
Purchase/sale of treasury shares		-	-
Issue/repayment of loans	17	116.4	-0.3
Issue /repayment of subordinated debts	17	-571.0	-8.6
Dividends paid and profit-sharing		-	-
NET CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES		-454.6	-8.8
NET INCREASE / DECREASE IN CASH AND CASH EQUIVALENTS [3]		1,624.7	-1,801.1
CASH AND CASH EQUIVALENTS AS AT 01/01		2,904.6	4,529.3
Net increase/decrease in cash and cash equivalents		1,624.7	-1,801.1
Net foreign exchange difference		-	-
CASH AND CASH EQUIVALENTS AS AT 31/12		4,529.3	2,728.2
ADDITIONAL INFORMATION			
Interest paid during the year		151.8	-90.1
Interest received during the year		308.1	172.4
Dividends received (including equity method)	7	3.9	4.3
COMPONENTS OF CASH AND CASH EQUIVALENTS		4,529.3	2,728.2
Cash and balances with central banks (including legal reserve with the central bank)		1,076.4	1,329.6
Loans and advances to banks repayable on demand		4,970.6	1,980.3
Deposits from banks repayable on demand		-1,517.7	-581.7
Of which: not available [4]		123.6	389,4

[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.).
The notes refer to the "Notes to the consolidated accounts".

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 the "Bank"), a public limited liability company (société anonyme) in Luxembourg and having its registered office at:

43, boulevard Royal
L-2955 Luxembourg

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 came to an end on 10 October, when an agreement was signed between Precision Capital and KBC Group for the sale of KBL *epb*.

The deal was finally closed on 31 July 2012, after having been approved by all the supervisory authorities concerned. This agreement for a total consideration of around EUR 1 billion guarantees Precision Capital a 99.9 % interest in KBL *epb*. Precision Capital is a Luxembourg-based company governed by Luxembourg law. It represents the interests of a group of Qatari private investors.

The Bank's consolidated accounts are consolidated in Precision Capital's consolidated accounts. Precision Capital's consolidated accounts and management report are available at its head office.

As of 31 December 2012, KBL *epb*'s non-consolidated accounts include those of the Spanish branch opened on 7 April 2010. The Polish branch opened on 1 April 2009 was 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 21 February 2013.

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 amendment to IFRS effective for the Group as of 1 January 2012. This newly applicable requirement has had no impact on the financial position and performance of the Group:

- *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 consolidated accounts to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011.

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 2012. 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's financial position or performance are mentioned below):

- *IAS 1 Presentation of Items of Other Comprehensive Income - Amendments to IAS 1*

  The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or "recycled") to profit or loss at a future point in time (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012, and will therefore be applied in the Group's first annual accounts after becoming effective.

- *IAS 19 Employee Benefits (Revised)*

  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. The expected impact of the initial application of the revised standard on the Group total equity has been estimated at EUR - 45 million as of 1 January 2013.

- *IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32*

  These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

- *IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7*

  These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments are not expected to impact the Group's financial position or performance. They will become effective for annual periods beginning on or after 1 January 2013.

- *IFRS 9 Financial Instruments - Classification and Measurement (Not endorsed by the European Union yet)*

  IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but *Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 is expected to have an effect on the classification and measurement of the Group's financial assets, but not on the classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

- *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 addresses 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 management 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. Based on the preliminary analyses performed, IFRS 10 is not expected to have a significant impact on the financial position and performance of the Group. This standard becomes effective for annual periods beginning on or after 1 January 2013. The European Union has however allowed preparers of financial statements to postpone the initial application of the standard to 1 January 2014.

- *IFRS 11 - Joint Arrangements*

  IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It establishes revised principles for financial reporting by entities that have interest in arrangements that are controlled jointly.
  Based on the preliminary analyses performed, the Group has no interest in such arrangements. The new standard, which becomes effective for annual periods beginning on or after 1 January 2013, is therefore not expected to impact the Group's financial position and performance. The European Union has however allowed preparers of financial statements to postpone the initial application of the standard to 1 January 2014.

- *IFRS 12 - Disclosure of Involvement with Other Entities*

  The standard becomes effective for annual periods beginning on or after 1 January 2013. The European Union has however allowed preparers of financial statements to postpone the initial application of the standard to 1 January 2014. It 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 *Interests in Joint Ventures* and IAS 28 *Investments in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. One of the most significant changes introduced by IFRS 12 is that an entity is now required to disclose the judgements made to determine whether it controls another entity. Many of these changes were introduced by the IASB in response to the financial crisis. Now, even if the Bank concludes that it does not control an entity, the information used to make that judgement will be transparent to users of the consolidated accounts to make their own assessment of the financial impact were the Bank to reach a different conclusion regarding consolidation.

  The Bank will need to disclose more information about the consolidated and unconsolidated structured entities with which it is involved or has sponsored. However, the standard will not have any impact on the consolidated financial position or performance of the Group.

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

  As a consequence of the new IFRS 10 and IFRS 12, what remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities and associates in separate annual accounts. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The European Union has however allowed preparers of financial statements to postpone the initial application of the standard to 1 January 2014.

- *IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)*

  As a consequence of the new IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, 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 revised standard becomes effective for annual periods beginning on or after 1 January 2013. The European Union has however allowed preparers of financial statements to postpone the initial application of the standard to 1 January 2014. It is not expected to impact the Group's financial position or performance.

- *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, which becomes effective for annual periods beginning on or after 1 January 2013, is not expected to impact the Group's financial position and performance.

- Annual Improvements May 2012

  These improvements will not have any impact on the Group, but include:

  - *IAS 1 Presentation of Financial Statements*

    This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

  - *IAS 16 Property Plant and Equipment*

    This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

  - *IAS 32 Financial Instruments, Presentation*

    This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*.

  - *IAS 34 Interim Financial Reporting*

    The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

  These improvements are 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 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 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 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.

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 income statements denominated in foreign currencies are translated at the average exchange rate for the financial year.

These principles are applicable to the KBL *epb* subsidiaries in Switzerland and in the United Kingdom.

Annual average exchange rates in 2012

	1 EUR = ... CUR	Variation versus average 2011
CHF	1.204733	-2.31%
GBP	0.812729	-6.83%

Exchange rate as at 31/12/2012

	1 EUR = ... CUR	Variation versus 31/12/2011
CHF	1.2072	-0.69%
GBP	0.8161	-2.30%

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 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 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.

<u>Evaluation of financial instruments</u>

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 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 measured at fair value through profit or loss" 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.

N. RECLASSIFICATIONS OF PRIOR YEAR FIGURES

Where necessary, certain prior year figures in the Notes to the consolidated accounts have been reclassified to conform with changes to the current year's presentation for comparative purposes.

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).

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		GLOBAL INVESTOR SERVICES		ALM ACTIVITIES		OTHER		TOTAL GROUP	
	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012
Net interest income	86.5	62.6	15.9	10.7	46.4	-0.2	-3.6	22.2	145.3	95.2
Gross earned premiums, insurance	2.3	1.6	-	-	-	-	-	-	2.3	1.6
Gross technical charges, insurance	-14.4	-12.3	-	-	-	-	2.9	3.1	-11.5	-9.2
Ceded reinsurance result, insurance	-0.4	-0.3	-	-	-	-	-	-	-0.4	-0.3
Dividend income	2.7	3.1	0.0	-	1.2	-	-0.0	1.1	3.9	4.3
Net gains/losses on financial instruments measured at fair value through profit or loss	10.2	10.9	5.3	5.2	-11.9	49.9	-12.8	-16.2	-9.2	49.7
Net realised gains/losses on financial assets and liabilities not measured at fair value through profit or loss	-7.4	2.1	0.1	-	13.4	-	56.3	-85.5	62.4	-83.4
Net fee and commission income	299.3	286.9	44.2	36.3	-3.0	-1.4	8.4	8.4	348.9	330.2
Other net income	1.5	-0.7	0.0	-	2.8	2.2	3.4	3.9	7.7	5.4
GROSS INCOME	380.2	353.9	65.6	52.1	48.8	50.5	54.7	-63.0	549.3	393.5
Operating expenses	-344.4	-359.9	-32.3	-33.2	-20.7	-20.1	-41.3	-149.4	-438.8	-562.5
Impairment	-45.7	-57.5	0.0	-	-3.9	-	-49.8	-18.5	-99.4	-76.0
Share of profit of associates	-	-	0.6	0.0	-	-	-	-	0.6	0.0
PROFIT BEFORE TAX	-9.8	-63.6	33.9	19.0	24.2	30.4	-36.4	-230.9	11.8	-245.0
Income tax (expense)/income	-10.2	-11.7	-9.6	-4.7	-6.9	-9.9	35.0	20.1	8.3	-6.1
PROFIT AFTER TAX	-20.1	-75.2	24.3	14.3	17.3	20.5	-1.4	-210.7	20.1	-251.1
Attributable to non-controlling interest	0	0	-	-	-	-	0	0	0	0
Attributable to the owners of the parent	-20.1	-75.2	24.3	14.3	17.3	20.5	-1.4	-210.7	20.1	-251.1

Balance sheet (In EUR million)	PRIVATE BANKING		GLOBAL INVESTOR SERVICES		ALM ACTIVITIES		OTHER		TOTAL GROUP	
	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012
Cash and balances with central banks	202	920	-	-	875	409	-	-	1,076	1,330
Financial assets	4,805	5,720	169	162	7,629	4,715	315	399	12,919	10,996
Held-for-trading	91	79	-	-	537	423	-	-	628	502
At fair value through profit or loss	1,791	2,095	-	-	15	15	-	-	1,806	2,110
Available-for-sale financial assets	1,414	1,853	103	113	2,095	1,951	271	354	3,883	4,270
Loans and receivables	1,509	1,693	66	49	4,982	2,326	0	0	6,557	4,069
Hedging derivatives	-	-	-	-	-	-	45	45	45	45
Reinsurers' share in technical provisions, insurance	0	1	-	-	-	-	-	-	0	1
Tax assets	18	10	-	-	-	-	81	24	99	33
Current tax assets	1	5	-	-	-	-	0	0	1	5
Deferred tax assets	16	5	-	-	-	-	81	24	97	28
Investment in associates	-	-	13	12	-	-	-	-	13	12
Investment properties	-	-	-	-	-	-	36	27	36	27
Property and equipment	132	120	11	10	11	14	36	36	189	180
Goodwill and other intangible assets	266	219	-	-	-	-	41	12	306	231
Other assets	115	128	-	-	-	-	-	-	115	128
TOTAL ASSETS	5,537	7,117	193	183	8,514	5,139	509	498	14,752	12,937
Financial liabilities	7,797	7,700	2,417	1,493	2,467	1,699	284	266	12,965	11,158
Held-for-trading	89	74	-	-	260	227	9	-	359	301
At fair value through profit or loss	1,790	2,095	-	-	-	-	-	-	1,790	2,095
At amortised cost	5,897	5,507	2,417	1,493	2,133	1,388	275	266	10,722	8,655
Hedging derivatives	20	23	-	-	74	83	-	-	94	107
Gross technical provisions, insurance	429	355	-	-	-	-	-	-	429	355
Tax liabilities	5	9	-	-	-	-	-	-	5	9
Current tax liabilities	1	2	-	-	-	-	-	-	1	2
Deferred tax liabilities	4	7	-	-	-	-	-	-	4	7
Provisions	24	19	-	-	-	-	5	5	28	25
Other liabilities	319	457	-	-	-	-	-	-	319	457
TOTAL LIABILITIES, EXCLUDING EQUITY	8,574	8,540	2,417	1,493	2,467	1,699	289	271	13,747	12,003

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 distinguishes between the secondary segments "INTERNATIONAL MARKETS", covering the activities of the Luxembourg, Swiss and of Monegasque companies, and "DOMESTIC", covering the activities of the other companies included in the scope of consolidation

(In EUR million)	Domestic		International markets		KBL *epb* group	
	2011	2012	2011	2012	2011	2012
Gross income	215	206	334	188	549	394
Total assets	2,687	2,529	12,065	10,409	14,752	12,937
Total liabilities (excluding equity)	3,266	3,184	10,481	8,819	13,747	12,003

NOTE 4 – NET INTEREST INCOME

(In EUR thousand)	31/12/2011	31/12/2012
Breakdown by portfolio		
Interest income	273,710	181,596
Available-for-sale financial assets	126,787	90,987
Loans and receivables	99,764	58,787
Other	667	1,168
Sub-total of interest income from financial assets not measured at fair value through profit or loss	*227,218*	*150,942*
Financial assets held-for-trading	8,738	4,663
Net interest on hedging derivatives	37,574	25,797
Other financial assets at fair value through profit or loss	180	195
Interest expense	-128,457	-86.382
Financial liabilities at amortised cost	-76,567	-42,003
Other	-517	-476
Sub-total of interest expense on financial liabilities not measured at fair value through profit or loss	*-77,085*	*-42,478*
Net interest on hedging derivatives	-51,373	-43,904
Total	145,253	95,214

NOTE 5 – GROSS EARNED PREMIUMS, INSURANCE

As of 31 December 2012 and 2011, the gross earned premiums only include individual and single premiums.

NOTE 6 – GROSS TECHNICAL CHARGES, INSURANCE

(In EUR thousand)	31/12/2011	31/12/2012
Claims paid	-51,503	-65,046
Change in life provision	44,821	74,656
Profit sharing	158	173
Other technical charges / income	-4,966	-18,964
Total	-11,489	-9,182

NOTE 7 – DIVIDEND INCOME

(In EUR thousand)	31/12/2011	31/12/2012
Available-for-sale equity instruments	3,535	3,886
Equity instruments held-for-trading	324	356
Equity instruments at fair value through profit or loss	7	13
Total	3,866	4,255

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

(In EUR thousand)	31/12/2011	31/12/2012
Held-for-trading (including interest and valuation of trading derivatives)	-13,698	44,769
Other financial instruments at fair value	392	941
Exchange differences	4,547	4,492
Fair value adjustments in hedge accounting	-416	-456
Micro-hedging	94	-569
Fair value of hedged items	17,122	12,434
Fair value of hedging items	-17,028	-13,003
Macro-hedging	-510	114
Fair value of hedged items	5,306	3,292
Fair value of hedging items	-5,816	-3,179
Total	-9,176	49,746

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

(In EUR thousand)	31/12/2011	31/12/2012
Available-for-sale financial assets	13,846	-85,848
Debt instruments	5,063	-84,791
Equity instruments	8,783	-1,056
Loans and receivables	-31	2,411
Financial liabilities measured at amortised cost [1]	48,323	-
Other	243	61
Total	62,381	-83,376

[1] EUR 48.3 million generated by the early redemption of a hybrid instrument

NOTE 10 – NET FEE AND COMMISSION INCOME

(In EUR thousand)	31/12/2011	31/12/2012
Fee and commission income	450,610	416,798
Asset management	277,075	264,344
Securities transactions	138,339	118,693
Other [1]	35,196	33,761
Fee and commission expense	-101,732	-86,605
Asset management	-58,021	-51,788
Securities transactions	-32,822	-26,366
Other [1]	-10,889	-8,451
Total	348,878	330,194
[1] of which net commissions on Unit Link activities of the Insurance subsidiary	9,464	11,232

NOTE 11 – OTHER NET INCOME

(In EUR thousand)	31/12/2011	31/12/2012
Total	7,697	5,377
of which:		
Net proceeds from the sale of “Boulevard Royal” building	-	5,708
Write-back of provisions for various expenses	825	-
Net proceeds from precious metals transactions	2,825	2,215
Withholding tax on dividends and wealth tax	-2,306	-2,305
Tax on property	-	-3,111
Net proceeds from the sale of “Gestoland” building	2,086	-
Rental income	2,492	2,101

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)	31/12/2011	31/12/2012
Staff expenses	-292,097	-361,510
General administrative expenses	-120,060	-140,906
Depreciation and amortisation of property and equipment, intangible assets and investment properties	-24,076	-57,482 (*)
Net provision allowances	-2,536	-2,632
Total	-438,769	-562,529

(*) of which accelerated depreciation on several IT projects (please refer to Note 28).

NOTE 13 – STAFF

	31/12/2011	31/12/2012
Total average number of persons employed (in full-time equivalents - FTE)	2,340	2,289
Breakdown by business segment [1]		
Private Banking	1,749	1,701
Global Investor Services	214	207
ALM Activities	120	140
Other	258	241
Total	2,340	2,289

	31/12/2011	31/12/2012
Geographic breakdown		
Domestic	1,158	1,129
International markets	1,182	1,159
Total	2,340	2,289

[1] The breakdown of commercial, administrative and support staff, which does not include the pre-retirement FTE, 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)	31/12/2011	31/12/2012
(Impairment)/reversal of impairment of:		
Loans and receivables	-2,174	-10,052
Available-for-sale financial assets	-33,859	-19,009
Goodwill	-63,321	-46,955
Total	-99,354	-76,015

Impairment of loans and receivables

More detailed information on impairment is provided in Note 41 and in the annex to the consolidated management report.

(In EUR thousand)	31/12/2011	31/12/2012
Breakdown by type		
(Impairment)/reversal of impairment:		
Specific impairment on loans and receivables	-2,390	-8,647
Portfolio-based impairments	216	-1,406
Total	-2,174	-10,052
Geographic breakdown		
Domestic	249	-7,986
International markets	-2,423	-2,066
Total	-2,174	-10,052

See also Note 23 – Impairment of loans and receivables.

Impairment of available-for-sale financial assets

(In EUR thousand)	31/12/2011	31/12/2012
(Impairment)/reversal of impairment of:		
Debt instruments	-22,977	-12,914
Equity instruments	-10,882	-6,095
Total	-33,859	-19,009

Impairment of goodwill

(In EUR thousand)	31/12/2011	31/12/2012
Goodwill arising in a business combination	-45,904	-32,230
Purchased portfolio of customers	-17,417	-14,724
Total	-63,321	-46,955

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.

Recoverable values are measured from a Discounted Cash Flow ("DCF") valuation method which, in practice, represents an estimation of fair value less costs to sell.

Impairment tests are based on the following main assumptions:

- For all periods, cash flows are discounted at an annual rate of 10.0%.
- 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:
    - o Annual growth of the gross income by 3.5%.
    - o Annual growth of the operating expenses by 2.5%.
- For the period after 10 years, a terminal value is calculated based on a long term (LT) growth rate of cash flows of 3.5%.

This 3.5% rate appears reasonable to KBL *epb* as it is in line with a range between the forecasted Gross Domestic Product growth for Euro area and OECD countries and the long term market growth relating to clients' assets under management.

For reference, the combination in the terminal value of a LT growth rate of 3.5% and a discount rate of 10.0% corresponds to an implied Price Earnings Ratio ("PER") valuation at terminal value of "15.4x".

A sensitivity analysis on the goodwill value as of 31 December 2012 after impairment has been performed on the cash generating units for which the carrying amount of goodwill is significant in comparison with the Group's total carrying amount of goodwill. It is detailed as follows:

(In EUR million)

PER	Puilaetco Dewaay Private Bankers	Theodoor Gilissen Bankiers
14	156.3	21.4
15	174.1	27.4
15.4	181.0	29.7
16	192.0	33.5
17	210.0	39.5

Other cross-check methods such as the "Net asset value + multiple of Assets under management" are used to corroborate the results of the DCF method.

NOTE 15 – SHARE OF PROFIT OF ASSOCIATES

(in EUR thousand)	31/12/2011	31/12/2012
European Fund Administration S.A. and EFA Partners S.A.	604	35
Total	604	35

NOTE 16 – INCOME TAX (EXPENSES/INCOME

(In EUR thousand)	31/12/2011	31/12/2012
Breakdown by type		
Current tax	1,545	-2,967
Deferred tax	6,800	-3,123
Total	8,345	-6,090

(In EUR thousand)	31/12/2011	31/12/2012
Breakdown by major components:		
Profit before tax	11,763	-244,993
Luxembourg income tax rate	28.80%	28.80%
Income tax calculated at the Luxembourg income tax rate	-3,388	70,558
Plus/minus tax effects attributable to:		
Differences in tax rates, Luxembourg – abroad	18,863	50,074
Tax free-income	11,815	6,681
Other non-deductible expenses	-14,580	-8,564
Adjustments related to prior years	6,299	-1
Adjustments to opening balance due to tax rate change	149	818
Unused tax losses and tax credits	-8,224	-124,576
Other	-2,589	-1,080
Income tax adjustments	11,733	-76,648
Total	8,345	-6,090

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
(In EUR million)

31/12/2011

ASSETS	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 credit institutions	-	-	-	4,875	-	4,875
Loans and advances other than with credit institutions	-	15	-	1,674	-	1,689
Consumer credits	-	-	-	6	-	6
Mortgage loans	-	-	-	465	-	465
Term loans	-	-	-	703	-	703
Current accounts	-	-	-	430	-	430
Other	-	15	-	70	-	85
Investment contracts (Insurance "branche 23")	-	1,790	-	-	-	1,790
Equity instruments	2	0	276	-	-	278
Debt instruments	235	-	3,548	-	-	3,784
Government bodies	14	-	1,620	-	-	1,634
Credit institutions	90	-	713	-	-	803
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
(In EUR million)

31/12/2012

ASSETS	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 credit institutions	-	-	-	2,157	-	2,157
Loans and advances other than with credit institutions	-	15	-	1,905	-	1,920
Consumer credits	-	-	-	5	-	5
Mortgage loans	-	-	-	496	-	496
Term loans	-	-	-	928	-	928
Current accounts	-	-	-	412	-	412
Other	-	15	-	64	-	79
Investment contracts (Insurance “branche 23”)	-	2,095	-	-	-	2,095
Equity instruments	7	0	329	-	-	337
Debt instruments	229	0	3,869	-	-	4,098
Government bodies	16	0	1,803	-	-	1,819
Credit institutions	80	-	769	-	-	850
Corporates	132	-	1,297	-	-	1,429
Financial derivatives	264	-	-	-	34	298
Accrued interest	3	0	72	6	10	92
Total	502	2,110	4,270	4,069	45	10,996
Of which reverse repos	-	-	-	1,617	-	1,617

CARRYING AMOUNT
(In EUR million)

31/12/2011

LIABILITIES	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 credit institutions	-	-	-	2,550	2,550
Deposits from other than credit institutions	-	-	-	7,770	7,770
Current accounts/demand deposits	-	-	-	5,615	5,615
Time deposits	-	-	-	2,146	2,146
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

CARRYING AMOUNT
(In EUR million)

LIABILITIES 31/12/2012	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 credit institutions	-	-	-	1,196	1,196
Deposits from other than credit institutions	-	-	-	7,068	7,068
Current accounts/demand deposits	-	-	-	5,350	5,350
Time deposits	-	-	-	1,700	1,700
Other deposits	-	-	-	18	18
Debt certificates	-	-	-	377	377
Deposits certificates	-	-	-	0	0
Customer savings bonds	-	-	-	2	2
Debt certificates	-	-	-	118	118
Non-convertible bonds	-	-	-	3	3
Non-convertible subordinated liabilities	-	-	-	254	254
Investment contracts (insurance)	-	2,095	-	-	2,095
Financial derivatives	286	-	86	-	372
Short sales	15	-	-	-	15
Equity instruments	0	-	-	-	0
Debt instruments	15	-	-	-	15
Accrued interest	0	-	20	14	35
Total	301	2,095	107	8,655	11,158
Of which repos	-	-	-	1,118	1,118

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)	31/12/2011	31/12/2012	31/12/2011	31/12/2012
ASSETS				
Loans and advances to credit institutions	4,875	2,157	4,876	2,157
Loans and advances to other than credit institutions	1,674	1,905	1,674	1,905
Consumer credits	6	5	6	5
Mortgage loans	465	496	465	496
Term loans	703	928	703	928
Current accounts	430	412	430	412
Other	70	64	70	64
LIABILITIES				
Deposits from credit institutions	2,550	1,196	2,551	1,196
Deposits from other than credit institutions	7,770	7,068	7,770	7,067
Current accounts/demand deposits	5,615	5,350	5,615	5,350
Time deposits	2,146	1,700	2,146	1,699
Other deposits	9	18	9	18
Debt certificates	385	377	366	367
Deposit certificates	0	0	0	0
Customer savings bonds	3	2	3	2
Debt certificates	114	118	114	118
Non-convertible bonds	6	3	6	3
Non-convertible subordinated liabilities	262	254	243	244

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.

31/12/2011

(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 financial assets	2,991	827	0	59	3,877
Equity instruments (excluding instruments at cost)	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

31/12/2012 (In EUR million)	Level 1	Level 2	Level 3	Accrued interest	TOTAL
ASSETS					
Held-for-trading	161	339	-	3	502
Equity instruments	7	0	-	-	7
Debt instruments	119	109	-	3	231
Derivatives	35	229	-	-	264
At fair value through profit or loss	2,095	15	-	0	2,110
Available-for-sale financial assets	3,900	296	0	72	4,269
Equity instruments (excluding instruments at cost)	298	30	-	-	328
Debt instruments	3,602	267	0	72	3,941
Hedging derivatives	-	34	-	10	45
Total	6,156	685	0	85	6,926
LIABILITIES					
Held-for-trading	49	252	-	0	301
Equity instruments	-	-	-	-	-
Debt instruments	14	1	-	0	15
Derivatives	35	252	-	-	286
At fair value through profit or loss	2,095	-	-	-	2,095
Hedging derivatives	-	86	-	20	107
Total	2,144	339	-	21	2,503

LEVEL 3 ITEMS MEASURED AT FAIR VALUE

(In EUR million)	Financial instruments measured 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

(In EUR million)	Financial instruments measured at fair value through profit or loss	Available-for-sale financial assets	Total
Balance as at 01/01/2012	-	0	0
Total profit/loss for the year	1	-	1
- recognised in the income statement	1	-	1
- recognised in other components of comprehensive income	-	-	-
Purchases	-	-	-
Sales	-1	-	-1
Transfers from/to level 3	-	-	-
Balance as at 31/12/2012	-	0	0
Total profit/loss for the year recognised in the income statement and relating to assets held as at 31/12/2012	-1	0	-1

TRANSFERS BETWEEN THE LEVEL 1 AND LEVEL 2 CATEGORIES

Transfers between the level 1 and level 2 categories which occur in 2012 and 2011 were not significant. Reasons for the transfers were mainly linked to evolutions in the liquidity of the related instruments.

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
31/12/2011			
Unimpaired assets	3,809	6,552	10,361
Impaired assets	168	57	225
Impairment	-94	-52	-146
Total	3,883	6,557	10,440

(In EUR million)	Available-for-sale (AFS) financial assets	Loans and receivables (L&R)	TOTAL
31/12/2012			
Unimpaired assets	4,213	4,057	8,270
Impaired assets	114	59	173
Impairment	-57	-47	-105
Total	4,270	4,069	8,339

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

(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
ASSETS						
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
31/12/2012						
Less than or equal to 1 year	263	8	622	3,208	2	4,103
More than 1 but less than or equal to 5 years	156	7	2,345	395	33	2,936
More than 5 years	73	0	901	459	0	1,434
Indefinite period	7	2,095	329	-	-	2,432
Accrued interest	3	0	72	6	10	92
Total	502	2,110	4,270	4,069	45	10,996

(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
LIABILITIES					
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
31/12/2012					
Less than or equal to 1 year	197	-	8,273	3	8,473
More than 1 but less than or equal to 5 years	59	-	363	50	472
More than 5 years	44	-	5	33	82
Indefinite period	0	2,095	-	-	2,095
Accrued interest	0	-	14	20	35
Total	301	2,095	8,655	107	11,158

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. The related securities are generally transferred under full ownership and the counterpart is thus able to re-use them in other operations.
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:

(In EUR million)	Repo **	Securities lending		Other
31/12/2011	Debt instruments	Debt instruments	Equity instruments	Debt instruments
Financial assets held-for-trading	-	10	-	-
Available-for-sale financial assets	298	88	-	1,062
Loans and receivables	-	-	-	-
Total financial assets not derecognised	*298*	*98*	*-*	*1,062*
Other (*)	185	494	31	1,580
Total	483	592	31	2,642

(In EUR million)	Repo **	Securities lending		Other
31/12/2012	Debt instruments	Debt instruments	Equity instruments	Debt instruments
Financial assets held-for-trading	4	2	-	-
Available-for-sale financial assets	502	153	1	1,081
Loans and receivables	-	-	-	143
Total financial assets not derecognised	*506*	*155*	*1*	*1,224*
Other (*)	508	886	5	779
Total	1,014	1,041	6	2,004

(*) 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)	31/12/2011	31/12/2012
Reverse repurchase agreements	4,502	1,466
Collateral received in securities lending	563	973
Total	5,065	2,438
Of which, transferred to:		
Repurchase agreements	*7*	*251*
Securities lent	*1*	*29*
Collateral given for securities borrowing	*633*	*779*
Other	*947*	*-*
Total	1,588	1,060

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

Changes (In EUR million)	Debt instruments	Equity instruments
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

Changes (In EUR million)	Debt instruments	Equity instruments
Balance as at 01/01/2012	42	53
Changes affecting the income statement	13	6
Allowances	14	6
Reversals	-1	0
Changes not affecting the income statement	-44	-12
Securities sold/matured	-43	-13
Other	0	1
Balance as at 31/12/2012	11	46

NOTE 23 – IMPAIRMENT OF LOANS AND RECEIVABLES

(in EUR million)	31/12/2011	31/12/2012
Total	52	47
Breakdown by type	52	47
Specific impairments of loans and receivables	50	45
Portfolio-based impairment	1	3
Breakdown by counterparty	52	47
Loans and advances to credit institutions	-	-
Loans and advances to other than credit institutions	52	47
Geographic breakdown	52	47
Domestic	24	30
International markets	28	17

Changes (In EUR million)	Specific impairments on loans and receivables	Portfolio-based impairment	Total
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

Changes (In EUR million)	Specific impairments on loans and receivables	Portfolio-based impairment	Total
Balance as at 01/01/2012	50	1	52
Changes affecting the income statement	9	1	10
Allowances	10	2	12
Reversals	-1	0	-2
Changes not affecting the income statement	-14	0	-14
Use of provision	-13	-	-13
Other/Change impact	-2	0	-2
Balance as at 31/12/2012	45	3	47

NOTE 24 – DERIVATIVES

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

31/12/2011 (In EUR million)	Held-for-trading			Fair value hedging		
	Fair value		Notional value	Fair value		Notional value
	Assets	Liabilities		Assets	Liabilities	
Total	387	330	23,753	44	94	1,415
Interest rate contracts	55	72	12,810	44	91	1,405
Options	0	0	27	-	-	-
Interest rate swaps	51	66	12,123	44	91	1,291
Futures	0	2	116	-	-	-
Other	4	4	544	-	0	114
Foreign exchange contracts	208	142	8,326	-	3	10
Foreign exchange forward	208	142	8,312	-	-	-
Cross currency swaps	-	-	-	-	3	10
Futures	0	0	7	-	-	-
Other	1	0	6	-	-	-
Equity contracts	123	116	2,597	-	-	-
Futures	4	4	257	-	-	-
Options	82	81	1,924	-	-	-
Other	37	30	416	-	-	-
Loan contracts	0	0	2	-	-	-
Commodities and other contracts	1	1	19	-	-	-

31/12/2012 (In EUR million)	Held-for-trading			Fair value hedging		
	Fair value		Notional value	Fair value		Notional value
	Assets	Liabilities		Assets	Liabilities	
Total	264	286	27,994	45	107	1,265
Interest rate contracts	66	75	15,304	45	107	1,263
Options	0	0	26	0	-	1
Interest rate swaps	59	68	14,713	43	106	1,146
Futures	0	0	89	-	-	-
Other	7	7	476	2	0	116
Foreign exchange contracts	110	124	9,898	-	-	-
Foreign exchange forward	110	124	9,811	-	-	-
Cross currency swaps	-	-	-	-	-	-
Futures	0	0	74	-	-	-
Options	0	0	10	-	-	-
Other	0	0	3	-	-	-
Equity contracts	88	86	2,768	0	-	3
Futures	15	15	1,053	-	-	-
Options	55	55	1,396	-	-	-
Other	17	16	319	0	-	3
Loan contracts	0	0	2	-	-	-
Commodities and other contracts	0	0	22	-	-	-

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)	31/12/2011	31/12/2012
Current tax assets	1	5
Deferred tax assets	97	28
Employee benefits	-2	-2
Losses carried forward	79	69
Tangible and intangible assets	0	1
Provisions	-18	-20
Financial instruments at fair value through profit or loss	0	0
Available-for-sale financial instruments	20	-34
Other	17	14
TAX ASSETS	99	33
Tax losses and tax credits not capitalised [1]	94	139

[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)	31/12/2011	31/12/2012
Current tax liabilities	1	2
Deferred tax liabilities	4	7
Employee benefits	-	-
Losses carried forward	-	-7
Tangible and intangible assets	0	0
Provisions	-	0
Financial instruments at fair value through profit or loss	0	-1
Available-for-sale financial instruments	1	13
Other	3	1
TAX LIABILITIES	5	9

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)	31/12/2011	31/12/2012
Total	13	12
Overview of investments in associates (including goodwill)		
European Fund Administration S.A. and EFA Partners S.A.	13	12
Goodwill in associates		
Gross amount	-	-
Cumulative impairment	-	-

Changes	31/12/2011	31/12/2012
Opening balance	14	13
Share of profit for the year	1	0
Dividends paid	-2	-1
Changes in scope	-	-
Ending balance	13	12

Summary financial information (In EUR thousand)	Total assets	Total liabilities excluding equity	Net profit
31/12/2012 (provisional figures)			
European Fund Administration S.A. (Group)	36,281	13,710	95
EFA Partners S.A.	2,372	7	272

NOTE 28 – GOODWILL AND OTHER INTANGIBLE ASSETS

Changes (In EUR million)	Goodwill arising in a business combination	Purchased portfolio of customers	Software developed in-house	Software purchased	Other	Total
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
Balance as at 01/01/2012	238	23	35	10	0	306
Acquisitions	-	-	6	2	0	8
Disposals	-	-	-	-	-	-
Amortisation	-	-	-28	-9	-	-37
Impairment	-32	-15	-	-	-	-47
Allowances	-32	-15	-	-	-	-47
Reversals	-	-	-	-	-	-
Changes in scope	-	-	-	-	-	-
Other	-	-	-	1	0	1
Balance as at 31/12/2012	206	8	12	5	0	231
Of which cumulative amortisation and impairment	-121	-81	-35	-26	0	-263

NOTE 29 – PROPERTY AND EQUIPMENT AND INVESTMENT PROPERTIES

(In EUR million)	31/12/2011	31/12/2012
Property and equipment	189	180
Investment properties		
Carrying amount	36	27
Fair value	47	32
Investment properties – Rental income	2	2

Changes (In EUR million)	Land and buildings	IT equipment	Other equipment	Total property and equipment	Investment properties
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

Changes (In EUR million)	Land and buildings	IT equipment	Other equipment	Total property and equipment	Investment properties
Balance as at 01/01/2012	147	13	28	189	36
Acquisitions	2	6	2	10	0
Disposals	-2	0	0	-2	-8
Depreciation	-7	-9	-4	-20	-1
Impairment	-	-	-	-	-
Allowances	-	-	-	-	-
Reversals	-	-	-	-	-
Translation differences	0	0	0	0	-
Changes in scope	3	-	-	3	-
Other	1	0	-1	0	0
Balance as at 31/12/2012	144	10	26	180	27
Of which cumulative depreciation and impairment	-101	-38	-45	-184	-9

NOTE 30 – GROSS TECHNICAL PROVISIONS, INSURANCE

(In EUR million)	31/12/2011	31/12/2012
Total	429	355
Provision for unearned premiums	0	-
Life insurance provision	429	355
Discretionary participation features	0	-

Changes (In EUR million)	31/12/2011	31/12/2012
Opening balance	475	429
Net payments received/premiums receivable	2	2
Liabilities paid for surrenders, benefits and claims	-51	-65
(Theoretical) risk premiums deducted	-	-
Credit of interest or change in unit-prices	12	10
Attributed profit sharing	0	0
Translation differences	-	-
Other movements	-8	-22
Changes in scope	-	-
Closing balance	429	355

NOTE 31 – PROVISIONS

Changes (In EUR million)	Specific impairment for credit commitments	Pending legal disputes	Operational losses	Other provisions [1]	Total
Balance as at 01/01/2011	0	4	9	21	33
Changes affecting the income statement	0	2	0	0	3
Allowances	0	5	1	4	10
Reversals	0	-3	0	-4	-8
Other changes	0	11	-9	-10	-8
Balance as at 31/12/2011	0	16	0	11	28

Changes (In EUR million)	Specific impairment for credit commitments	Pending legal disputes	Operational losses	Other provisions	Total
Balance as at 01/01/2012	0	16	0	11	28
Changes affecting the income statement	0	5	0	-2	3
Allowances	-	6	0	1	7
Reversals	0	-1	-	-3	-4
Other changes	0	-4	0	-2	-6
Balance as at 31/12/2012	0	17	1	7	25

Specific impairment for credit commitments: provisions accounted for to cover risk on given guarantees, more precisely on credits for which the Group acts as sub-participant.

Provisions for pending legal disputes: provisions recorded to cover legal disputes with private and professional counterparties, including lawyers' fees.

Operational losses: provisions to cover operational dysfunctions for which the responsibility is not determined at the closing date.

Other provisions: other provisions than the above-mentioned provisions, among which provisions to cover the expenses in relation with the closedown of the Polish branch and of another branch.

The main litigation cases are the following:

Proceedings before the Belgian courts

KBL *epb* with other defendants has been summoned in 2008 by an English company ("BSL") to appear before the Belgian Court. The plaintiff, a former client of KBL *epb*, claims the payment of an astronomic amount of USD 300 million alleging that KBL *epb* participated in the embezzlement of a commission which the plaintiff claims was owed to him by a South African counterpart with whom he was involved in an international commercial transaction between 1986 and 1991.
BSL held a KBL *epb* account from 1990 to 1991. BSL alleges that by opening this account the Bank acted in collusion with the counterpart in order to mislead him.
The Court declined jurisdiction in respect of KBL *epb* and ordered the plaintiff to pay an indemnification of EUR 50,000 to KBL *epb* for frivolous and vexatious proceedings.
BSL appealed the judgment and the case will probably be heard before the court of appeal by the end of 2013.

Madoff cases

In December 2008, Bernard L. Madoff's massive Ponzi scheme was discovered. Bernard L. Madoff Investment Securities LLC ("BLMIS") and its "feeder funds" were put into liquidation.
The liquidator of BLMIS considers that certain investors in BLMIS knew or should have known that BLMIS was a fraud. He therefore claims back payments made by BLMIS to these investors (so called "claw-back actions").
As the liquidator started claw-back actions against the feeder funds, the liquidators of these funds have in their turn started similar actions against KBL *epb* and other defendants before the New York courts and the BVI courts.
The BVI courts rejected the claim against KBL *epb* and other defendants judging that they acted in good faith.
The liquidators appealed these decisions before a London court. As a consequence of these decisions the New York courts decided to stay all proceedings until a final decision is taken in the BVI cases.

Landsbanki

The Landsbanki liquidators are suing KBL *epb* before the court of Reykjavik, claiming rescission of a payment of ISK 724.6 million (+/- EUR 2.9 million) made in the context of an interbank money deposit transaction, having taken place in 2008 a few days before the declaration of insolvability of Landsbanki.
In accordance with the Icelandic Act of Bankruptcy, they claim annulment of this payment because it was made during the "suspect period" leading up to the bankruptcy of Landsbanki Islands hf.'s.
After the Icelandic court decided finally that they had jurisdiction, the main hearing will take place at the beginning of 2013.

As in these cases the risks are remote (in the Madoff case the investors and not KBL *epb* bear the risk of repayment) provisions have only be made for the legal costs.

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 restructuring 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)	31/12/2011	31/12/2012
Defined benefit plan obligations		
Value of obligations as at 01/01	196	199
Current service cost	7	7
Interest cost	8	8
Plan amendments	0	-
Actuarial gain/(losses)	-2	26
Benefits paid	-12	-16
Currency adjustments	2	1
Changes in scope	-	-
Other	1	1
Value of obligations as at 31/12	199	225
Fair value of plan assets		
Fair value of assets as at 01/01	125	121
Actual return on plan assets	-6	11
Employer contributions	8	12
Plan participants contributions	1	1
Benefits paid	-9	-13
Currency adjustments	2	1
Changes in scope	-	-
Other	0	0
Fair value of assets as at 31/12	121	134
Of which financial instruments issued by KBL *epb* group	-	-
Breakdown of plan assets	100.00%	100.00%
Fixed income	65.33%	62.62%
Equities	14.66%	17.44%
Cash	12.23%	4.91%
Alternatives	1.07%	8.28%
Real estate	2.61%	3.37%
Other	4.09%	3.37%
Funded status		
Plan assets in excess of defined benefit obligations	-78	-91
Unrecognised net actuarial gains (-) / losses (+)	25	43
Unrecognised past service costs	-	-
Unrecognised assets	-1	-1
Plan over-/(under-) funding	-54	-49

	31/12/2011	31/12/2012
Changes relating to net liability		
Net liability as at 01/01	-55	-54
Net period cost in the income statement	-11	-10
Employer contributions	7	12
Pension payments by employer	3	4
Currency adjustments	1	0
Change in scope of consolidation	-	-
Other	0	-
Net liability as at 31/12	-54	-49
Amounts recognised in profit or loss		
Current service cost	-7	-7
Interest cost	-8	-8
Expected return on plan assets	5	4
Adjustments to asset limits recognised	0	0
Amortisation of unrecognised past service costs	-	-
Amortisation of unrecognised net actuarial (gains)/losses	-1	-1
Other	-	-
Change in scope	0	-
Net period cost in the income statement	-11	-10
Actual return on plan assets (in %)	-4.41%	+8.78%

Principal actuarial assumptions used:

Defined benefit obligation

For each monetary area the rate used to discount the post-employment benefit obligations is determined by reference to market yields at the end of the reporting period on high-quality corporate bonds with similar maturities than the pension commitments. In some countries where there is no deep market in such bonds a rate based on the market yields on government bonds is used.

Plan assets

In general, the expected rates of return on scheme assets are based on a weighted average of expected returns on each category of assets. In some cases, when the assets are fully invested in a dedicated investment fund, the expected return used is the overall long term return objective of the investment fund.

	31/12/2011	31/12/2012
Discount rate	from 2.00% to 4.75%	from 1.50% to 4.25%
Expected rate of return on plan assets	from 3.00% to 5.30%	from 3.00% to 4.60%
Expected rate of salary increase	from 2.00% to 3.00%	from 2.00% to 3.00%
Expected rate of pension increase	from 1.80% to 2.80%	from 1.80% to 2.20%

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

Defined benefit plans (In EUR million)	31/12/2008	31/12/2009	31/12/2010	31/12/2011	31/12/2012
Year-end amount of liability	150	183	196	199	225
Year-end fair value of assets	75	115	125	121	134
Plan assets in excess of obligations	-75	-68	-71	-78	-91
Plan excess/(under-) funding	-53	-56	-55	-54	-49

The estimate of the employer contribution payable to the defined benefit pension plan assets for 2013 is EUR 7 million.

Defined contribution plans (In EUR million)	31/12/2011	31/12/2012
Amount recorded in the income statement	-6	-5

NOTE 34 – EQUITY ATTRIBUTABLE TO THE OWNERS OF THE PARENT

The authorised, 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.

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 incorporation, 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 indebted for EUR 1.5 million to preference shareholders for 2010 and 2011, where no dividend has been paid-up and for 2012, 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).

Article 39 of the Bank's articles of incorporation specifies that the net liquidation profit, after the charges payment, will be used to firstly refund the non-voting preference shareholders. The remaining balance will be allocated on equal basis to ordinary shareholders.

In number of shares	31/12/2011	31/12/2012
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 01/01/2012	18,186,877	1,949,711	20,136,588
Cancellation of shares bought back	-	-	-
Balance as at 31/12/2012	18,186,877	1,949,711	20,136,588

NOTE 35 – RESULT ALLOCATION PROPOSAL

At its meeting on 21 February 2013, the Board of Directors proposes to allocate the 2012 loss of EUR 305.8 million of the parent company in deduction of the retained earnings.

On 20 March 2013, 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)	31/12/2011	31/12/2012
Confirmed credits, unused	942	779
Financial guarantees	55	59
Other commitments (securities issuance facilities, spot transaction settlement, etc.)	39	318
Total	1,036	1.157

NOTE 37 – ASSETS UNDER MANAGEMENT AND CUSTODY

Total assets under management related to clients in the private banking sector (including frozen and low yielding assets) as at 31 December 2012 amount to EUR 40.9 billion (2011: EUR 39.8 billion).

Total assets under custody (investment funds and institutionals) as at 31 December 2012 amount to EUR 38.6 billion (2011: EUR 39.9 billion).

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)	31/12/2011 KBL epb member of KBC Group	31/12/2012 KBL epb member of Precision Capital
Financial assets	**789**	**-**
of which financial assets with Precision Capital	-	-
with Banque Internationale à Luxembourg	-	-
with KBC Group	*451*	-
Held-for-trading	111	-
At fair value through profit or loss	-	-
Available-for-sale financial assets	584	-
Loans and receivables	50	-
Hedging derivatives	44	-
Financial liabilities	**255**	**18**
of which financial liabilities with Precision Capital	-	*18*
with Banque Internationale à Luxembourg	-	-
with KBC Group	*255*	-
Held-for-trading	46	-
At amortised cost	165	18
Hedging derivatives	44	-
Income statement	**52**	**0**
of which income statement with Precision Capital	-	0
with Banque Internationale à Luxembourg	-	-
with KBC Group	52	-
Net interest income	42	-
Net realised gains on available-for-sale financial assets	-	-
Net fee and commission income	10	0
Other net income / (charges)	0	-
Operating expenses	-	-
Impairment of financial assets not measured at fair value through profit or loss	-	-

WITH KEY MANAGEMENT PERSONNEL (In EUR million)	31/12/2011		31/12/2012	
	Amount	Number of persons	Amount	Number of persons
Amount of remuneration to key management personnel of KBL *epb* group on the basis of their activity, including the amounts paid to former key management personnel	41	214	40	223
Credit facilities and guarantees granted	19	54	9	55
Loans outstanding	8	40	6	47
Guarantees outstanding	0	14	0	12
Pension commitments	62	81	68	84
Expenses for defined contribution plans	1	62	2	63

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 included in the scope of consolidation for the calculation of the solvency ratio as from 31 December 2012.

(In EUR million)	31/12/2011	31/12/2012
Regulatory capital	**896**	**781**
Tier 1 capital	**677**	**527**
Capital, share premium, reserves and retained earnings	982	1.035
Non-controlling interest	0	0
Intangible assets and purchased portfolio of customers	-67	-26
Goodwill	-238	-206
Treasury shares	-0	-0
Negative revaluation of AFS bonds [(1)]	-	-
Net loss of the financial year	-	-251
Deferred tax assets [(2)]	-	-25
Tier 2 capital	**267**	**254**
Preference shares	30	30
Positive revaluation of AFS shares	24	58
Subordinated liabilities	213	166
Deductions	**-47**	**-1**
Overall own funds requirements	**321**	**333**
Credit risk, counterparty risk, securitisation and incomplete transaction risk	242	259
Exchange risk	1	1
Position risk linked to debt securities trading	9	8
Position risk linked to equities	0	0
Settlement risk linked to trading securities	0	0
Operational risk	69	66
Solvency ratios		
Basic solvency ratio (Tier 1 ratio)	16.27%	12.64%
Solvency ratio (CAD ratio)	22.34%	18.73%

(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.

(2) At the CSSF request, deferred tax assets are deducted from Tier 1 capital as from end 2012.

NOTE 40 – MAXIMUM CREDIT RISK EXPOSURE AND COLLATERAL RECEIVED TO MITIGATE THE RISK

(In EUR million)	31/12/2011	31/12/2012
Assets	12,391	10,364
Balances with central banks	1,049	1,302
Financial assets	11,128	8,901
Held-for-trading	628	502
At fair value through profit or loss	15	15
Available-for-sale financial assets	3,883	4,270
Loans and receivables	6,557	4,069
Hedging derivatives	45	45
Tax assets	99	33
Other assets	115	128
Off-balance sheet items	1,036	1,157
Loans commitments	942	779
Financial guarantees	55	59
Other commitments (securities issuance facilities, spot transaction settlement, etc.)	39	318
Maximum credit risk exposure	13,427	11,521

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)	31/12/2011	31/12/2012
Equity	-	-
Debt instruments	278	218
Loans and advances	5,606	2,622
of which measured at fair value	-	-
Derivatives	249	167
Other (including loans commitments given, undrawn amount)	151	70
Collateral received to mitigate the maximum exposure to credit risk	6,284	3,077

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 Bank is exposed towards Banque Internationale à Luxembourg and KBL *epb*'s subsidiaries. This exemption is not eligible towards Precision Capital. The exposures on related parties are disclosed in Note 38.

NOTE 41 – RISK MANAGEMENT

While the business lines (either front office, back office or support entities) retain the primary and main responsibility for managing their risks, the Risk Control entities throughout KBL *epb* group contribute at the second level to the overall management of the risks described below. Depending on their materiality, risks are generally monitored by dedicated local risk committees, at least by a transversal (all risks) quarterly committee delegated by the Board (called "*Audit, Compliance and Risk Committee*" in the subsidiaries). An exhaustive periodic review (6 times a year) of the risks of KBL *epb* group is carried out by the Group Executive Committee and by the Group Board Risk Committee (with 4 members of the Board of Directors as permanent members), which report to the Group Board of Directors. These risks are also subject to a global evaluation through the ICAAP process.

a) Client Risk Management

Client risk refers to clients' dissatisfaction when the Group 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 Group (withdrawal of funds) with the subsequent loss of income.

In the 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 KBL *epb* Group, Client Risk Management has always existed, but was mainly focused on discretionary managed portfolios, and adapted to the local situation. The contracts signed with clients stipulate various investment limits (by type of instrument, region) which can increase the Bank's liability if the allocation is not respected.

Client Risk Management is now promoted through harmonized allocation controls in portfolios under discretionary or personalised management or benefiting from advisory services, aiming at highlighting overruns versus internal or contractual limits. These controls are performed by Compliance or Risk Management departments, depending on the local organisation.

Moreover, strict criteria are imposed by a dedicated committee ("*Committee on Authorisation and Supervision of New Products*" or "CAS"), as to the structured products offered to the clients in the Group. 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 Control, Financial Markets, Compliance, Legal, Wealth Management and KTL Asset Management, as well as Marketing.

While concentration controls are punctually performed at Group level on risky exposures in the client portfolios ("PIIGS" exposures as an example), they are progressively being systematised together with other key controls like the respect of the investment universe.

In this way, the reporting of these controls is being harmonized, including liquidity/market risk and performance controls on Home Funds.

b) 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. The Operational Risk methodology adopted is the standardised method under Basel II/CRD. For 2012, the capital charge was EUR 65.5 million (average for 2010-2012).

The methodology is mainly based on the following pillars:

- The gathering and analysis of operational incidents in a database referred to as the "Loss Event Reporter", the challenging at local level of the entities responsible for these incidents and set up of appropriate action plans, the drawing up of incident statistics by entity/activity/type of incident and comparison with gross income;
- The CORRS project (Common Operational Risk Rules System) aiming to centralize all operational risk rules / standards for the KBL *epb* Group in a common tool. In 2012, the development of the rules applicable to the core business private banking was finalized;

  A dedicated Group intranet site was developed allowing each *epb* member to assess its own compliance with the rules;
- The 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 the Internal Audit, this exercise has been successfully implemented for KBL *epb*;
- A specific examination of external or internal incidents through case studies. In 2012, 2 case studies were launched in KBL *epb*, leading to the implementation of action plans in many entities of KBL *epb* Group in order to mitigate the risks.

The key principle applied within KBL *epb* Group is that Operational Risk Management 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 register the incidents in the LER and monitor the compliance with procedures, the performance of self-assessments and compliance assessments based on Group standards / CORRS.

In each key entity, OPR controls and works are reported to the Executive Committee and to the Compliance, Audit and Risk Committee (CARC) (or Board Risk Committee in Luxembourg).

Residual operational risk is covered by insurance policies. Since 1 January 2011, a new KBL *epb* Group insurance 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 damage claims for the whole Group.

c) Credit risk control

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

- private banking in the form of Lombard and mortgage loans;
- positions in ALM portfolios and liquidity portfolios;
- bond portfolio/international credit, in the form of liquid FRN and SAS, of which a few niches developed in the past being in gradual run-off since late 2008;
- uncommitted lines covering the trading activity and counterparty exposures with banks (forex, money markets, swaps, reverse repo, securities lending, derivatives, etc.);
- granting of uncommitted lines to GIS clients in Luxembourg (mainly UCI) to cover temporary overdrafts.

Since 2009, the 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. The credit portfolio report provides a detailed picture of the activity and credit risk.

At a regulatory level, KBL *epb* uses 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.

Credit risk concentration limits have been defined for sovereign, for banks and for corporate issuers.

c.1) Credit allocation decision making

In Luxembourg, as in subsidiaries, all lending/investment 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.

A delegation grid has been defined for all subsidiaries. Any credit proposal exceeding the defined limits has to be submitted to KBL *epb* Credit Committee for decision.

As a matter of principle, each new credit proposal submitted to the Credit Committee / Executive Committee is accompanied by an opinion issued by Credit Risk Control, based on an analysis of the financial situation and creditworthiness of the borrower and of the structure of collateral.

At inception, internal processes ensure the identification of related counterparties, in order to monitor concentration risk on debtors / groups of debtors. Group structures are moreover permanently updated by the Credit Risk Control.

c.2) Breakdown of credit risk exposures

Lending to private clients (mainly Lombard loans) and to investment funds, alongside the Bank's core activities has remained a pillar of the business. Risk in this activity is mitigated by a strong collateral policy, implying limited unsecured exposures. Part of the credit risk exposures is linked to bond investments, on the ALM portfolios and some international credits. Loan portfolios linked to structured products that were developed before the crisis were stopped in 2009 and the securitisation portfolio has been in run-off mode since. All PIIGS exposures in the securitization portfolio have been sold in the third quarter of 2012.

The distribution of the credit risk exposure by products and by ratings (Available-for-sale financial assets ("AFS") and Loans and receivables ("L&R") from banks and customers) is as follows:

By products

(In EUR million) AFS 31/12/2011	Amortised cost (before impairment)			Fair value (after impairment)		
	NPL/ Impaired	Standard	Total	NPL/ Impaired	Standard	Total
Bank bonds	15.0	393.7	408.7	10.7	393.3	404.1
Corporate bonds	27.0	645.7	672.7	14.6	674.6	689.3
Asset-backed securities	3.8	596.4	600.1	1.6	499.5	501.1
Government bonds	32.9	1,928.1	1.961.0	10.0	2,001.9	2,011.9
Sub-total	78.6	3,563.8	3,642.4	37.0	3,569.5	3,606.4
Other (Equity instruments. investment funds…)						276.7
TOTAL						3,883.2

In EUR million

AFS 31/12/2012	Amortised cost (before impairment)			Fair value (after impairment)		
	NPL/ Impaired	Standard	Total	NPL/ Impaired	Standard	Total
Bank bonds	-	407.7	407.7	-	419.7	419.7
Corporate bonds	20.6	928.3	948.9	11.0	991.1	1,002.0
Asset-backed securities	-	208.2	208.2	-	210.3	210.3
Government bonds	1.9	2,157.8	2,159.7	0.7	2,308.3	2,309.0
Sub-total	22.4	3,702.0	3,724.5	11.6	3,929.4	3,941.1
Other (Equity instruments. investment funds…)						329.4
TOTAL						4,270.5

(In EUR million) Loans and receivables 31/12/2011	NPL/Impaired	Standard	Total
Banks and other financial institutions	-	5,070.0	5,070.0
Customers	7.6	1,399.4	1,407.0
Sub-total	7.6	6,469.4	6,477.1
Other L&R			80.0
TOTAL			6,557.1

(In EUR million) Loans and receivables 31/12/2012	NPL/Impaired	Standard	Total
Banks and other financial institutions	-	2,492.5	2,492.5
Customers	15.8	1,504.2	1,520.0
Sub-total	15.8	3,996.7	4,012.5
Other L&R			56.1
TOTAL			4,068.6

By rating [(1)]

(In EUR million)	AFS			L&R-Banks			
Rating 31/12/2011	NPL/ Impaired	Standard	Total	Other L&R	Reverse Repo	Com. Paper	Total
AAA	-	1,724.2	1,724.2	0.2	-	-	0.2
AA+	-	49.3	49.3	4.2	-	-	4.2
AA	-	291.0	291.0	91.2	-	-	91.2
AA-	-	346.8	346.8	150.7	747.3	-	898.0
A+	-	153.7	153.7	91.3	2,134.1	-	2,225.4
A	-	315.9	315.9	145.5	317.6	-	463.0
A-	-	218.4	218.4	30.8	944.1	-	974.9
BBB+	-	163.4	163.4	9.0	233.9	-	242.9
BBB	1.8	140.1	141.9	21.0	-	-	21.0
BBB-	-	57.3	57.3	-	-	-	-
BB+	-	59.9	59.9	-	-	-	-
BB	10.7	7.3	18.0	0.6	-	-	0.6
BB-	-	2.8	2.8	-	-	-	-
B+	-	4.2	4.2	0.0	-	-	0.0
B	0.7	3.7	4.3	-	-	-	-
B-	-	0.2	0.2	-	-	-	-
CCC	1.6	2.9	4.6	-	-	-	-
CC	9.3	-	9.3	-	-	-	-
D	-	-	-	-	-	-	-
Not rated	12.8	28.5	41.3	148.6	-	-	148.6
Total	37.0	3,569.5	3,606.4	693.0	4,377.0	-	5,070.0

(In EUR million)	AFS			L&R-Banks			
Rating 31/12/2012	NPL/ Impaired	Standard	Total	Other L&R	Reverse / Repo	Com. Paper	Total
AAA	-	1,266.9	1,266.9	0.1	-	-	0.1
AA+	-	554.8	554.8	-	-	-	-
AA	-	164.2	164.2	123.7	-	10.0	133.7
AA-	-	260.7	260.7	29.8	-	0.0	29.8
A+	-	135.6	135.6	90.5	191.5	44.8	326.8
A	-	216.0	216.0	189.0	1,106.1	99.6	1,394.7
A-	-	395.1	395.1	83.7	75.1	19.9	178.8
BBB+	-	276.3	276.3	10.2	67.6	43.5	121.3
BBB	1.6	448.8	450.4	9.7	-	-	9.7
BBB-	-	143.5	143.5	0.0	-	-	0.0
BB+	-	25.3	25.3	0.2	-	-	0.2
BB	-	11.8	11.8	0.1	-	-	0.1
BB-	-	3.0	3.0	0.6	-	-	0.6
B+	-	0.2	0.2	-	-	-	-
B	-	-	-	-	-	-	-
B-	-	0.2	0.2	0.0	-	-	0.0
CCC	-	-	-	-	-	-	-
CC	0.7	-	0.7	-	-	-	-
D	-	-	-	-	-	-	-
Not rated	9.3	27.0	36.3	119.7	177.0	-	296.7
Total	11.6	3,929.4	3,941.1	657.4	1,617.3	217.8	2,492.5

(1) The information on rating is not available as such for Loans and receivable to customers.

Government bonds by country

(In EUR million)	Available-for-sale financial assets					Held-for-trading assets	
31/12/2011	Nominal	Carrying amount	Available-for-sale reserve	Impairment	Related hedging derivatives	Nominal	Carrying amount
Austria	88	95	2	-	-	0	0
Maturing in 2012	19	20	0	-	-	0	0
Maturing in 2013 or 2014	2	2	0	-	-	0	0
Maturing in 2017 and later	67	73	2	-	-	-	-
Belgium	387	397	1	-	-4	-	-
Maturing in 2012	219	223	2	-	-0	-	-
Maturing in 2013 or 2014	67	68	1	-	-	-	-
Maturing in 2015 or 2016	81	84	-3	-	-4	-	-
Maturing in 2017 and later	20	22	1	-	-	-	-
Cyprus	10	10	-0	-	-0	-	-
Maturing in 2012	10	10	-0	-	-0	-	-
Denmark	0	0	0	-	-	-	-
Maturing in 2013 or 2014	0	0	0	-	-	-	-
Finland	2	2	0	-	-	-	-
Maturing in 2015 or 2016	2	2	0	-	-	-	-
France	232	243	4	-	-	-	-
Maturing in 2012	64	65	0	-	-	-	-
Maturing in 2013 or 2014	104	110	2	-	-	-	-
Maturing in 2015 or 2016	32	34	1	-	-	-	-
Maturing in 2017 and later	32	34	1	-	-	-	-
Germany	105	116	5	-	-	-	-
Maturing in 2012	3	3	-0	-	-	-	-
Maturing in 2013 or 2014	47	51	2	-	-	-	-
Maturing in 2015 or 2016	25	27	2	-	-	-	-
Maturing in 2017 and later	30	35	2	-	-	-	-
Greece	39	9	-	-22	-	0	0
Maturing in 2012	1	1	-	-1	-	-	-
Maturing in 2013 or 2014	4	1	-	-3	-	0	0
Maturing in 2015 or 2016	34	8	-	-18	-	-	-
Ireland	2	2	-0	-	-	0	0
Maturing in 2013 or 2014	-	-	-	-	-	0	0
Maturing in 2017 and later	2	2	-0	-	-	-	-
Italy	83	80	-3	-	-	-	-
Maturing in 2012	5	5	0	-	-	-	-
Maturing in 2013 or 2014	24	24	-0	-	-	-	-
Maturing in 2015 or 2016	54	50	-3	-	-	-	-
Luxembourg	97	104	3	-	-4	3	3
Maturing in 2012	-	-	-	-	-	-	-
Maturing in 2013 or 2014	47	49	2	-	-	2	2
Maturing in 2017 and later	50	55	1	-	-4	1	1
The Netherlands	142	151	6	-	-	0	0
Maturing in 2012	56	57	0	-	-	-	-
Maturing in 2013 or 2014	20	21	1	-	-	0	0
Maturing in 2015 or 2016	33	36	2	-	-	-	-
Maturing in 2017 and later	33	38	3	-	-	0	0
Poland	0	0	-0	-	-	-	-
Maturing in 2013 or 2014	0	0	-0	-	-	-	-
Portugal	21	12	-9	-	-	-	-
Maturing in 2013 or 2014	1	1	-0	-	-	-	-
Maturing in 2015 or 2016	5	3	-2	-	-	-	-
Maturing in 2017 and later	15	8	-7	-	-	-	-

In EUR million	Available-for-sale financial assets					Held-for-trading assets	
31/12/2011	Nominal	Carrying amount	Available-for-sale reserve	Impairment	Related hedging derivatives	Nominal	Carrying amount
Supranational	154	158	1	-	-3	10	11
Maturing in 2013 or 2014	4	4	0	-	-	0	0
Maturing in 2015 or 2016	98	101	3	-	-	2	2
Maturing in 2017 and later	51	53	-1	-	-3	8	8
Spain	138	139	-2	-	-1	-	-
Maturing in 2012	54	53	-2	-	-1	-	-
Maturing in 2013 or 2014	38	39	0	-	-	-	-
Maturing in 2015 or 2016	34	34	0	-	-	-	-
Maturing in 2017 and later	12	12	-0	-	-	-	-
Sweden	23	25	1	-	-	-	-
Maturing in 2013 or 2014	23	25	1	-	-	-	-
Switzerland	49	53	1	-	-	-	-
Maturing in 2012	9	9	0	-	-	-	-
Maturing in 2013 or 2014	25	26	0	-	-	-	-
Maturing in 2015 or 2016	16	17	1	-	-	-	-
Rest	24	23	4	-1	-0	1	1
Maturing in 2012	5	5	0	-0	-	0	0
Maturing in 2015 or 2016	-	-	-	-	-	0	0
Maturing in 2017 and later	19	18	4	-1	-	0	0
Total	1,598	1,620	15	-23	-12	14	14

(In EUR million)	Available-for-sale financial assets					Held-for-trading assets	
31/12/2012	Nominal	Carrying amount	Available-for-sale reserve	Impairment	Related hedging derivatives	Nominal	Carrying amount
Austria	113	131	10	-	-	0	0
Maturing in 2014 or 2015	4	4	0	-	-	-	-
Maturing in 2016 or 2017	27	31	2	-	-	-	-
Maturing in 2018 and later	82	96	7	-	-	0	0
Belgium	287	317	12	-	-5	-	-
Maturing in 2013	10	10	0	-	-	-	-
Maturing in 2014 or 2015	151	162	5	-	-	-	-
Maturing in 2016 or 2017	94	107	3	-	-5	-	-
Maturing in 2018 and later	32	37	4	-	-	-	-
Czech Republic	8	9	0	-	-	-	-
Maturing in 2018 and later	8	9	0	-	-	-	-
Denmark	0	0	0	-	-	-	-
Maturing in 2013	0	0	0	-	-	-	-
Finland	2	2	0	-	-	0	0
Maturing in 2013	2	2	0	-	-	-	-
Maturing in 2018 and later	-	-	-	-	-	0	0
France	212	227	8	-	-	0	0
Maturing in 2013	90	92	1	-	-	-	-
Maturing in 2014 or 2015	67	72	2	-	-	-	-
Maturing in 2016 or 2017	27	31	3	-	-	-	0
Maturing in 2018 and later	27	32	2	-	-	0	-

In EUR million	Available-for-sale financial assets					Held-for-trading assets	
31/12/2012	Nominal	Carrying amount	Available -for-sale reserve	Impairment	Related hedging derivatives	Nominal	Carrying amount
Germany	106	116	6	-	-	0	0
Maturing in 2014 or 2015	64	67	2	-	-	-	-
Maturing in 2016 or 2017	36	41	3	-	-	-	-
Maturing in 2018 and later	6	8	1	-	-	0	0
Ireland	78	81	-0	-	-	0	0
Maturing in 2014 or 2015	24	25	-0	-	-	-	-
Maturing in 2016 or 2017	20	22	-0	-	-	0	0
Maturing in 2018 and later	34	35	0	-	-	0	0
Italy	180	184	4	-	-	0	0
Maturing in 2013	42	42	0	-	-	-	-
Maturing in 2014 or 2015	59	60	1	-	-	-	-
Maturing in 2016 or 2017	49	50	2	-	-	0	0
Maturing in 2018 and later	31	32	0	-	-	-	-
Lithuania	4	5	0	-	-	0	0
Maturing in 2016 or 2017	-	-	-	-	-	0	0
Maturing in 2018 and later	4	5	0	-	-	-	-
Luxembourg	97	107	2	-	-7	1	1
Maturing in 2013	47	48	1	-	-	1	1
Maturing in 2018 and later	50	58	1	-	-7	0	0
The Netherlands	82	90	6	-	-	0	0
Maturing in 2013	20	20	0	-	-	-	-
Maturing in 2014 or 2015	31	33	2	-	-	-	-
Maturing in 2016 or 2017	21	24	2	-	-	-	-
Maturing in 2018 and later	11	12	1	-	-	0	0
Poland	16	19	0	-	-	1	1
Maturing in 2014 or 2015	0	0	0	-	-	-	-
Maturing in 2016 or 2017	11	12	0	-	-	-	-
Maturing in 2018 and later	5	7	-0	-	-	1	1
Slovakia	22	24	0	-	-0	-	-
Maturing in 2014 or 2015	12	13	0	-	-	-	-
Maturing in 2016 or 2017	7	8	0	-	-0	-	-
Maturing in 2018 and later	3	3	0	-	-	-	-
Slovenia	25	24	-0	-	-	-	-
Maturing in 2014 or 2015	9	9	-0	-	-	-	-
Maturing in 2018 and later	16	15	0	-	-	-	-
Spain	26	26	0	-	-	-	-
Maturing in 2013	26	26	0	-	-	-	-
Sweden	23	24	1	-	-	-	-
Maturing in 2014 or 2015	23	24	1	-	-	-	-
Supranational	253	272	10	-	-5	6	7
Maturing in 2013	3	3	0	-	-	-	-
Maturing in 2014 or 2015	57	58	0	-	-	2	2
Maturing in 2016 or 2017	145	156	8	-	-2	2	2
Maturing in 2018 and later	49	55	1	-	-4	3	3
Rest	130	143	7	-1	-	7	7
Maturing in 2013	9	9	0	-	-	1	1
Maturing in 2014 or 2015	22	24	0	-	-	3	3
Maturing in 2016 or 2017	30	32	0	-	-	0	1
Maturing in 2018 and later	69	78	6	-1	-	3	3
Total	1,664	1,803	66	-1	-18	16	16

c.3) Monitoring of credit risk

In terms of the day-to-day monitoring of lending transactions, the loan administration systems automatically monitor the loans and guarantees schedule, which allows any overrun to be detected and the appropriate corrective action to be taken swiftly.

Group 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 their 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. The sectoral concentration of the Bank's risks and the concentration by debtor are monitored at least annually.

c.4) Specific loan impairment

For the parent company in Luxembourg, which constitutes by far the largest portion of global exposures, the evaluation of potential losses and the adjustment of specific impairment 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 impairments during the quarterly consolidation.

Below are listed specific impairments established in respect of the non performing loans portfolio and available-for-sale debt instruments as at 31 December 2011 and 2012:

(In EUR million) 31/12/2011	< 30 days	30-60 days	60-90 days	90-180 days	6-12 months	>12 months	other impaired (1)	TOTAL
AFS gross	-	-	-	-	-	-	78.6	78.6
Impairment	-	-	-	-	-	-	41.7	41.7
AFS net	-	-	-	-	-	-	37.0	37.0
Non performing L&R (gross)	1.3	0.1	2.8	0.1	0.4	55.0	-	59.8
Impairment	-	-	2.4	0.1	0.3	47.6	-	50.4
Non performing L&R (net)	1.3	0.1	0.4	0.0	0.2	7.4	-	9.5
Total gross	1.3	0.1	2.8	0.1	0.4	55.0	78.6	138.4
Impairment	-	-	2.4	0.1	0.3	47.6	41.7	92.0
Total net	1.3	0.1	0.4	0.0	0.2	7.4	37.0	46.4

(In EUR million) 31/12/2012	< 30 days	30-60 days	60-90 days	90-180 days	6-12 months	>12 months	other impaired (1)	TOTAL
AFS gross	-	-	-	-	-	-	22.4	22.4
Impairment	-	-	-	-	-	-	10.8	10.8
AFS net	-	-	-	-	-	-	11.6	11.6
Non performing L&R (gross)	2.3	0.1	1.5	2.2	-	48.5	9.6	64.2
Impairment	-	-	-	0.9	-	39.4	4.2	44.5
Non performing L&R (net)	2.3	0.1	1.5	1.3	-	9.1	5.4	19.7
Total gross	2.3	0.1	1.5	2.2	-	48.5	32.0	86.6
Impairment	-	-	-	0.9	-	39.4	15.0	55.3
Total net	2.3	0.1	1.5	1.3	-	9.1	17.1	31.3

(1) The related assets are impaired but not because of delays in payments.

In 2011, the Group decided to write off a large part of its outstanding debts in structured products (investments in Capital Notes), impaired up to 100%, given the remote possibility of recovery.

In 2012, the Group proceeded with new write-offs on loans exposures. The impairment on 4 bonds has been partially used during 2012 following the sale of the positions.

The loan / loss ratio is as follows:

Loan / loss ratio (*)	2011	2012
L&R from customers	17 bps	59 bps
AFS Financial Assets	55 bps	35 bps

(*) The loan / loss ratio is defined as the net variation of specific and general impairments on the average loan portfolio over the year.

c.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 Group Credit Risk Control. The department 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 and is operational since 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 large exposures regulation. Group Credit Risk Control has also developed its own tools for analysing bank counterparts.

The interbank limits system ensures that the limits of the concentration risk the Bank has defined, by counterparty and by group of counterparties, are respected at any time.

The management and supervision of collateral received for secured transactions (performed in Luxembourg), 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 2012, the Executive Committee updated the specific guidelines regarding acceptable collateral with new rules on concentration by counterparties and by securities accepted as collateral, as well as risk correlation limits (correlation between the counterparty and the collateral). The respect of these rules is monitored on a daily basis by the Group 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 and reported to senior management. In Luxembourg, the monitoring is performed using GEM. Exceptions reports are sent to the Trading Room management on a daily basis for justification and ratification, and to the Risk Control manager. All overruns are reported to the members of the KBL *epb* Executive Committee.

c.6) Country Risk Management

As for interbank limits, Credit Risk Control has developed a new framework for the definition and monitoring of country limits, which is operational since 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.

In order to monitor the geographical concentration, regional limits have also been defined.

Lines are allocated to the Bank and its subsidiaries for credit activities, investment portfolios and trading room activities as and when required. As for counterparty risk, the respect of the set country limits is monitored on a daily basis.

The breakdown of available-for-sale financial assets and Loans and receivables per countries is as follows:

(In EUR million)	AFS			L&R-Banks				L&R-Customers
Country 31/12/2011	NPL/ Impaired	Standard	Total	Other L&R	Reverse repo	Com. Paper	Total	Total
Argentina	0.7	0.0	0.7	0.0	-	-	-	6.5
Australia	-	12.7	12.7	3.1	-	-	3.1	0.2
Austria	-	102.5	102.5	2.4	-	-	2.4	0.0
Belgium	-	677.2	677.2	21.0	-	-	21.0	227.5
Belize	-	-	-	-	-	-	-	0.6
Bermudas	-	1.3	1.3	-	-	-	-	-
Brazil	-	5.4	5.4	1.8	-	-	1.8	-
British Virgin Islands	-	-	-	-	-	-	-	16.4
Canada	-	-	-	3.7	-	-	3.7	7.3
China	-	-	-	1.6	-	-	1.6	0.1
Cyprus	-	10.4	10.4	-	-	-	-	0.5
Czech Republic	-	-	-	14.5	-	-	14.5	0.0
Denmark	-	21.4	21.4	6.7	-	-	6.7	-
Finland	-	10.4	10.4	1.3	-	-	1.3	-
France	14.6	469.4	484.0	49.8	1,526.6	-	1,576.4	117.8
Germany	-	222.1	222.1	79.4	103.6	-	183.0	128.5
United Kingdom	-	118.3	118.3	145.6	759.5	-	905.1	70.6
Greece	9.3	27.3	36.6	0.1	-	-	0.1	0.0
Iceland	-	-	-	1.7	-	-	1.7	-
Indonesia	-	3.7	3.7	1.1	-	-	1.1	-
Ireland	-	7.9	7.9	-	-	-	-	0.3
Italy	-	253.4	253.4	14.6	314.8	-	329.4	18.4
Japan	-	-	-	12.4	-	-	12.4	-
Jersey	-	-	-	-	-	-	-	2.7
Korea	-	4.9	4.9	0.1	-	-	0.1	-
Liechtenstein	-	0.0	0.0	-	-	-	-	4.7
Luxembourg	-	116.9	116.9	64.8	821.3	-	886.1	252.2
Madagascar	-	-	-	-	-	-	-	6.3
Mauritius	-	-	-	-	-	-	-	10.3
Monaco	-	-	-	2.3	-	-	2.3	37.9
New Zealand	-	1.8	1.8	1.5	-	-	1.5	0.2
Norway	-	5.9	5.9	7.1	-	-	7.1	-
Other	-	-	-	4.3	-	-	4.3	22.1
Panama	-	-	-	-	-	-	-	9.2
Poland	-	0.0	0.0	7.6	-	-	7.6	2.3
Portugal	-	70.6	70.6	0.6	-	-	0.6	0.1
Qatar	-	1.6	1.6	-	-	-	-	0.0
Russia	-	17.2	17.2	0.3	-	-	0.3	7.7
Singapore	-	2.2	2.2	5.2	-	-	5.2	0.1
Slovenia	10.7	-	10.7	-	-	-	-	-
Spain	-	301.4	301.4	3.0	578.6	-	581.6	52.4
Supranational	-	500.4	500.4	-	-	-	-	-
Sweden	-	51.6	51.6	5.8	-	-	5.8	-
Switzerland	-	72.0	72.0	108.6	5.3	-	113.9	26.4
Taiwan	-	-	-	4.5	-	-	4.5	-
The Netherlands	-	287.8	287.8	21.3	267.3	-	288.7	363.7
Turkey	-	-	-	2.6	-	-	2.6	-
Venezuela	-	-	-	-	-	-	-	4.6
United States of America	1.6	191.9	193.5	92.6	-	-	92.6	9.6
Total	37.0	3,569.5	3,606.4	693.0	4,377.0	-	5,070.0	1,407.0

(In EUR million)	AFS			L&R-Banks				L&R-Customers
Country 31/12/2012	NPL/ Impaired	Standard	Total	Other L&R	Reverse repo	Com. Paper	Total	Total
Supranational	-	691.3	691.3	-	-	-	-	-
France	11.0	587.4	598.3	33.2	646.6	35.8	715.6	136.3
Belgium	-	492.1	492.1	76.0	-	10.0	86.0	196.4
Italy	-	308.1	308.1	3.5	-	8.7	12.2	8.8
Germany	-	291.2	291.2	78.9	177.0	19.9	275.9	144.2
The Netherlands	-	279.6	279.6	29.7	-	29.9	59.6	330.9
United Kingdom	-	164.1	164.1	139.3	793.8	58.8	991.9	134.5
USA	-	159.9	159.9	16.0	-	-	16.0	8.8
Austria	-	158.6	158.6	1.5	-	9.9	11.4	0.0
Luxembourg	-	119.6	119.6	130.6	-	-	130.6	292.1
Spain	-	107.2	107.2	3.3	-	14.9	18.2	60.5
Ireland	-	87.2	87.2	-	-	-	-	0.0
Switzerland	-	73.8	73.8	88.2	-	-	88.2	29.1
Sweden	-	73.6	73.6	0.4	-	-	0.4	0.0
Russia	-	32.3	32.3	0.0	-	-	0.0	7.7
Denmark	-	29.1	29.1	6.3	-	19.9	26.2	1.3
Finland	-	26.9	26.9	2.8	-	-	2.8	-
Slovenia	-	25.3	25.3	-	-	-	-	-
Slovakia	-	24.6	24.6	0.0	-	-	0.0	0.4
Poland	-	22.4	22.4	3.8	-	-	3.8	4.1
Hong Kong	-	16.9	16.9	2.0	-	-	2.0	0.0
Czech Republic	-	16.7	16.7	1.9	-	-	1.9	2.0
United Arab Emirates	-	16.6	16.6	0.1	-	10.0	10.1	0.3
Norway	-	15.5	15.5	0.8	-	-	0.8	0.7
Qatar	-	12.0	12.0	0.2	-	-	0.2	-
Panama	-	10.3	10.3	-	-	-	-	3.7
Canada	-	10.2	10.2	6.0	-	-	6.0	4.0
South Africa	-	9.0	9.0	0.3	-	-	0.3	0.1
Australia	-	8.9	8.9	1.1	-	-	1.1	0.1
Croatia	-	8.8	8.8	-	-	-	-	-
New Zealand	-	7.6	7.6	2.0	-	-	2.0	0.3
Brazil	-	6.5	6.5	7.1	-	-	7.1	0.2
Portugal	-	5.1	5.1	0.6	-	-	0.6	1.5
Lithuania	-	5.0	5.0	-	-	-	-	-
South Korea	-	5.0	5.0	0.0	-	-	0.0	-
Israel	-	4.5	4.5	0.4	-	-	0.4	0.0
India	-	4.2	4.2	0.0	-	-	0.0	0.0
Japan	-	3.8	3.8	-	-	-	-	-
Mexico	-	3.5	3.5	5.6	-	-	5.6	0.0
Chile	-	2.6	2.6	-	-	-	-	0.0
China	-	2.4	2.4	0.6	-	-	0.6	0.1
Argentina	0.7	-	0.7	0.4	-	-	0.4	2.0
Singapore	-	-	-	4.7	-	-	4.7	0.1
Turkey	-	-	-	2.7	-	-	2.7	-
Taiwan	-	-	-	2.5	-	-	2.5	-
Iceland	-	-	-	1.8	-	-	1.8	-
Palestina	-	-	-	0.6	-	-	0.6	-
Indonesia	-	-	-	0.5	-	-	0.5	-
Monaco	-	-	-	0.5	-	-	0.5	38.0
Nigeria	-	-	-	0.3	-	-	0.3	-
Estonia	-	-	-	0.3	-	-	0.3	0.0
Philippines	-	-	-	0.2	-	-	0.2	-
Hungary	-	-	-	0.1	-	-	0.1	0.6
Oman	-	-	-	0.1	-	-	0.1	-
Thailand	-	-	-	0.1	-	-	0.1	0.5
Egypt	-	-	-	0.1	-	-	0.1	-
Colombia	-	-	-	0.0	-	-	0.0	0.0
Pakistan	-	-	-	0.0	-	-	0.0	-
Kenya	-	-	-	0.0	-	-	0.0	-
Kuwait	-	-	-	0.0	-	-	0.0	0.0
Greece	-	-	-	0.0	-	-	0.0	2.1
Peru	-	-	-	0.0	-	-	0.0	0.0
Ghana	-	-	-	0.0	-	-	0.0	-

British Virgin Islands	-	-	-	-	-	-	-	70.2
Other	-	-	-	-	-	-	-	10.7
Mauritius	-	-	-	-	-	-	-	10.5
Madagascar	-	-	-	-	-	-	-	5.9
Liechtenstein	-	-	-	-	-	-	-	3.7
Isle of Man	-	-	-	-	-	-	-	2.7
Marshall Islands	-	-	-	-	-	-	-	2.3
Congo	-	-	-	-	-	-	-	2.1
Belize	-	-	-	-	-	-	-	0.2
Total	11.6	3,929.4	3,941.1	657.4	1,617.3	217.8	2,492.5	1,520.0

d) Market risk management: Trading risk

KBL *epb* group being mainly Private Banking oriented, its trading risk-taking activity aims to support the core business activities. The trading positions reflect the necessary intermediation of the Dealing Room in Luxembourg, supporting client flows in terms of debt instruments, equity instruments, structured products, forex and deposits. Most of the instruments used by the Dealing Room are plain vanilla.

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), price volatility 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).

Before 1 August 2012, the measurement of exposures and the limits framework were based on the methodology of KBC Group:

- 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.

Following KBC divestment, KBL *epb* regained its autonomy in terms of calculation and monitoring of trading risks. Therefore, the system of measures and limits globally in place before integration into KBC Group was reactivated, consisting in:

- nominal amounts for the activities subject to currency risk (Forex) and to price volatility risk (Equity, Structured Products, Special Bonds);
- limits in global BPV at 10 bps for activities subject to interest rate risk (Treasury and Bonds).

These new primary limits are supplemented by a structure of secondary limits allowing for a more detailed analysis of the Trading risks. Those secondary limits consist in concentration limits by currency and by time bucket as well as in limits by issue and issuer based on their rating or on their market liquidity.

In this way, the Executive Committee has formalized a new set of trading limits ensuring an identical level of risks (versus the former limits) for all activities of the Dealing Room, with an exception for the Structured Products activity where the primary nominal limit was doubled. This new set of limits and systems became effective just after the closing of the sale, on 1 August 2012. As far as KBL *epb*'s subsidiaries are concerned, no trading activities are allowed in Treasury, Bond, Equity and Structured Product. Their small Forex residual positions are consolidated and compared to the Group Forex trading limit.

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* Group Board of Risk Committee.

As at 31 December 2012, the use of limits in the Trading activities are as follows (sensitivity indicator for treasury and bonds activities and nominal limits for other activities):

(In EUR million) Trading Activities over 2012	Since 1 August 2012 Limit in BPV 10 bps [1]	Estimated Outstanding 31/12/2011	Maximum [2] Observed in 2012	Average [3] Observed in 2012	Outstanding 31/12/2012
Treasury Activity	2.50	0.27	1.01	0.61	0.59
Bonds Activity	0.80	0.31	0.41	0.23	0.18

[1] BPV 10 bps outstanding corresponds to the sum in ABS value of the BPV 10 bps in each currency.
[2] and [3] Period from 1 August to 31 December 2012 for Treasury and Bond activities.

	Since 1 August 2012 Limit in BPV 10 bps [1]	Estimated Outstanding 31/12/2011	Maximum [3] Observed in 2012	Average [4] Observed in 2012	Outstanding 31/12/2012
Forex	23.00	5.26	13.63	5.60	5.50
Equity	8.00	0.08	1.33	0.38	0.21
Bond Special [5]	20.00	9.64	17.88	12.84	12.69
Structured Product	80.00	19.69	57.85	34.70	54.19

[3] and [4] Period from 1 August to 31 December 2012 for Forex and equity, over the year 2012 for Bond Special and Structured Product.
[5] Bond Special activity: constant maturity swap notes (CMS) and steepeners.

Over the year 2012 (since 1 August 2012 for Treasury, Bond, Forex, Equity activities that were previously in HVaR), outstanding in each activity remained well below the limit authorised as expressed by the maximum outstanding observed.

For the activities formerly monitored through HVaR, no overrun was turned out during the period between 1 January to 31 July 2012. The global HVaR limit was fixed at EUR 8 million and the maximum outstanding observed amounted to EUR 3.8 million, with an average of EUR 1.9 million over the period.

e) Market risk management: ALM

The traditional activity of a private bank entails little ALM risk compared to a retail bank: most of the client assets are reported as an off-balance sheet item in the form of securities deposits. Most short-term client deposits offer variable rates depending on the money market rates. The same applies to Lombard/mortgage loans to customers. When fixed rates are granted for loans, hedging swaps are contracted.

Once KBL *epb* group was excluded from KBC's ALM governance in the context of the divestment process, the KBL *epb* Executive Committee took over the direct responsibility for the ALM of KBL *epb* through a monthly ALM Committee (ALCO). This Committee, which was created in December 2010, is an extended Executive Committee dedicated to financial risks (market, credit and liquidity risk in addition to balance sheet and capital management).

The ALM methodology applied before the closing was limited to the reinvestment of the Bank's free capital and of the clients fixed rate deposits into dedicated portfolios (at KBL *epb* only).

After the closing, the ALCO decided to further optimise the ALM activity:

- a new ALM Function was created on 1 January 2013, in charge of the supervision of the balance sheet management, aiming to reinforce the ALM governance and strategy at KBL *epb* group level;
- new ALM portfolios were set up in order to reinvest the excess liquidity in a context of low remunerating replacement alternatives (a.o. deposits with the Central Bank, reverse repos).

As a consequence, KBL *epb* group holds the following ALM portfolios, in addition to some limited remaining "historic" portfolios with bonds that will come to maturity in the next few years:

- the reinvestment of free capital: 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. Free capital portfolios exist at KBL *epb* level and in the subsidiaries with sufficient materiality only;
- the reinvestment of fixed rate sight deposits and savings accounts at KBL *epb* by applying the same reinvestment policy as with free capital;
- the reinvestment of stable variable rate deposits in the subsidiaries, besides providing an additional remuneration, aims to address specific local needs (collateral needs, Large Exposures regulation,...);
- 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;
- bonds portfolios set up in the context of the new ALM governance (at KBL *epb* only):
  - a short term (maturity of maximum 1 year) treasury portfolio invested into commercial papers;
  - a medium term (up to 4 years) bonds portfolio mainly invested in corporate bonds, hedged against interest rate risks for maturities beyond 2 years;
  - a portfolio set up according to a risk/return optimization approach by asset class, respecting minimum liquidity eligibility criteria, mainly invested in sovereign and corporate bonds, financed by deposits in congruent currency (mainly in EUR).

The overall interest rate is defined at KBL epb Group level by a 100 bpv (basis point value) limit corresponding to 90% of half of the regulatory 200 bpv limit (i.e. 20% of eligible own funds) for all banking book positions. The 100 bpv sensitivity amounted to EUR 54 million as at 31 December 2012 (2011: EUR 26 million) for a limit of EUR 70 million for 2012 and 2011.

While the concentration risk in the ALM bonds portfolios is monitored through limits described in section c (credit risk control), concentrations in the equity portfolio are calculated monthly by economic and geographical sector.

ALM positions are reported monthly to the KBL *epb* ALCO and to each meeting of the Board Risk Committee.

A new set of ALM limits will be proposed to reflect the risk appetite of the new Board of Directors, and will be monitored through the ALM risk measurement tools recently developed by *KBL epb*.

The sensitivity of the economic value of the balance sheet to interest rates (impact of a parallel increase by 1% of the interest risk curve) is as follows:

(In EUR million) 100 bpv as at 31/12/2011	Less than 3 months (incl. accrued interests)	Between 3 months and 1 year	Between 1 year and 3 years	Between 3 years and 5 years	More than 5 years	Total 100 bpv	Net Present Value
Financial assets	-12	-11	-20	-31	-46	-120	12,919
Held-for-trading	0	-6	-1	0	0	-7	624
Designated at fair value through profit of loss	0	-	0	-	-	0	1,806
Available-for-sale financial assets	-1	-2	-17	-28	-35	-83	3,824
Loans and receivables	-2	-2	-2	-3	-11	-19	6,548
Hedging derivatives	-9	0	0	0	0	-10	34
Accruals	-	-	-	-	-	-	82
Financial liabilities	14	35	11	22	12	94	12,193
Held-for-trading	4	10	2	1	5	21	359
Designated at fair value through profit of loss	0	0	0	0	0	0	1,790
Measured at amortised cost (excluding deposits from CB)	4	3	6	5	5	23	9,670
Subordinated liabilities	0	0	0	9	0	9	262
Hedging derivatives	7	21	0	0	-	29	73
Accruals	-	-	-	-	-	-	39
Other Liabilities	0	0	3	6	3	12	
Gap	3	24	-9	-9	-34	-26	

(In EUR million) 100 bpv as at 31/12/2012	Less than 3 months (incl. accrued interests)	Between 3 months and 1 year	Between 1 year and 3 years	Between 3 years and 5 years	More than 5 years	Total 100 bpv	Net Present Value
Financial assets	-8	-10	-27	-39	-54	-137	10,996
Held-for-trading	0	-4	0	0	0	-5	500
Designated at fair value through profit of loss	0	0	0	-	0	0	2,110
Available-for-sale financial assets	0	-3	-24	-37	-43	-106	4,198
Loans and receivables	0	-3	-2	-2	-11	-19	4,062
Hedging Derivatives	-7	0	0	0	0	-8	34
Accruals	-	-	-	-	-	-	92
Financial liabilities	13	28	12	18	12	83	11,158
Held-for-trading	0	6	1	1	3	12	301
Designated at fair value through profit of loss	-	-	-	-	-	-	2,095
Measured at amortised cost (excluding deposits from CB)	4	3	8	5	5	24	8,387
Subordinated liabilities	0	0	0	7	0	7	254
Hedging derivatives	9	20	0	0	-	30	86
Accruals	-	-	-	-	-	-	35
Other Liabilities	0	0	3	4	3	10	
Gap	5	19	-14	-22	-42	-54	

The sensitivity of the interest margin to the interest rates (impact of a parallel increase by 1% of the interest rate risk curve) is as follows:

(In EUR million) Sensitivity 100 bpv Shift 31/12/2011	Less than 3 months (incl. accrued interests)	Between 3 months and 1 year	Between 1 year and 3 years	Between 3 years and 5 years	More than 5 years	Total impact
Financial assets	-6.6	-9.4	-18.4	-11.3	-27.6	-73.3
Financial liabilities	5.6	10.3	8.1	7.7	15.9	47.5
Net Impact	-1.0	0.8	-10.4	-3.6	-11.7	-25.8

In EUR million Sensitivity 100 bpv Shift 31/12/2012	Less than 3 months (incl. accrued interests)	Between 3 months and 1 year	Between 1 year and 3 years	Between 3 years and 5 years	More than 5 years	Total impact
Financial assets	-3.6	-8.4	-18.5	-13.5	-29.1	-73.2
Financial liabilities	4.0	10.4	8.7	6.7	16.3	46.2
Net Impact	0.3	2.0	-9.8	-6.8	-12.8	-27.0

Regarding the equity risk, the impact of a decrease of 25% on both the income statement (impairment) and the equity (AFS reserve excluding Equity instruments at cost) is as follows:

(In EUR thousand) 31/12/2011	Current situation [1]	*Impact of a markets' decrease of 25%*	Stock after decrease
Marked-to-Market value	263,061	*-65,765*	197,296
Gain/Loss	12,546	*-65,765*	-53,219
Equity impact (AFS reserve)	34,689	*-37,369*	-2,680
Income statement impact (impairment)	-22,143	*-28,396*	-50,539

(In EUR thousand) 31/12/2012	Current situation [1]	*Impact of a markets' decrease of 25%*	Stock after decrease
Marked-to-Market value	296,253	*-74,063*	222,190
Gain/Loss	76,471	*-74,063*	2,408
Equity impact (AFS reserve)	78,867	*-64,801*	14,067
Income statement impact (impairment)	-2,397	*-9,263*	-11,659

[1] Some Equity instruments classified as available-for-sale financial assets are not covered here.

f) Market risk management: liquidity risk

Like Asset and Liabilities Management, the Liquidity Risk Management of KBL *epb* Group is now the direct responsibility of KBL *epb* group's ALCO. Within KBL *epb* Group, the liquidity risk has always been closely monitored, though it is not seen as a major risk. Indeed, 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.

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.

Since the operational liquidity is not considered as being at risk in the subsidiaries, because of their pure Private Banking activities, the liquidity at Group level is monitored via structural indicators only, reflecting the long term trend:

- The Group's Loan-to-Deposit (LTD) ratio is established on a monthly basis. As at 31 December 2012, it stood at 21.5%, confirming the excellent liquidity situation of KBL *epb* as natural deposit collector;
- the coverage ratio compares the level of liquid assets to that of client deposits. It evaluates how the Bank can deal with an extreme scenario where all client deposits are withdrawn at the same time (conservative hypothesis). It equals to 56.5% as at 31 December 2012.

During the year, the Group Market Risk Control set up a template to gather necessary data for computing the new LCR/NSFR of affiliates on an harmonised basis and that of the consolidated ratios. A first calculation was released on the situation of end of June 2012:

- Consolidated LCR: 340%;
- Consolidated NSFR: 174%.

However a special focus is put on KBL *epb*'s liquidity situation (Bank), as the excess liquidity throughout the Group is centralised at KBL *epb*'s Treasury Department, concentrating the Group's liquidity risk at the Bank level.

Therefore, both operational and structural indicators are used for KBL *epb*.

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 to the Risk Control Function:

- a contractual liquidity gap of up to five days, as if the activity was to be continued (no stress test). This report is also sent to the BCL;
- a stock of available liquid assets;
- an estimate of the Basel III Liquidity Coverage Ratio, which stood at 86% as at 31 December 2012 under the assumption of the previous release of the text (December 2010);
- the value of quantitative indicators, which can potentially trigger the Liquidity Contingency Plan (the Plan consists in various actions depending on the gravity - minor, major - of the liquidity crisis).

Moreover, the significant counterparties in terms of funding sources (>1% of total liabilities, according to the Basel III definition) are monthly reported to the ALCO in order to reflect the funding concentration risk.

As far as the structural liquidity is concerned, the "liquidity excess" 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 2012, the liquidity excess amounted to EUR 2,457 million. The liquidity excess will be calculated according to the provisions of the Basle III Net Stable Funding Ratio when they will be released.

Monthly liquidity stress tests aim 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). Liquidity stress tests are being refined in order to better fit the business model of KBL *epb* defined by the new shareholder.

Finally, KBL *epb* is also an active member of the Association des Banques et Banquiers de Luxembourg's 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.

Quantitative information

The maturity analysis of financial assets held for managing liquidity risk (unencumbered marketable assets) is as follows:

(In EUR million) Marketable assets 31/12/2011	Stock of available assets	Less than 3 months	Between 3 months and 1 year	Between 1 year and 3 years	Between 3 years and 5 years	More than 5 years
Initial stock of available assets		5,190	1,868	1,604	1,200	596
CB eligible	4,626	-3,264	-170	-294	-536	-400
Marketable securities	564	-57	-95	-110	-68	-137
Total	5,190	-3,321	-264	-404	-604	-537
Residual stock of available assets	5,190	1,868	1,604	1,200	596	59

(In EUR million) Marketable assets 31/12/2012	Stock of available assets	Less than 3 months	Between 3 months and 1 year	Between 1 year and 3 years	Between 3 years and 5 years	More than 5 years
Initial stock of available assets		4.122	3.313	2.869	1.736	885
CB eligible	2.970	-225	-375	-1.017	-718	-704
Marketable securities	1.152	-584	-69	-116	-133	-128
Total	4.122	-809	-445	-1.132	-851	-832
Residual stock of available assets	4.122	3.313	2.869	1.736	885	53

The analysis by remaining contractual maturity for financial assets and liabilities is as follows:

(In EUR million) 31/12/2011	Less than 3 months (incl. accrued interests)	Between 3 months and 1 year	Between 1 year and 3 years	Between 3 years and 5 years	More than 5 years	Undetermined	Total
Cash and balances with central banks	1,076	-	-	-	-	-	1,076
Financial assets	6,347	654	1,277	948	1,563	2,131	12,919
Held-for-trading	283	58	98	79	45	62	624
Designated at fair value through profit or loss	-	-	15	-	-	1,791	1,806
Available-for-sale financial assets	343	470	974	712	1,049	276	3,824
Loans and receivables	5,639	126	190	123	468	2	6,548
Hedging derivatives	-	0	0	34	-	-	34
Accruals	82	-	-	-	-	-	82
Other assets	-	-	-	-	-	758	758
TOTAL ASSETS	7,423	654	1,277	948	1,563	2,889	14,752
Deposits from central banks	773	-	-	-	-	-	773
Financial liabilities	9,491	350	160	278	37	1,876	12,193
Held-for-trading	193	48	26	4	1	86	359
Designated at fair value through profit or loss	-	-	-	-	-	1,790	1,790
Measured at amortised cost	9,253	293	106	15	3	0	9,670
Subordinated liabilities	5	4	13	238	2	-	262
Hedging derivatives	1	5	16	21	30	-	73
Accruals	39	-	-	-	-	-	39
Other liabilities	23	50	92	195	70	352	781
Shareholders' equity	-	-	-	-	-	1,006	1,006
TOTAL LIABILITIES	10,287	400	252	473	107	3,234	14,752
Gap	-2,864	255	1,025	474	1,455	-345	

Of which derivatives:

	Cashflows by bucket						
	Less than 3 months (incl. accrued interests)	Between 3 months and 1 year	Between 1 year and 3 years	Between 3 years and 5 years	More than 5 years	Total	Carrying amount
Inflows	5,300	2,878	136	65	28	8,407	431
Interest rate	50	156	133	64	27	431	99
Equity	1	4	3	0	0	8	123
Currency	5.249	2.718	0	0	-	7,967	208
Other	0	0	0	0	-	0	1
Outflows	-5,249	-2,875	-144	-55	-29	-8,351	424
Interest rate	-52	-166	-138	-54	-29	-440	163
Equity	-1	-4	-5	0	0	-11	116
Currency	-5,196	-2,704	0	0	-	-7,900	144
Other	0	0	0	0	-	0	1
Gap - Derivatives	51	3	-7	10	-1	56	

(In EUR million) 31/12/2012	Less than 3 months (incl. accrued interests)	Between 3 months and 1 year	Between 1 year and 3 years	Between 3 years and 5 years	More than 5 years	Undetermined	Total
Cash and balances with central banks	1,330	-	-	-	-	-	1,330
Financial assets	3,237	959	1,663	1,273	1,400	2,465	10,996
Held-for-trading	172	91	119	38	39	41	500
Designated at fair value through profit or loss	-	8	7	0	0	2,095	2,110
Available-for-sale financial assets	177	446	1,294	1.051	901	329	4,198
Loans and receivables	2,794	414	243	151	459	0	4,062
Hedging derivatives	2	0	0	33	0	-	34
Accruals	92	-	-	-	-	-	92
Other assets	-	-	-	-	-	611	611
TOTAL ASSETS	4,567	959	1,663	1.273	1,400	3,076	12,937
Deposits from central banks	-	-	-	-	-	-	-
Financial liabilities	8,134	374	191	273	41	2,145	11,158
Held-for-trading	166	32	49	2	2	50	301
Designated at fair value through profit or loss	-	-	-	-	-	2,095	2,095
Measured at amortised cost	7,925	337	120	1	3	0	8,387
Subordinated liabilities	7	3	8	233	2	-	254
Hedging derivatives	1	3	14	36	33	-	86
Accruals	35	-	-	-	-	-	35
Other liabilities	22	33	130	106	64	491	845
Shareholders' equity	-	-	-	-	-	934	934
TOTAL LIABILITIES	8,156	408	320	379	105	3,570	12,937
Gap	-3,589	552	1,343	894	1,295	-494	

Of which derivatives:

(In EUR million) 31/12/2012	Cashflows by bucket						
	Less than 3 months (incl. accrued interests)	Between 3 months and 1 year	Between 1 year and 3 years	Between 3 years and 5 years	More than 5 years	Total	Carrying amount
Inflows	6,239	3,291	143	45	16	9,734	309
Interest rate	34	120	141	43	15	353	111
Equity	0	1	1	1	1	5	88
Currency	6,206	3,170	-	-	-	9,376	110
Other	0	0	-	-	-	0	0
Outflows	-6,238	-3,313	-147	-40	-18	-9,757	393
Interest rate	-37	-128	-146	-39	-17	-367	182
Equity	0	-1	-1	-1	-1	-4	86
Currency	-6,201	-3,184	-	-	-	-9,385	124
Other	0	0	-	-	-	0	0
Gap - Derivatives	2	-22	-5	4	-2	-23	

NOTE 42 – AUDIT FEES

(In EUR thousand)	31/12/2011	31/12/2012
Standard audit services	2,548	2,346
Audit related services	721	580
Other services	25	-
Total	3,294	2,926

NOTE 43 – LIST OF SIGNIFICANT SUBSIDIARIES AND ASSOCIATES

COMPANY	COUNTRY	CAPITAL HELD	SECTOR
KBL European Private Bankers S.A.	Luxembourg	100.00%	Bank
FULLY CONSOLIDATED SUBSIDIARIES (global method)			
Brown, Shipley & Co. Limited	United Kingdom	100.00%	Bank
Cawood Smithie & Co Limited	United Kingdom	100.00%	Other - financial
Fairmount Pension Trustee Limited	United Kingdom	100.00%	Other - financial
Fairmount Trustee Services Ltd	United Kingdom	100.00%	Other - financial
The Brown Shipley Pension Portfolio Ltd	United Kingdom	100.00%	Other - financial
Slark Trustee Company Ltd	United Kingdom	100.00%	Other - financial
White Rose Nominees Ltd	United Kingdom	100.00%	Other - financial
Fidef Ingénierie Patrimoniale S.A.	France	100.00%	Other - financial
Financière et Immobilière S.A.	Luxembourg	100.00%	Other - financial
KB Lux Immo S.A.	Luxembourg	100.00%	Real estate
Centre Europe S.A.	Luxembourg	100.00%	Real estate
Rocher Ltd	Isle of Man	100.00%	Real estate
S.C.I. KBL Immo III (Monaco)	Monaco	100.00%	Real estate
Plateau Real Estate LTD	Isle of Man	100.00%	Real estate
SCI KBL Immo II (Monaco)	Monaco	100.00%	Real estate
KBL Monaco Private Bankers	Monaco	100.00%	Bank
S.C.I. KBL Immo I (Monaco)	Monaco	100.00%	Real estate
KBL Monaco Conseil et Courtage en Assurance	Monaco	100.00%	Insurance
KBL Beteiligungs A.G.	Germany	100.00%	Holding
Modernisierungsgesellschaft Lübecker Str. 28/29 Gbr	Germany	79.06%	Real estate
Merck Finck & Co.	Germany	100.00%	Bank
Merck Finck Pension Universal Funds	Germany	100.00%	Management (Funds, Pensions, Portfolios)
Merck Finck Treuhand A.G.	Germany	100.00%	Other - financial
KBL Richelieu Banque Privée S.A.	France	100.00%	Bank
KBL Richelieu Gestion	France	100.00%	Management (Funds, Pensions, Portfolios)
S.E.V.	France	100.00%	Other - Commercial
KBLR INVEST 1	France	100.00%	Management (Funds, Pensions, Portfolios)
KBLR INVEST 2	France	100.00%	Management (Funds, Pensions, Portfolios)
KBLR INVEST 3	France	100.00%	Management (Funds, Pensions, Portfolios)
KBLR INVEST 4	France	100.00%	Management (Funds, Pensions, Portfolios)
KBL Informatique G.I.E.	Luxembourg	100.00%	IT
KBL (Switzerland) Ltd	Switzerland	99.99%	Bank
Privagest	Switzerland	99.99%	Management (Funds, Pensions, Portfolios)
Kredietrust Luxembourg S.A.	Luxembourg	100.00%	Management (Funds, Pensions, Portfolios)
Puilaetco Dewaay Private Bankers S.A.	Belgium	100.00%	Bank
Banque Puilaetco Dewaay Luxembourg S.A.	Luxembourg	100.00%	Bank
Theodoor Gilissen Bankiers N.V.	The Netherlands	100.00%	Bank
TG Fund Management B.V.	The Netherlands	100.00%	Management (Funds, Pensions, Portfolios)
TG Ventures B.V.	The Netherlands	100.00%	Corporate Finance
Theodoor Gilissen Trust B.V.	The Netherlands	100.00%	Management (Funds, Pensions, Portfolios)
Theodoor Gilissen Global Custody N.V.	The Netherlands	100.00%	Custodian
Lange Voorbehout B.V.	The Netherlands	100.00%	Real estate
Stroeve Asset Management B.V.	The Netherlands	100.00%	Management (Funds, Pensions, Portfolios)
Wereldeffect B.V.	The Netherlands	100.00%	Management (Funds, Pensions, Portfolios)
Vitis Life S.A.	Luxembourg	100.00%	Insurance
Data Office	Belgium	100.00%	Other - financial

COMPANY	COUNTRY	CAPITAL HELD	SECTOR
ASSOCIATES			
EFA Partners S.A. [1]	Luxembourg	52.70%	Holding
European Fund Administration S.A. [1]	Luxembourg	51.13%	Fund administration
European Fund Administration France S.A.S.	France	51.13%	Fund administration
NON-CONSOLIDATED COMPANIES			
KBL European Private Bankers S.A.			
Forest Value Investment Management S.A.	Luxembourg	26.13%	
Horacio sarl	Luxembourg	100.00%	
KBL Beteiligungs A.G.			
Steubag G. Betriebsw. & Bankendienst. GmbH	Germany	100.00%	
Theodoor Gilissen Bankiers N.V.			
Maatschap Damsigt	The Netherlands	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	COUNTRY	CAPITAL HELD	SECTOR
INCLUDED IN SCOPE OF CONSOLIDATION			
KBLR INVEST 1	France	100.00%	Management (Funds, Pensions, Portfolios)
KBLR INVEST 2	France	100.00%	Management (Funds, Pensions, Portfolios)
KBLR INVEST 3	France	100.00%	Management (Funds, Pensions, Portfolios)
KBLR INVEST 4	France	100.00%	Management (Funds, Pensions, Portfolios)
Plateau Real Estate LTD	Isle of Man	100.00%	Real estate
SCI KBL Immo II (Monaco)	Monaco	100.00%	Real estate

NOTE 45 – 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 2012.

DECLARATION ON THE CONFORMITY OF THE CONSOLIDATED ACCOUNTS

We, Jacques Peters, Chief Executive Officer, and Yves Pitsaer, Chief Financial & Risk Officer, confirm, to the best of our knowledge, that the consolidated accounts which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union give a true and fair view of the consolidated assets, liabilities, financial position and consolidated profit or loss of KBL European Private Bankers S.A. and that the consolidated management report includes a fair review of the development and performance of the business and the position of KBL *epb* group, together with a description of the principal risks and uncertainties that the Group faces.

Luxembourg, 21 February 2013

Jacques Peters
Chief Executive Officer

Yves Pitsaer
Chief Financial & Risk Officer

KBL European Private Bankers S.A.
43, boulevard Royal
L-2955 Luxembourg

R.C.S. Luxembourg: B 006.395

Annual accounts, Report of the independent auditor and Management report as at 31 December 2012

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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 2012, 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 2012, 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, including the corporate governance statement, which is the responsibility of the Board of Directors, is consistent with the annual accounts and includes the information required by the law with respect to the corporate governance statement.

Ernst & Young
Société Anonyme
Cabinet de révision agréé

Sylvie Testa

Luxembourg, 21 February 2013

INCOME STATEMENT

(In EUR thousand)	Notes	31/12/2011	31/12/2012
Net interest income	4, 33	90,832	56,796
Dividend income	5, 33	40,961	25,617
Net gains/losses on financial instruments measured at fair value through profit or loss	6	-17,837	40,418
Net realised gains/losses on financial assets and liabilities not measured at fair value through profit or loss	7	69,938	-71,691
Net fee and commission income	8, 33	89,529	84,610
Other net income	9, 33	5,986	7,519
GROSS INCOME		279,408	143,269
Operating expenses	10, 33	-142,897	-249,984
Staff expenses	11, 27, 28	-95,684	-145,992
General administrative expenses	37	-36,355	-61,022
Other	24, 25, 26	-10,858	-42,970
Impairment	12, 19, 20, 33	-174,244	-197,149
PROFIT / (LOSS) BEFORE TAX		-37,732	-303,864
Income tax (expenses) / income	13	8,399	-1,907
PROFIT / (LOSS) AFTER TAX		-29,333	-305,771

STATEMENT OF COMPREHENSIVE INCOME

(In EUR thousand)	31/12/2011	31/12/2012
PROFIT / (LOSS) AFTER TAX	-29,333	-305,771
Revaluation at fair value	-81,832	92,514
Net realised gains/losses on sales	-14,302	91,692
Impairment	-171	6,606
Income tax (expenses) / income	27,736	-55,430
Available-for-sale financial assets	-68,569	135,382
Exchange differences on translation of foreign operations	30	-
OTHER COMPREHENSIVE INCOME	-68,539	135,382
TOTAL COMPREHENSIVE INCOME	-97,872	-170,389

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

BALANCE SHEET

ASSETS (In EUR million)	Notes	31/12/2011	31/12/2012
Cash and balances with central banks	35	875	409
Financial assets	14, 15, 16, 17, 18, 33, 35	10,146	7,552
Held-for-trading	21	564	449
At fair value through profit or loss		15	15
Available-for-sale financial assets	19, 38	3,724	3,730
Loans and receivables	20	5,799	3,313
Hedging derivatives	21	44	45
Tax assets	23, 35	81	24
Current tax assets		-	-
Deferred tax assets		81	24
Investment properties	25	13	4
Property and equipment	25	101	95
Intangible assets	24	125	97
Other assets	22, 35	28	30
TOTAL ASSETS		11,369	8,212

EQUITY AND LIABILITIES (In EUR million)		31/12/2011	31/12/2012
Financial liabilities	14, 16, 33	9,932	6,850
Held-for-trading	21	295	256
At amortised cost		9,563	6,511
Hedging derivatives	21	74	83
Provisions	26	6	7
Other liabilities	27, 28	138	233
TOTAL LIABILITIES		10,076	7,090
TOTAL EQUITY	29	1,293	1,122
TOTAL EQUITY AND LIABILITIES		11,369	8,212

The notes refer to the “Notes to the annual accounts”.

STATEMENT OF CHANGES IN EQUITY

(In EUR million)	Issued and paid-up share capital	Share premium	Treasury shares	Revaluation reserve (AFS investments)	Reserves	Foreign currency translation reserve	Total equity
2011							
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

(In EUR million)	Issued and paid-up share capital	Share premium	Treasury shares	Revaluation reserve (AFS investments)	Reserves	Foreign currency translation reserve	Total equity
2012							
Balance as at 01/01/2012	187.2	321.3	-0.1	-55.2	839.5	-	1,292.7
Net movements on treasury shares	-	-	-	-	-	-	-
Dividends and profit-sharing	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	135.4	-305.8	-	-170.4
Other	-	-	-	-	-	-	-
Total variations	-	-	-	135.4	-305.8	-	-170.4
Balance as at 31/12/2012	187.2	321.3	-0.1	80.2	533.7	-	1,122.3

CASH FLOW STATEMENT

(In EUR million)	Notes	31/12/2011	31/12/2012
Loss before tax		-37.7	-303.9
Adjustments for:			
Impairment of securities, amortisation and depreciation of property and equipment, intangible assets and investment properties	*10, 12*	*181.7*	*237.4*
Profit/loss on the disposal of investments	*9*	*-2.1*	*-5.7*
Change in impairment for losses on loans and advances	*12*	*2.5*	*1.7*
Change in other provisions	*10*	*0.9*	*1.1*
Unrealised foreign currency gains and losses		*4.8*	*-0.6*
Cash flows from operating activities, before tax and changes in operating assets and liabilities		150.1	-70.0
Changes in operating assets (1)		1,839.7	-3,487.1
Changes in operating liabilities (2)		66.1	658.3
Income taxes		10.9	-
NET CASH FROM/(USED IN) OPERATING ACTIVITIES		2,066.8	-2,898.8
Purchase of subsidiaries or business units		-3.3	-3.7
Proceeds from sale of subsidiaries or business units		0.4	-
Purchase of intangible assets	24	-0.1	-
Proceeds from sale of investment property	9, 25	-	13.7
Purchase of property and equipment	25	-2.8	-2.0
Proceeds from sale of property and equipment	9, 25	2.7	-
NET CASH FLOWS FROM /(USED IN) INVESTING ACTIVITIES		-3.1	8.0
Purchase/sale of treasury shares		-	-
Issue/repayment of loans	14	116.0	-0,3
Issue/repayment of subordinated debts	14	-571.0	-8,6
Dividends paid and profit-sharing		-	-
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		-455.0	-8.8
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (3)		1,608.7	-2,899.7
CASH AND CASH EQUIVALENTS AS AT 01/01		2,513.0	4,121.7
Net increase/decrease in cash and cash equivalents		1,608.7	-2,899.7
Net foreign exchange difference		-	-
CASH AND CASH EQUIVALENTS AS AT 31/12		4,121.7	1,222.0

Additional information			
Interest paid during the year		151.7	86.0
Interest received during the year		226.9	134.6
Dividends received (including equity method)	5	41.0	25.6

Components of cash and cash equivalents		4,121.7	1,222.0
Cash and balances with central banks (including legal reserve with the central bank)		874.7	409.4
Loans and advances to banks repayable on demand		4,895.0	1,881.1
Deposits from banks repayable on demand		-1,648.0	-1,068.5
Of which: not available (4)		123.6	389.4

(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.).

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

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

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 came to an end on 10 October 2011, when an agreement was signed between Precision Capital and KBC Group for the sale of KBL *epb*.

The deal was finally closed on 31 July 2012, after having been approved by all the supervisory authorities concerned. This agreement for a total consideration of around EUR 1 billion guarantees Precision Capital a 99.9 % interest in KBL *epb*. Precision Capital is a Luxembourg-based company governed by Luxembourg law. It represents the interests of a group of Qatari private investors.

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 Precision Capital's consolidated accounts.
Precision Capital's consolidated accounts and management report are available at its head office.

As of 31 December 2012, KBL *epb*'s non-consolidated accounts include those of the Spanish branch opened on 7 April 2010. The Polish branch opened on 1 April 2009 was 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 21 February 2013.

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 amendment to IFRS effective for the Bank as of 1 January 2012. This newly applicable requirement has had no impact on the financial position and performance of the Bank:

- *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 the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011.

KBL *epb* 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 2012. 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):

- *IAS 1 Presentation of Items of Other Comprehensive Income - Amendments to IAS 1*

  The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or "recycled") to profit or loss at a future point in time (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affects presentation only and has no impact on the Bank's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012, and will therefore be applied in the Bank's first annual accounts after becoming effective.

- *IAS 19 Employee Benefits (Revised)*

  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. The impact of the initial application of the revised standard on the Bank total equity has been estimated at EUR -20 million as of 1 January 2013.

- *IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32*

  These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Bank's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

- *IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7*

  These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments are not expected to impact the Bank's financial position or performance. They will become effective for annual periods beginning on or after 1 January 2013.

- *IFRS 9 Financial Instruments - Classification and Measurement (Not endorsed by the European Union yet)*

  IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 is expected to have an effect on the classification and measurement of the Bank's financial assets, but not on the classification and measurements of financial liabilities. The Bank will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

- *IFRS 10 Consolidated Financial Statements, IAS 27 Separate 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 addresses 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 management 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. Based on the preliminary analyses performed, IFRS 10 is not expected to have any impact on the currently held investments of the Bank.

This standard becomes effective for annual periods beginning on or after 1 January 2013. The European Union has however allowed preparers of financial statements to postpone the initial application of the standards to 1 January 2014.

- *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, which becomes effective for annual periods beginning on or after 1 January 2013, is not expected to impact the Bank's financial position or performance.

- *Annual Improvements May 2012*

  These improvements, which are all applicable from 1 January 2013, will not have any impact on the Bank, but include:

  - *IAS 1 Presentation of Financial Statements*

    This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

  - *IAS 16 Property Plant and Equipment*

    This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

  - *IAS 32 Financial Instruments, Presentation*

    This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

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.

<u>Evaluation of financial instruments</u>

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 ssociated 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:

<u>Net interest income</u>

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 measured at fair value through profit or loss" in the income statement.

<u>Dividends</u>

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.

<u>Rendering of services</u>

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.

L. RECLASSIFICATIONS OF PRIOR YEAR FIGURES

Where necessary, certain prior year figures in the Notes to the annual accounts have been reclassified to conform with changes to the current year's presentation for comparative purposes.

NOTE 3A – OPERATING SEGMENTS BY BUSINESS SEGMENT

KBL *epb* 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		GLOBAL INVESTOR SERVICES		ALM ACTIVITIES		OTHER		KBL *epb*	
	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012
Net interest income	16.9	11.4	15.9	11.7	45.8	22.3	12.2	11.3	**90.8**	**56.8**
Dividend income	-	-	-	-	1.2	1.1	39.8	24.5	**41.0**	**25.6**
Net gains/losses on financial instruments measured at fair value through profit or loss	1.3	1.3	5.3	5.2	-11.6	34.2	-12.9	-0.2	**-17.8**	**40.4**
Net realised gains/losses on financial assets and liabilities not measured at fair value through profit or loss	0.3	-	0.1	-	13.4	3.3	56.1	-75.0	**69.9**	**-71.7**
Net fee and commission income	50.4	46.1	34.3	29.7	-3.0	0.6	7.9	8.3	**89.5**	**84.6**
Other net income	0.0	-0.7	0.0	-	2.8	2.0	3.2	6.2	**6.0**	**7.5**
GROSS INCOME	69.0	58.1	55.6	46.5	48.5	63.6	106.3	-25.0	279.4	143.3
Operating expenses	-54.7	-50.6	-29.2	-29.6	-20.7	-25.7	-38.3	-144.1	**-142.9**	**-250.0**
Impairment	-0.1	-	0.0	-	-3.9	-11.7	-170.3	-185.4	**-174.2**	**-197.1**
PROFIT BEFORE TAX	14.3	7.5	26.4	17.0	23.9	26.2	-102.3	-354.6	-37.7	-303.9
Income tax (expense) / income	-6.8	-2.9	-7.6	-3.9	-6.9	-10.5	29.6	15.3	**8.4**	**-1.9**
PROFIT AFTER TAX	7.5	4.6	18.8	13.1	17.0	15.7	-72.6	-339.2	-29.3	-305.8

Balance sheet In EUR million	PRIVATE BANKING		GLOBAL INVESTOR SERVICES		ALM ACTIVITIES		OTHER		KBL *epb*	
	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012
Cash and balances with central banks	-	-	-	-	875	409	-	-	875	409
Financial assets	818	1,012	169	162	7,439	4,715	1,720	1,663	10,146	7,552
Held-for-trading	-	-	-	-	537	423	27	25	564	449
At fair value through profit or loss	-	-	-	-	15	15	-	-	15	15
Available-for-sale financial assets	532	620	104	113	1,953	1,951	1,136	1,047	3,724	3,730
Loans and receivables	286	392	66	49	4,934	2,326	513	546	5,799	3,313
Hedging derivatives	-	-	-	-	-	-	44	45	44	45
Tax assets	-	-	-	-	-	-	81	24	81	24
Current tax assets	-	-	-	-	-	-	-	-	-	-
Deferred tax assets	-	-	-	-	-	-	81	24	81	24
Investment properties	-	-	-	-	-	-	13	4	13	4
Property and equipment	85	72	11	10	6	14	-	-	101	95
Intangible assets	-	-	-	-	-	-	125	97	125	97
Other assets	28	30	-	-	-	-	-	-	28	30
TOTAL ASSETS	931	1,114	180	171	8,319	5,139	1,939	1,787	11,369	8,212
Financial liabilities	1,723	1,698	2,417	1,493	2,493	1,699	3,299	1,959	9,932	6,850
Held-for-trading	-	-	-	-	286	227	9	29	295	256
At amortised cost	1,723	1,698	2,417	1,493	2,133	1,388	3,289	1,931	9,563	6,511
Hedging derivatives	-	-	-	-	74	83	-	-	74	83
Provisions	-	-	-	-	-	-	6	7	6	7
Other liabilities	138	233	-	-	-	-	-	-	138	233
TOTAL LIABILITIES, EXCLUDING EQUITY	1,861	1,931	2,417	1,493	2,493	1,699	3,305	1,966	10,076	7,090

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)	31/12/2011	31/12/2012
Breakdown by portfolio		
Interest income	220,760	137,462
Available-for-sale financial assets	101,968	70,945
Loans and receivables	75,168	37,321
Other	30	31
Sub-total of interest income from financial assets not measured at fair value through profit or loss	*177,166*	*108,298*
Financial assets held-for-trading	8,736	4,646
Net interest on hedging derivatives	34,678	24,323
Other financial assets at fair value through profit or loss	180	194
Interest expense	-129,928	-80,666
Financial liabilities at amortised cost	-85,297	-42,716
Other	-496	-372
Sub-total of interest expense on financial liabilities not measured at fair value through profit or loss	*-85,792*	*-43,088*
Net interest on hedging derivatives	-44,136	-37,578
Net interest income	90,832	56,796

NOTE 5 – DIVIDEND INCOME

(In EUR thousand)	31/12/2011	31/12/2012
Participating interests	39,770	24,484
Other equity instruments available-for-sale	1,191	1,133
Other equity instruments held-for-trading	-	-
Dividend income	40,961	25,617

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

(In EUR thousand)	31/12/2011	31/12/2012
Held-for-trading (including interest and valuation of trading derivatives)	-20,771	20,603
Other financial instruments at fair value	434	940
Exchange differences	2,406	19,444
Fair value adjustments in hedge accounting	94	-569
Fair value micro-hedging	*94*	*-569*
Fair value of hedged items	*23,128*	*15,542*
Fair value of hedging items	*-23,034*	*-16,111*
Net gains/losses on financial instruments measured at fair value through profit or loss	-17,837	40,418

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

(In EUR thousand)	31/12/2011	31/12/2012
Available-for-sale financial assets	21,646	-74,150
Debt instruments	13,557	-73,789
Equity instruments	8,089	-360
Loans and receivables	-31	2,459
Financial liabilities measured at amortised cost [(1)]	48,323	-
Net realised gains/losses on financial assets and liabilities not measured at fair value through profit or loss	69,938	-71,691

[(1)] EUR 48.3 million generated by the early redemption of an hybrid instrument in 2011.

NOTE 8 – NET FEE AND COMMISSION INCOME

(In EUR thousand)	31/12/2011	31/12/2012
Fee and commission income	136,412	130,408
Asset management	96,108	94,484
Securities transactions	27,622	26,152
Other	12,683	9,772
Fee and commission expense	-46,883	-45,798
Asset management	-42,673	-41,470
Securities transactions	-2,626	-2,464
Other	-1,584	-1,865
Net fee and commission income	89,529	84,610

NOTE 9 – OTHER NET INCOME

(In EUR thousand)	31/12/2011	31/12/2012
	5,986	7,519
Of which:		
Net proceeds from the sale of "Boulevard Royal" building	-	5,708
Net proceeds from precious metals transactions	2,825	2,215
Net proceeds from the sale of "Gestoland" building	2,086	-
Recoveries on unknown beneficiaries	847	280
Withholding tax on dividends	-210	-194

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)	31/12/2011	31/12/2012
Staff expenses	-95,684	-145,992
General administrative expenses	-36,355	-61,022
Depreciation and amortisation of property and equipment, intangible assets and investment properties	-9,971	-41,885 (*)
Net provision allowances	-887	-1,084
Operating expenses	-142,897	-249,984

(*) of which accelerated depreciation on several IT projects (please refer to Note 24).

NOTE 11 – STAFF

	31/12/2011	31/12/2012
Total average number of persons employed (in full-time equivalents - FTE)	894	873
Breakdown by business segment [1]		
Private Banking	326	309
Global Investor Services	195	188
ALM activities	120	140
Other	252	237

(1) The breakdown of commercial, administrative and support staff, which does not include the pre-retirement FTE, has been made on the same basis as for drawing up Note 3a on operating segments by business segment.

NOTE 12 – IMPAIRMENT

(In EUR thousand)	31/12/2011	31/12/2012
(Impairment)/reversal of impairment of:		
Loans and receivables	-2,514	-1,659
Available-for-sale financial assets	-171,730	-195,490
Impairment	-174,244	-197,149

Impairment on loans and receivables

More detailed information on impairment is provided in Note 36.

(In EUR thousand)	31/12/2011	31/12/2012
Total	-2,514	-1,659
Breakdown by type		
(Impairment)/reversal of impairment		
Specific impairment on loans and receivables	-2,652	-1,809
Portfolio-based impairment	138	150

See also Note 20 – Impairment on loans and receivables

Impairment on available-for-sale financial assets

(In EUR thousand)	31/12/2011	31/12/2012
Total	-171,730	-195,490
(Impairment)/reversal of impairment of:		
Debt instruments	-2,447	-12,054
Equity instruments	-169,283	-183,436
On participating interests	-160,617	-180,584
Theodoor Gilissen Bankiers N.V. – The Netherlands	-31,258	-106,052
KBL (Switzerland) Ltd – Switzerland	-	-49,996
KBL Beteiligungs A.G. – Germany	-45,890	-14,476
KBL Richelieu Banque Privée – France	-83,469	-8,865
Puilaetco Dewaay Private Bankers S.A. – Belgium	-	-1,195

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

The values of participations and purchased customer portfolio in the annual accounts are subject to an impairment test which is performed at least annually in the course of the fourth quarter.

Recoverable values are measured from a Discounted Cash Flow ("DCF") valuation method which, in practice, represents an estimation of fair value less costs to sell.

Impairment tests are based on the following main assumptions:

- For all periods, cash flows are discounted at annual rate of 10.0%.

- 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 3.5%.
    - Annual growth of the operating expenses by 2.5%.

- For the period after 10 years, a terminal value is calculated based on a long term (LT) growth rate of cash flows of 3.5%.
  This 3.5% rate appears reasonable to KBL *epb* as it is in line with a range between the forecast Gross Domestic Product growth for the eurozone and OECD countries and the long term market growth relating to clients' assets under management.

For reference, the combination in the terminal value of a LT growth rate of 3.5% and a discount rate of 10.0% corresponds to an implied Price earning ratio ("PER") valuation at terminal value of "15.4x".

Other cross-check methods such as the "Net asset value + multiple of Assets under management" are used to corroborate the results of the DCF method.

NOTE 13 – INCOME TAX (EXPENSES) / INCOME

(In EUR thousand)	31/12/2011	31/12/2012
Total	8,399	-1,907
Breakdown by type	8,399	-1,907
Current tax	4,616	-
Deferred tax	3,783	-1,907
of which: losses carried forward	*6,506*	-
Breakdown by major components:	8,399	-1,907
Profit before tax excluding branches	-28,536	-298,550
Luxembourg income tax rate	28.80%	29.22%
Income tax calculated at the Luxembourg income tax rate	8,218	87,236
Plus/minus tax effects attributable to:		
Tax-free income	11,631	6,627
Other non-deductible expenses	-1,536	-1,058
Adjustments related to prior years	4,616	-
Adjustments opening deferred tax due to change in tax rate	-	816
Unused tax losses and unused tax credits	-11,860	-94,224
Other	-2,669	-1,305
Income tax adjustments	181	-1,907

Details of tax assets are given in Note 23.

In 2002, under Article 164 (a) 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. and KB Lux Immo S.A..

The deferred tax assets not recognised in the balance sheet as at 31 December 2012 amount to EUR 111.4 million (31 December 2011: EUR 11.9 million).

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 (In EUR million)
31/12/2011

ASSETS	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 credit institutions	-	-	-	4,803	-	4,803
Loans and advances to others than credit institutions	-	15	-	988	-	1,003
Consumer credits	-	-	-	5	-	5
Mortgage loans	-	-	-	89	-	89
Term loans	-	-	-	673	-	673
Current accounts	-	-	-	139	-	139
Other	-	15	-	82	-	97
Equity instruments	1	-	1,052	-	-	1,053
Debt instruments issued by	235	-	2,631	-	-	2,867
- government bodies	14	-	1,018	-	-	1,033
- credit institutions	90	-	422	-	-	512
- 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 (In EUR million)
31/12/2012

ASSETS	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 credit institutions	-	-	-	2,109	-	2,109
Loans and advances to others than credit institutions	-	15	-	1,200	-	1,215
Consumer credits	-	-	-	5	-	5
Mortgage loans	-	-	-	90	-	90
Term loans	-	-	-	754	-	754
Current accounts	-	-	-	134	-	134
Other	-	15	-	217	-	232
Equity instruments	1	-	912	-	-	912
Debt instruments issued by	227	0	2,771	-	-	2,998
- government bodies	16	0	1,266	-	-	1,282
- credit institutions	80	-	493	-	-	573
- corporates	131	-	1,012	-	-	1,143
Financial derivatives	218	-	-	-	34	253
Accrued interest	2	0	48	5	10	66
Total	449	15	3,730	3,313	45	7,552
Of which reverse repos	-	-	-	1,630	-	1,630

CARRYING AMOUNT (n EUR million)

LIABILITIES	Held-for-trading (HFT) liabilities	Hedging derivatives	Financial liabilities at amortised cost	Total
Deposits from credit institutions	-	-	4,645	4,645
Deposits from others than credit institutions	-	-	4,512	4,512
Current accounts/demand deposits	-	-	3,132	3,132
Time deposits	-	-	1,372	1,372
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

CARRYING AMOUNT (n EUR million)
31/12/2012

LIABILITIES	Held-for-trading (HFT) liabilities	Hedging derivatives	Financial liabilities at amortised cost	Total
Deposits from credit institutions	-	-	2,257	2,257
Deposits from others than credit institutions	-	-	3,864	3,864
Current accounts/demand deposits	-	-	2,579	2,579
Time deposits	-	-	1,266	1,266
Other deposits	-	-	18	18
Debt certificates	-	-	377	377
Deposit certificates	-	-	0	0
Customer savings bonds	-	-	2	2
Debt certificates	-	-	118	118
Non-convertible bonds	-	-	3	3
Non-convertible subordinated liabilities	-	-	254	254
Financial derivatives	241	67	-	308
Short sales	15	-	-	15
Equity instruments	-	-	-	-
Debt instruments	15	-	-	15
Accrued interest	0	16	14	31
Total	256	83	6,511	6,850
Of which repos	-	-	1,118	1,118

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).

(n EUR million)	Carrying amount		Fair value	
	31/12/2011	31/12/2012	31/12/2011	31/12/2012
ASSETS				
Loans and advances to credit institutions	4,803	2,109	4,804	2,109
Loans and advances to others than credit institutions	988	1,200	988	1,200
Consumer credits	5	5	5	5
Mortgage loans	89	90	89	90
Term loans	673	754	673	754
Current accounts	139	134	139	134
Other	82	217	82	217
LIABILITIES				
Deposits from credit institutions	4,645	2,257	4,646	2,257
Deposits from others than credit institutions	4,512	3,864	4,512	3,863
Current accounts/demand deposits	3,132	2,579	3,132	2,579
Time deposits	1,372	1,266	1,372	1,265
Other deposits	9	18	9	18
Debt certificates	385	377	366	367
Deposit certificates	0	0	0	0
Customer savings bonds	3	2	3	2
Debt certificates	114	118	114	118
Non-convertible bonds	6	3	6	3
Non-convertible subordinated liabilities	262	254	243	244

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.

31/12/2011

(n 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 (excluding instruments at cost)	168	18	-	-	186
Debt instruments	1,878	753	-	41	2,673
Hedging derivatives	-	34	-	10	44
	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
	28	324	-	17	369

31/12/2012					
(n 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	0	-	-	1
Debt instruments held-for-trading	118	110	-	2	230
Derivatives held-for-trading	-	218	-	-	218
Instruments designated at fair value through profit or loss	0	15	-	0	15
Available-for-sale financial assets					
Equity instruments (excluding instruments at cost)	192	27	-	-	219
Debt instruments	2,507	263	-	48	2,819
Hedging derivatives	-	34	-	10	45
	2,818	667	-	61	3,546
LIABILITIES					
Financial liabilities at fair value through profit or loss					
Equity instruments held-for-trading	-	-	-	-	-
Debt instruments held-for-trading	14	1	-	0	15
Derivatives held-for-trading	-	241	-	-	241
Hedging derivatives	-	67	-	16	83
	14	308	-	17	339

LEVEL 3 FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

(In EUR million)	Financial instruments measured 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

(In EUR million)	Financial instruments measured at fair value through profit or loss	Available-for-sale financial assets	Total
Balance as at 01/01/2012	-	-	-
Total profit/loss for the year	1	-	1
- recognised in the income statement	1	-	1
- recognised in the other comprehensive income	-	-	-
Purchases	-	-	-
Sales	-1	-	-1
Transfers from/to level 3	-	-	-
Balance as at 31/12/2012	-	-	-
Total profit/loss for the year recognised in the income statement and relating to assets held as at 31/12/2012	-1	-	-1

TRANSFERS BETWEEN THE LEVEL 1 AND LEVEL 2 CATEGORIES

Transfers between the level 1 and level 2 categories which occur in 2012 and 2011 were not significant. Reasons for the transfers were mainly linked to evolution in the liquidity of the related instruments.

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
31/12/2011			
Unimpaired assets	3,335	5,797	9,133
Impaired assets	730	34	764
Impairment	-341	-32	-373
Total	3,724	5,799	9,523

(In EUR million)	Available-for-sale (AFS) financial assets	Loans and receivables (L&R)	Total
31/12/2012			
Unimpaired assets	3,231	3,310	6,541
Impaired assets	1,005	24	1,029
Impairment	-505	-21	-526
Total	3,730	3,313	7,044

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

(In EUR million)						
ASSETS	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
31/12/2011						
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
31/12/2012						
Less than or equal to 1 year	232	8	483	3,032	2	3,756
More than 1 but less than or equal to 5 years	162	7	1,521	179	33	1,902
More than 5 years	52	0	766	97	0	915
Indefinite period	1	-	912	-	-	912
Accrued interest	2	0	48	5	10	66
Total	449	15	3,730	3,313	45	7,552

In EUR million				
LIABILITIES	Held-for-trading (HFT) liabilities	Hedging derivatives	Liabilities at amortised cost	Total
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
31/12/2012				
Less than or equal to 1 year	168	3	6,132	6,303
More than 1 but less than or equal to 5 years	66	45	362	472
More than 5 years	22	20	3	44
Indefinite period	0	-	0	0
Accrued interest	0	16	14	31
Total	256	83	6,511	6,850

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. The securities are generally transferred under full ownership and the counterpart is thus able to re-use them in other operations.
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) 31/12/2011	Repo (**)	Securities lending		Other
	Debt instruments	Debt instruments	Equity instruments	Debt instruments
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

(In EUR million) 31/12/2012	Repo (**)	Securities lending		Other
	Debt instruments	Debt instruments	Equity instruments	Debt instruments
Held-for-trading financial assets	4	2	-	2
Available-for-sale financial assets	502	153	1	1,098
Loans and receivables	-	-	-	143
Total financial assets not derecognised	506	155	1	1,243
Other (*)	508	886	5	786
Total	1,014	1,041	6	2,029

(*) 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)	31/12/2011	31/12/2012
Reverse repurchase agreements	4,508	1,478
Collateral received for securities lending	563	973
Total	5,072	2,451
Of which, transferred to:		
Repurchase agreements	74	251
Securities lent	1	29
Collateral given for securities borrowing	633	779
Other	1,791	6
Total	2,499	1,066

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

CHANGES (In EUR million)	Debt instruments	Equity instruments
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

CHANGES (In EUR million)	Debt instruments	Equity instruments
Balance as at 01/01/2012	18	323
Changes affecting the income statement	12	183
Allowances	12	183
Reversals	0	-
Changes not affecting the income statement	-20	-12
Securities sold / matured	-20	-12
Other	-	1
Balance as at 31/12/2012	11	495

NOTE 20 – IMPAIRMENT OF LOANS AND RECEIVABLES

In EUR million	31/12/2011	31/12/2012
Total (balance sheet)	32	21
Breakdown by type	32	21
Specific impairments on loans and receivables	31	20
Collective impairment	1	1
Breakdown by counterparty	32	21
Loans and advances to banks	-	-
Loans and advances to customers	32	21

CHANGES In EUR million	Specific impairments on loans and receivables	Collective impairment	Total
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

CHANGES In EUR million	Specific impairments on loans and receivables	Collective impairment	Total
Balance as at 01/01/2012	31	1	32
Changes affecting the income statement	2	0	2
Allowances	2	0	2
Reversals	0	0	0
Changes not affecting the income statement	-13	-	-13
Use of provision	-13	-	-13
Other / Change impact	0	-	0
Balance as at 31/12/2012	20	1	21

NOTE 21 – DERIVATIVES

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

In EUR million	Held-for-trading			Fair-value micro-hedging		
31/12/2011	Fair value		Notional value	Fair value		Notional value
	Assets	Liabilities		Assets	Liabilities	
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	-	-	-

In EUR million	Held-for-trading			Fair-value micro-hedging		
31/12/2012	Fair value		Notional value	Fair value		Notional value
	Assets	Liabilities		Assets	Liabilities	
Total	218	241	25,999	45	83	1,083
Interest rate contracts	90	99	15,643	45	83	1,080
Options	0	0	31	0	-	1
Interest rate swaps	83	92	15,089	43	83	963
Futures	0	0	47	-	-	-
Other	7	7	476	2	0	116
Foreign exchange contracts	109	124	9,937	-	-	-
Foreign exchange forwards	109	124	9,852	-	-	-
Foreign exchange futures	0	0	74	-	-	-
Options	0	-	9	-	-	-
Other	0	0	3	-	-	-
Equity contracts	19	18	394	0	-	3
Equity futures	0	0	34	-	-	-
Equity options	2	2	40	-	-	-
Other	17	16	319	0	-	3
Commodities and other contracts	0	0	24	-	-	-

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)	31/12/2011	31/12/2012
Current tax assets	-	-
Deferred tax assets	81	24
Losses carried forward	64	65
Provisions	-22	-22
Available-for-sale financial instruments	22	-33
Other	16	14
Tax assets	81	24

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

CHANGES	Purchased portfolio of customers	Software developed in-house	Software purchased	Total
(In EUR million)				
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
Balance as at 01/01/2012	84	35	6	125
Acquisitions	-	6	-	6
Disposals	-	-	-	-
Depreciation	-	-27	-7	-34
Impairment	-	-	-	-
Allowances	-	-	-	-
Reversals	-	-	-	-
Other	-	-1	1	0
Balance as at 31/12/2012	84	12	0	97
Of which: cumulative amortisation and impairment	-	-35	-1	-36

NOTE 25 – PROPERTY AND EQUIPMENT AND INVESTMENT PROPERTIES

(In EUR million)		31/12/2011	31/12/2012
PROPERTY AND EQUIPMENT		101	95
INVESTMENT PROPERTIES	Net carrying value	13	4
	Fair value	22	8
Investment properties – Rental income		2	1

CHANGES (In EUR million)	Land and buildings	IT equipment	Other equipment	Total property and equipment	Investment properties
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

(In EUR million)	Land and buildings	IT equipment	Other equipment	Total property and equipment	Investment properties
Balance as at 01/01/2012	85	1	14	101	13
Acquisitions	1	0	0	2	0
Disposals	-	-	-	-	-8
Depreciation	-5	-1	-1	-7	0
Impairment	-	-	-	-	-
Allowances	-	-	-	-	-
Reversals	-	-	-	-	-
Other	0	-	0	0	0
Balance as at 31/12/2012	82	0	14	95	4
Of which: cumulative amortisation and impairment	-63	-2	-10	-75	-5

NOTE 26 – PROVISIONS

(In EUR million)	Specific impairment for credit commitments	Pending legal disputes	Operational losses	Other provisions	Total
Balance as at 01/01/2011	0	1	0	7	8
Changes affecting the income statement	0	1	0	-1	1
Allowances	0	1	1	1	3
Reversals	-	0	0	-2	-2
Other changes	0	0	-1	-2	-3
Balance as at 31/12/2011	0	1	0	4	6
(In EUR million)	Specific impairment for credit commitments	Pending legal disputes	Operational losses	Other provisions	Total
Balance as at 01/01/2012	0	1	0	4	6
Changes affecting the income statement	-	1	0	0	1
Allowances	-	1	0	0	1
Reversals	-	0	-	-	0
Other changes	0	2	0	-3	-1
Balance as at 31/12/2012	0	4	1	2	7

Specific impairment for credit commitments: provisions accounted for to cover risk on given guarantees, more precisely on credits for which the Bank acts as sub-participant.

Provisions for pending legal disputes: provisions recorded to cover legal disputes with private and professional counterparties, including lawyers' fees.

Operational losses: provisions to cover operational dysfunctions for which the responsibility is not determined at the closing date.

Other provisions: other provisions than the above-mentioned provisions, among which provisions to cover the expenses in relation with the closing down of the Polish branch and of another branch.

For most of the provisions recorded, no reasonable estimate can be made of when they will be used.

The main litigation cases are the following:

<u>Proceedings before the Belgian courts</u>

KBL *epb* with other defendants was summoned in 2008 by an English company ("BSL") to appear before the Belgian Court. The plaintiff, a former client of KBL *epb*, claims the payment of an astronomic amount of USD 300 million alleging that KBL *epb* participated in the embezzlement of a commission which the plaintiff claims was owed to him by a South African counterpart with whom he was involved in an international commercial transaction between 1986 and 1991.
BSL held a KBL *epb* account from 1990 to 1991. BSL alleges that by opening this account the Bank acted in collusion with the counterpart in order to mislead him.

The Court declined jurisdiction in respect of KBL *epb* and ordered the plaintiff to pay an indemnification of EUR 50.000 to KBL *epb* for frivolous and vexatious proceedings.
BSL appealed the judgment and the case will probably be heard before the court of appeal by the end of 2013.

<u>Madoff cases</u>

In December 2008, Bernard L. Madoff's massive Ponzi scheme was discovered. Bernard L. Madoff Investment Securities LLC ("BLMIS") and its "feeder funds" were put into liquidation.
The liquidator of BLMIS considers that certain investors in BLMIS knew or should have known that BLMIS was a fraud. He therefore claims back payments made by BLMIS to these investors (so called "claw-back actions").
As the liquidator started claw-back actions against the feeder funds, the liquidators of these funds have in their turn started similar actions against KBL *epb* and other defendants before the New York courts and the BVI courts.
The BVI courts rejected the claim against KBL *epb* and other defendants judging that they acted in good faith.
The liquidators appealed these decisions before a London court. As a consequence of these decisions the New York courts decided to stay all proceedings until a final decision has been taken in the BVI cases.

<u>Landsbanki</u>

The Landsbanki liquidators are suing KBL *epb* before the court of Reykjavik, claiming rescission of a payment of ISK 724.6 million (+/- EUR 2.9 million) made in the context of an interbank money deposit transaction, having taken place in 2008 a few days before the declaration of Landsbanki's insolvency.
In accordance with the Icelandic Bankruptcy Act, they claim annulment of this payment because it was made during the "suspect period" leading up to the bankruptcy of Landsbanki Islands hf.'s.
After the Icelandic court finally decided that they had jurisdiction, the main hearing will take place at the beginning of 2013.

As in these cases the risks are remote (in the Madoff case the investors and not KBL *epb* bear the risk of repayment) provisions have only be made for the legal costs.

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	31/12/2011	31/12/2012
(In EUR million)		
Defined benefit plan obligations		
Value of obligations as at 01/01	58	59
Current service cost	3	3
Interest cost	3	3
Plans amendments	-	-
Actuarial gains/(losses)	-1	5
Benefits paid	-3	-9
Other	-	-
Value of obligations as at 31/12	59	60
Fair value of plan assets		
Fair value of assets as at 01/01	45	42
Actual return on plan assets	-3	2
Employer contributions	3	3
Plan participants contributions	1	1
Benefits paid	-3	-8
Other	-	-
Fair value of assets as at 31/12	42	40
Of which: financial instruments issued by KBL *epb*	-	-
Breakdown of plan assets	100.00%	100.00%
Fixed income	71.40%	61.63%
Equities	8.30%	18.58%
Cash	19.80%	8.21%
Alternatives	0.50%	11.58%
Funded status		
Plan assets in excess of defined benefit obligations	-17	-21
Unrecognised net actuarial gains	12	16
Unrecognised past service costs	-	-
Unrecognised assets	-1	-1
Plan over-/(under-) funding	-6	-5

Changes relating to net liability		
Net liability as at 01/01	-6	-6
Net period cost in the income statement	-3	-4
Employer contributions	3	3
Pension payments by employer	0	1
Net liability as at 31/12	-6	-5

(In EUR million)	31/12/2011	31/12/2012
Amounts recognised in the income statement		
Current service cost	-3	-3
Interest cost	-3	-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	-4
Actual return on plan assets (in %)	-6.55%	5.04%

Principal actuarial assumptions used:

Defined benefit obligation
The rate used to discount the post-employment benefit obligations is determined by reference to market yields at the end of the reporting period on high-quality corporate bonds with similar maturities than the pension commitments.

Plan assets
The expected return on plan assets used is the overall long term return objective of the dedicated investment fund.

	31/12/2011	31/12/2012
Discount rate	4.10%	3.23%
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)	31/12/2008	31/12/2009	31/12/2010	31/12/2011	31/12/2012
Year-end amount of liability	56.1	58.5	58.3	58.9	60.4
Year-end fair value of assets	39.2	45.1	44.5	42.2	39.8
Plan assets in excess of obligations	-16.9	-13.4	-13.8	-16.7	-20.6
Plan excess/(under-) funding	-6.5	-6.1	-5.8	-5.5	-5.1

The estimate of the employer contribution payable to the defined benefit pension plan assets for 2013 is EUR 2.8 million.

Defined contribution plans (In EUR million)	31/12/2011	31/12/2012
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.

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 incorporation, 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 indebted for EUR 1.5 million to preference shareholders for 2010 and 2011, where no dividend has been paid-up and for 2012, 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).

Article 39 of the Bank's articles of incorporation specifies that the net liquidation profit, after the charges payment, will be used to firstly refund the non-voting preference shareholders. The remaining balance will be allocated on equal basis to ordinary shareholders.

As at 31 December 2012, the legal reserve is EUR 18.7 million (31 December 2011: 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 758.7 million (31 December 2011: EUR 752.5 million) and EUR 23.7 million (31 December 2011: EUR 29.9 million) respectively. The retained earnings amount to EUR 38.3 million (31 December 2011: EUR 67.6 million).

In number of shares	31/12/2011	31/12/2012
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 01/01/2012	18,186,877	1,949,711	20,136,588
Cancellation of shares bought back	-	-	-
Balance as at 31/12/2012	18,186,877	1,949,711	20,136,588

NOTE 30 – RESULT ALLOCATION PROPOSAL

At its meeting on 21 February 2013, the Board of Directors proposes to allocate the 2012 loss of EUR 305.8 million in deduction of the retained earnings.

On 20 March 2013, 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)	31/12/2011	31/12/2012
Confirmed credits, unused	916	865
Financial guarantees	38	26
Other commitments (securities issuance facilities, spot transaction settlement, etc.)	39	318
Total	993	1,209

NOTE 32 – ASSETS UNDER MANAGEMENT AND CUSTODY

Total assets under management related to clients in the private banking sector (including frozen and low yielding assets) as at 31 December 2012 amount to EUR 6.8 billion (2011: EUR 6.6 billion).

Total assets under custody (investment funds and institutionals) related to Global Investor Services clients as at 31 December 2012 amount EUR 38.6 billion (2011: EUR 39.9 billion).

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)	31/12/2011 KBL *epb* member of KBC Group	31/12/2012 KBL *epb* member of Precision Capital
Financial assets	1,798	1,266
of which financial assets with Precision Capital	-	-
with KBL epb Group	*1,364*	*1,266*
with Banque Internationale à Luxembourg	-	-
with KBC Group	*435*	-
Held-for-trading	138	25
At fair value through profit or loss	-	-
Available-for-sale financial assets	1,111	695
Loans and receivables	506	546
Hedging derivatives	44	-
Financial liabilities	3,151	1,720
of which financial liabilities with Precision Capital	-	*18*
with KBL epb Group	*2,906*	*1,702*
with Banque Internationale à Luxembourg	-	-
with KBC Group	*246*	-
Held-for-trading	52	5
At amortised cost	3,056	1,715
Hedging derivatives	44	-
Income statement	-107	-165
of which income statement with Precision Capital	-	-
with KBL epb Group	*-139*	*-165*
with Banque Internationale à Luxembourg	-	*0*
with KBC Group	*32*	-
Net interest income	14	-6
Dividends	40	24
Net fee and commission income	-6	-9
Other net income	1	1
Operating expenses	7	6
Impairment of financial assets not measured at fair value through profit or loss	-162	-181

WITH KEY MANAGEMENT PERSONNEL (In EUR million)	31/12/2011		31/12/2012	
	Amount	Number of persons	Amount	Number of persons
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	9	53	10	62
Credit facilities and guarantees granted	17	26	8	33
Loans outstanding	8	26	6	31
Guarantees outstanding	0	3	0	3
Pension commitments	21	26	20	40
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)	31/12/2011	31/12/2012
Regulatory capital	1,413	1,135
Tier 1 capital	1,193	892
Capital and reserves (including profit/loss carried forward)	1,347	1,318
Hybrid capital	-	-
Intangible assets	-125	-97
Treasury shares	-0	-0
Negative revaluation of AFS bonds (1)	-	-
Audited net loss	-29	-306
Deferred tax assets (2)	-	-24
Tier 2 capital	268	244
Preference shares	30	30
Positive revaluation of AFS shares	25	46
Subordinated liabilities	213	168
Deductions	-47	-1
Overall own funds requirements	289	281
Credit risk, counterparty risk, securitisation and incomplete transaction risk	255	245
Exchange risk	1	1
Position risk linked to debt securities trading	9	8
Position risk linked to equities	0	0
Settlement risk linked to trading securities	0	0
Operational risk	24	27
Solvency ratios		
Basic solvency ratio (Tier 1 ratio)	32.38%	25.40%
Solvency ratio (CAD ratio)	39.14%	32.33%

(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.

(2) At the request of the CSSF, deferred tax assets are deducted from Tier 1 capital from end 2012.

NOTE 35 – MAXIMUM CREDIT RISK EXPOSURE AND COLLATERAL RECEIVED TO MITIGATE THE RISK

Maximum credit risk exposure (In EUR million)	31/12/2011	31/12/2012
Assets	11,112	7,997
Balances with central banks	857	391
Financial assets	10,146	7,552
Held-for-trading	564	449
At fair value through profit or loss	15	15
Available-for-sale financial assets	3,724	3,730
Loans and receivables	5,799	3,313
Hedging derivatives	44	45
Tax assets	81	24
Other assets	28	30
Off-balance sheet items	993	1,209
Loans commitments	916	865
Financial guarantees	38	26
Other commitments (securities issuance facilities, spot transaction settlement, etc.)	39	318
Maximum credit risk exposure	12,106	9,207

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)	31/12/2011	31/12/2012
Equity	-	-
Debt instruments	278	218
Loans and advances	4,677	2,054
of which designated at fair value	-	-
Derivatives	249	167
Other (including loans commitments given, undrawn amount)	11	9
Collateral received to mitigate the maximum exposure to credit risk	5,214	2,448

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 towards Banque Internationale à Luxembourg and KBL *epb*'s subsidiaries. This exemption does not apply to Precision Capital. The exposures on related parties are disclosed in Note 33.

NOTE 36 – RISK MANAGEMENT

While the business lines (either front office, back office or support entities) retain the primary and main responsibility for managing their risks, the Risk Control department contributes at the second level to the overall management of the risks described below. Risks are generally monitored on a monthly basis, by dedicated risk committees. An exhaustive periodic review (6 times a year) of the risks of KBL *epb* group is carried out by the Executive Committee and by the Board Risk Committee (with 4 members of the Board of Directors as permanent members), which reports to the Board of Directors. These risks are also subject to a global evaluation through the ICAAP process.

a) 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 the 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 KBL *epb*, Client Risk Management has always existed, but was mainly focused on discretionary managed portfolios. The contracts signed with clients stipulate various investment limits (by type of instrument, region) which can increase the Bank's liability if the allocation is not respected.

In the client risk control process of KBL *epb*, Group Risk Control plays a second level control role: it advises, challenges and reports the controls carried out at the lower levels. Especially, it ensures that the allocation criteria are being met and that any overrun is justified or corrected (internal or contractual limit breaches), that 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.

This role was reinforced in 2012 by the formalisation of the functional link with the Risk entity in charge of the Asset Management controls at the first level.

In addition, during the financial crisis in late 2008 and 2009, many clients suffered unexpected losses linked to extreme market conditions or even frauds. 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:

- Risk Control 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 (concentration) 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 Bank'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 Control, 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 the customers are individually validated by the CAS, after detailed analysis conducted by Risk Control, 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 Control 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 Business Unit members as well as to the Group Internal Audit.

b) 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. The Operational Risk methodology adopted is the standardised method under Basel II/CRD. For 2012, the capital charge was EUR 27 million (average for 2010-2012).

The methodology is mainly based on the following pillars:

- The gathering and analysis of operational incidents in a database referred to as the "Loss Event Reporter", the challenging at local level of the entities responsible for these incidents and the set up of appropriate action plans, the drawing up of incident statistics by entity/activity/type of incident and comparison with gross income;

- The CORRS project (Common Operational Risk Rules System) aiming to centralize all operational risk rules for the KBL *epb* Group in a common tool. In 2012, the development of the rules applicable to the core business was finalized. A dedicated Group intranet site was developed allowing each member of the Group to assess its own compliance with the rules;

- The 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 the Internal Audit, this exercise has been successfully implemented for KBL *epb*;

- A specific examination of external or internal incidents through case studies. In 2012, 2 case studies were launched in KBL *epb*, leading to the implementation of action plans in many entities of KBL *epb* group in order to mitigate the risks.

Over the last two years, the process management team has been integrated into the OPR department in order to build synergies between them. The team has applied to some processes under review the Business Process Analysis methodology, comparing the existing process with the organisational/ operational principles.

The key principle applied within KBL *epb* is that Operational Risk Management 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 register incidents in the LER and monitor the compliance with procedures, the performance of self-assessments and compliance assessments based on Group standards / CORRS. At KBL *epb*, LORM is the department/division head, which affords better visibility and management of operational risks.

The OPR team in Luxembourg reports to the Executive Committee and to the Board Risk Committee.

Residual operational risk is covered by insurance policies. Since 1 January 2011, a new KBL *epb* group insurance programme has covered 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 damage claims for the whole Group.

c) Credit risk control

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

- private banking in the form of Lombard and mortgage loans;
- positions in ALM portfolios and liquidity portfolios;
- bond portfolio/international credit, in the form of liquid FRN and SAS, of which a few niches developed in the past being in gradual run-off since late 2008;
- uncommitted lines covering the trading activity and counterparty exposures with banks (forex, money markets, swaps, reverse repo, securities lending, derivatives, etc.);
- granting of uncommitted lines to GIS clients in Luxembourg (mainly UCI) to cover temporary overdrafts.

Since 2009, the 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. The credit portfolio report provides a detailed picture of the activity and credit risk.

At a regulatory level, KBL *epb* uses 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.

Credit risk concentration limits have been defined for sovereign issues for banks and for corporate issuers.

c.1) Credit allocation decision making

In Luxembourg, all lending/investment 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 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.

As a matter of principle, each new credit proposal submitted to the Credit Committee/Executive Committee is accompanied by an opinion issued by the Credit Risk Control, based on an analysis of the financial situation and creditworthiness of the borrower and of the structure of collateral.

At inception, internal processes ensure the identification of related counterparties, in order to monitor concentration risk on debtors/group of debtors. Group structures are moreover permanently updated by the Credit Risk Control.

c.2) Breakdown of credit risk exposures

Lending to private clients (mainly Lombard loans) and to investment funds, alongside the Bank's core activities has remained a pillar of the business. Risk in this activity is largely mitigated by a strong collateral policy, implying limited unsecured exposures. Part of the credit risk exposure is linked to bond investments, the ALM portfolios and some international credits. Loan portfolios linked to structured products that were developed before the crisis were stopped in 2009 and the securitisation portfolio has been in run-off mode since. All PIIGS exposures in the securitisation portfolio have been sold in the third quarter of 2012.

The distribution of the credit risk exposures (available-for-sale (AFS) financial assets and Loans and receivables (L&R)) by products and by ratings is as follows:

By products

(In EUR million) AFS 31/12/2011	Amortised cost (before impairment)			Fair value (after impairment)		
	NPL/Impaired	Standard	Total	NPL/Impaired	Standard	Total
Bank bonds	10.0	256.8	266.8	7.2	251.9	259.1
Corporate bonds	26.0	560.3	586.3	14.6	588.1	602.8
Asset-backed securities	3.8	596.4	600.1	1.6	499.5	501.1
Government bonds	3.3	1,252.6	1,255.9	1.2	1,308.4	1,309.6
Sub-total	43.1	2,666.0	2,709.1	24.6	2,648.0	2,672.6
Equity instruments, funds…						1,051.8
TOTAL						3,724.4

(In EUR million) AFS 31/12/2012	Amortised cost (before impairment)			Fair value (after impairment)		
	NPL/Impaired	Standard	Total	NPL/Impaired	Standard	Total
Bank bonds	-	264.8	264.8	-	270.7	270.7
Corporate bonds	20.5	642.7	663.3	11.0	695.9	706.8
Asset-backed securities	-	208.2	208.2	-	210.3	210.3
Government bonds	1.9	1,529.6	1,531.4	0.7	1,630.2	1,630.8
Sub-total	22.4	2,645.2	2,667.6	11.6	2,807.1	2,818.7
Equity instruments, funds…						911.8
TOTAL						3,730.5

(In EUR million) Loans and receivables 31/12/2011	NPL/Impaired	Standard	Total
Banks and other financial institutions	-	4,879.8	4,879.8
Customers	1.3	405.6	406.9
Sub-total	1.3	5,285.4	5,286.7
Other L&R and Intercompanies	1.2	510.9	512.1
TOTAL	2.5	5,796.2	5,798.7

(In EUR million) Loans and receivables 31/12/2012	NPL/Impaired	Standard	Total
Banks and other financial institutions	-	2,221.0	2,221.0
Customers	2.7	486.6	489.2
Sub-total	2.7	2,707.6	2,710.3
Other L&R and Intercompanies	1.2	602.0	603.1
TOTAL	3.8	3,309.6	3,313.4

By rating [(1)]

(In EUR million)	AFS			L&R-Banks			
Rating 31/12/2011	NPL / Impaired	Standard	Total	Other L&R	Reverse Repo	Commercial Paper	Total
AAA	-	1,237.1	1,237.1	0.2	-	-	0.2
AA+	-	41.9	41.9	4.2	-	-	4.2
AA	-	283.0	283.0	87.6	-	-	87.6
AA-	-	163.5	163.5	144.4	747.3	-	891.7
A+	-	116.6	116.6	85.2	2,134.1	-	2,219.3
A	-	194.8	194.8	75.0	317.6	-	392.6
A-	-	187.9	187.9	18.1	944.1	-	962.2
BBB+	-	150.7	150.7	9.0	233.9	-	242.9
BBB	1.8	127.8	129.6	21.0	-	-	21.0
BBB-	-	52.9	52.9	-	-	-	-
BB+	-	47.1	47.1	-	-	-	-
BB	7.2	7.3	14.4	0.6	-	-	0.6
BB-	-	2.8	2.8	-	-	-	-
B+	-	4.2	4.2	0.0	-	-	0.0
B	0.7	3.7	4.3	-	-	-	-
B-	-	0.2	0.2	-	-	-	-
CCC	1.6	-	1.6	-	-	-	-
CC	0.5	-	0.5	-	-	-	-
D	-	-	-	-	-	-	-
Not rated	12.8	26.5	39.3	57.5	-	-	57.5
Total	24.6	2,648.0	2,672.6	502.8	4,377.0	-	4,879.8

(In EUR million)	AFS			L&R-Banks			
Rating 31/12/2012	NPL / Impaired	Standard	Total	Other L&R	Reverse Repo	Commercial Paper	Total
AAA	-	847.5	847.5	0.1	-	-	0.1
AA+	-	413.7	413.7	-	-	-	-
AA	-	149.7	149.7	59.4	-	10.0	69.3
AA-	-	173.2	173.2	29.8	-	-	29.8
A+	-	104.7	104.7	88.4	191.5	44.8	324.7
A	-	170.7	170.7	80.6	1,106.1	99.6	1,286.3
A-	-	190.5	190.5	78.4	75.1	19.9	173.5
BBB+	-	224.4	224.4	10.2	67.6	43.5	121.3
BBB	1.6	341.9	343.5	9.7	-	-	9.7
BBB-	-	127.2	127.2	-	-	-	-
BB+	-	23.3	23.3	0.2	-	-	0.2
BB	-	11.8	11.8	0.1	-	-	0.1
BB-	-	3.0	3.0	0.6	-	-	0.6
B+	-	0.2	0.2	-	-	-	-
B	-	-	-	-	-	-	-
B-	-	0.2	0.2	-	-	-	-
CCC	-	-	-	-	-	-	-
CC	0.7	-	0.7	-	-	-	-
D	-	-	-	-	-	-	-
Not rated	9.3	25.1	34.5	28.5	177.0	-	205.5
Total	11.6	2,807.1	2,818.7	385.8	1,617.3	217.8	2,221.0

(1) The rating information is not available as such for Loans and receivable to customers.

Government bonds by country

(In EUR million)	Available-for-sale financial assets					Held-for-trading assets	
31/12/2011	Nominal	Carrying amount	Available-for-sale reserve	Impairment	Related hedging derivatives	Nominal	Carrying amount
Austria	32	34	1	-	-	0	0
maturing in 2012	-	-	-	-	-	0	0
maturing in 2013 or 2014	-	-	-	-	-	0	0
maturing in 2017 and later	32	34	1	-	-	-	-
Belgium	267	269	-3	-	-4	-	-
maturing in 2012	170	172	1	-	-0	-	-
maturing in 2013 or 2014	47	48	0	-	-	-	-
maturing in 2015 or 2016	50	50	-4	-	-4	-	-
maturing in 2017 and later	-	-	-	-	-	-	-
Cyprus	10	10	0	-	0	-	-
maturing in 2012	10	10	-0	-	-0	-	-
France	175	183	3	-	-	-	-
maturing in 2012	40	42	0	-	-	-	-
maturing in 2013 or 2014	93	97	1	-	-	-	-
maturing in 2015 or 2016	20	21	1	-	-	-	-
maturing in 2017 and later	22	24	1	-	-	-	-
Germany	47	52	2	-	-	-	-
maturing in 2013 or 2014	9	10	0	-	-	-	-
maturing in 2015 or 2016	15	16	1	-	-	-	-
maturing in 2017 and later	23	26	1	-	-	-	-
Greece	1	1	-	-1	-	0	0
maturing in 2012	1	1	0	-1	-	-	-
maturing in 2013 or 2014	-	-	-	-	-	0	0
Italy	5	4	0	-	-	-	-
maturing in 2012	0	0	0	-	-	-	-
maturing in 2013 or 2014	4	4	-0	-	-	-	-
Luxembourg	94	101	3	-	-4	3	3
maturing in 2012	-	-	-	-	-	-	-
maturing in 2013 or 2014	44	46	2	-	-	2	2
maturing in 2015 or 2016	-	-	-	-	-	-	-
maturing in 2017 and later	50	55	1	-	-4	1	1

The Netherlands	101	106	4	-	-	-	-
maturing in 2012	44	45	0	-	-	-	-
maturing in 2013 or 2014	20	21	1	-	-	-	-
maturing in 2015 or 2016	28	30	2	-	-	-	-
maturing in 2017 and later	9	10	1	-	-	-	-
Spain	94	94	-1	-	-1	-	-
maturing in 2012	50	50	-2	-	-1	-	-
maturing in 2013 or 2014	21	22	0	-	-	-	-
maturing in 2015 or 2016	23	23	0	-	-	-	-
Sweden	21	22	1	-	-	-	-
maturing in 2012	-	-	-	-	-	-	-
maturing in 2013 or 2014	21	22	1	-	-	-	-
Supranational	114	118	0	-	-3	10	10
maturing in 2012	-	-	-	-	-	-	-
maturing in 2013 or 2014	4	4	0	-	-	0	0
maturing in 2015 or 2016	60	62	2	-	-	2	2
maturing in 2017 and later	50	52	-1	-	-3	8	8
Rest	24	23	4	-1	0	1	0
maturing in 2012	5	5	0	-	-	0	0
maturing in 2013 or 2014	-	-	-	-	-	0	0
maturing in 2015 or 2016	-	-	-	-	-	0	0
maturing in 2017 and later	19	18	4	-0	-	1	0
Total	986	1,018	14	-2	-12	14	14

In EUR million	Available-for-sale financial assets					Held-for-trading assets	
31/12/2012	Nominal	Carrying amount	Available-for-sale reserve	Impairment	Related hedging derivatives	Nominal	Carrying amount
Austria	66	76	5	-	-	0	0
maturing in 2016 or 2017	15	17	1	-	-	-	-
maturing in 2018 and later	50	59	3	-	-	0	0
Belgium	215	236	4	-	-5	-	-
maturing in 2014 or 2015	114	121	2	-	-	-	-
maturing in 2016 or 2017	80	92	1	-	-5	-	-
maturing in 2018 and later	21	23	1	-	-	-	-
Czech Republic	5	6	0	-	-	-	-
maturing in 2018 and later	5	6	0	-	-	-	-
Finland	-	-	-	-	-	0	0
maturing in 2018 and later				-	-	0	0
France	165	176	6	-	-	-	-
maturing in 2013	87	89	1	-	-	-	-
maturing in 2014 or 2015	36	39	2	-	-	-	-
maturing in 2016 or 2017	22	26	3	-	-	-	-
maturing in 2018 and later	20	23	1	-	-	-	-
Germany	49	55	3	-	-	0	0
maturing in 2014 or 2015	20	22	1	-	-	-	-
maturing in 2016 or 2017	28	32	3	-	-	-	-
maturing in 2018 and later	1	1	0	-	-	0	0
Ireland	71	74	-0	-	-	-	-
maturing in 2014 or 2015	24	25	-0	-	-	-	-
maturing in 2016 or 2017	15	16	-0	-	-	-	-
maturing in 2018 and later	31	33	0	-	-	-	-
Italy	106	108	1	-	-	0	0
maturing in 2013	32	32	0	-	-	-	-
maturing in 2014 or 2015	21	20	0	-	-	-	-
maturing in 2016 or 2017	23	23	0	-	-	0	0
maturing in 2018 and later	31	32	0	-	-	-	-
Lithuania	4	5	0	-	-	0	0
maturing in 2016 or 2017	-	-	-	-	-	0	0
maturing in 2018 and later	4	5	0	-	-	-	-

Luxembourg	94	104	2	-	-7	1	1
maturing in 2013	44	45	1	-	-	1	1
maturing in 2018 and later	50	58	1	-	-7	0	0
The Netherlands	57	60	3	-	-	0	0
maturing in 2013	20	20	0	-	-	-	-
maturing in 2014 or 2015	28	30	2	-	-	-	-
maturing in 2016 or 2017	9	10	1	-	-	-	-
maturing in 2018 and later	-	-	-	-	-	0	0
Poland	5	7	-0	-	-	1	1
maturing in 2018 and later	5	7	-0	-	-	1	1
Slovakia	17	18	0	-	-0	-	-
maturing in 2014 or 2015	10	10	-0	-	-	-	-
maturing in 2016 or 2017	7	8	0	-	-0	-	-
Slovenia	21	21	-0	-	-	-	-
maturing in 2014 or 2015	9	9	-0	-	-	-	-
maturing in 2018 and later	12	12	0	-	-	-	-
Spain	17	17	0	-	-	-	-
maturing in 2013	17	17	0	-	-	-	-
Sweden	21	22	1	-	-	-	-
maturing in 2014 or 2015	21	22	1	-	-	-	-
Supranational	195	209	6	-	-5	6	7
maturing in 2013	0	0	0	-	-	-	-
maturing in 2014 or 2015	47	48	0	-	-	2	2
maturing in 2016 or 2017	105	113	5	-	-2	2	2
maturing in 2018 and later	42	47	1	-	-4	3	3
Rest	63	72	5	-1	-	7	7
maturing in 2013	-	-	-	-	-	1	1
maturing in 2014 or 2015	-	-	-	-	-	3	3
maturing in 2016 or 2017	-	-	-	-	-	0	1
maturing in 2018 and later	63	72	5	-1	-	3	3
Total	1,171	1,266	37	-1	-18	16	16

c.3) Monitoring of credit risk

In terms of the day-to-day monitoring of lending transactions, the loan administration systems automatically monitor the loans and guarantees schedule, which allows any overrun to be detected and the appropriate corrective action to be taken swiftly.

Group 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 their 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. The sectoral concentration of the Bank's risks and the concentration by debtor are monitored at least annually.

c.4) Specific loan impairment

The valuation of potential losses and the adjustment of specific impairment 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.

Below are listed specific impairment established in respect of the non performing loans and available-for-sale financial assets (debts instruments) as at 31 December 2012 and 2011:

(In EUR million) 31/12/2011	< 30 days	30-60 days	60-90 days	90-180 days	6-12 months	>12 months	other impaired [1]	TOTAL
AFS gross	-	-	-	-	-	-	43.1	43.1
Impairment	-	-	-	-	-	-	18.5	18.5
AFS net	-	-	-	-	-	-	24.6	24.6
Non performing L&R gross	1.3	0.1	2.8	0.1	-	31.0	-	35.5
Impairment	-	-	2.4	0.1	-	28.6	-	31.1
Non performing L&R net	1.3	0.1	0.4	-	-	2.5	-	4.4
Total gross	1.3	0.1	2.8	0.1	-	31.0	43.1	78.6
Impairment	-	-	2.4	0.1	-	28.6	18.5	49.6
Total net	1.3	0.1	0.4	-	-	2.5	24.6	29.0

(In EUR million) 31/12/2012	< 30 days	30-60 days	60-90 days	90-180 days	6-12 months	>12 months	other impaired [1]	TOTAL
AFS gross	-	-	-	-	-	-	22.4	22.4
Impairment	-	-	-	-	-	-	10.8	10.8
AFS net	-	-	-	-	-	-	11.6	11.6
Non performing L&R gross	2.3	0.1	1.5	2.2	-	21.6	-	27.6
Impairment	-	-	-	0.9	-	19.0	-	19.9
Non performing L&R net	2.3	0.1	1.5	1.3	-	2.5	-	7.7
Total gross	2.3	0.1	1.5	2.2	-	21.6	22.4	50.0
Impairment	-	-	-	0.9	-	19.0	10.8	30.7
Total net	2.3	0.1	1.5	1.3	-	2.5	11.6	19.3

[1] The related assets are impaired but not because of delays in payments.

In 2011, the Bank decided to write off a large part of its outstanding debts in structured products (investments in Capital Notes), impaired up to 100%, given the remote possibility of recovery.

In 2012, the Bank proceeded with new write-offs on loans exposures. The impairment on 4 debt instruments has been partially used during 2012 following the sale of the positions.

The loan/loss ration is as follows:

Loan/Loss ratio (*)	2011	2012
L&R from customers	71 bps	40 bps
AFS financial assets	8 bps	44 bps

(*) The loan/loss ratio is defined as the net variation of specific and general impairment on the average loan portfolio over the year.

c.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 Goup Credit Risk Control. The department 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 and has been operational since 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 Large Exposures regulation. Group Credit Risk Control has also developed its own tools for analysing bank counterparts.

The interbank limits system ensures that the limits of the concentration risk the Bank has defined, by counterparty and by group of counterparties, are respected at any level.

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 located in close proximity to CRC. At the beginning of 2012, the Executive Committee updated the specific guidelines regarding acceptable collateral with new rules on concentration by counterparties and by securities accepted as collateral, as well as risk correlation limits (correlation between the counterparty and the collateral). The respect of these rules is monitored on a daily basis by the Group 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 the middle office using GEM. Exception reports are sent to the Trading Room management on a daily basis for justification and ratification, and to the Risk Control manager. All overruns are reported to the members of the KBL *epb* Executive Committee.

c.6) Country Risk Management

As for interbank limits, Credit Risk Control has developed a new framework for the definition and monitoring of country limits, which has been operational since 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.

In order to monitor the geographical concentration, regional limits have also been defined.

Lines are allocated to the Bank for credit activities and trading room activities as and when required. As for counterparty risk, the middle office is responsible for independent monitoring, on a daily basis, of the respect of the country limits.

The breakdown of available-for-sale financial assets and Loans and receivables per countries is as follows:

(In EUR million)	AFS			L&R-Banks				L&R-Customers
Country 31/12/2011	NPL/ Impaired	Standard	Total	Other L&R	Reverse repo	Com. Paper	Total	Total
Belgium	-	521.5	521.5	18.5	-	-	18.5	98.1
France	14.6	387.8	402.4	41.1	1,526.6	-	1,567.7	12.4
Supranational	-	368.4	368.4	-	-	-	-	-
Spain	-	251.3	251.3	2.5	578.6	-	581.1	50.9
The Netherlands	-	196.4	196.4	1.6	267.3	-	269.0	2.0
United States of America	1.6	175.7	177.3	90.2	-	-	90.2	-
Italy	-	173.7	173.7	14.6	314.8	-	329.4	-
Germany	-	111.2	111.2	1.9	103.6	-	105.5	2.2
Luxembourg	-	109.9	109.9	60.8	821.3	-	882.1	237.6
United Kingdom	-	74.0	74.0	112.9	759.5	-	872.4	0.0
Portugal	-	57.0	57.0	-	-	-	-	-
Sweden	-	49.3	49.3	5.8	-	-	5.8	-
Austria	-	37.7	37.7	2.4	-	-	2.4	-
Greece	0.5	27.3	27.8	-	-	-	-	-
Switzerland	-	18.1	18.1	68.2	5.3	-	73.5	0.8
Russia	-	17.2	17.2	-	-	-	-	-
Denmark	-	16.3	16.3	6.7	-	-	6.7	-
Australia	-	12.7	12.7	3.1	-	-	3.1	-
Cyprus	-	10.4	10.4	-	-	-	-	-
Finland	-	7.9	7.9	-	-	-	-	-
Slovenia	7.2	-	7.2	-	-	-	-	-
Norway	-	5.9	5.9	7.1	-	-	7.1	-
Brazil	-	5.4	5.4	1.8	-	-	1.8	-
Korea	-	4.9	4.9	-	-	-	-	-

Indonesia	-	3.7	3.7	1.1	-	-	1.1	-
Singapore	-	2.2	2.2	5.2	-	-	5.2	-
Qatar	-	1.6	1.6	-	-	-	-	-
Ireland	-	0.8	0.8	-	-	-	-	0.3
Argentina	0.7	0.0	0.7	-	-	-	-	-
Czech Republic	-	-	-	14.5	-	-	14.5	-
Japan	-	-	-	12.4	-	-	12.4	-
Poland	-	-	-	7.6	-	-	7.6	0.1
Other	-	-	-	7.2	-	-	7.2	-
Taiwan	-	-	-	4.5	-	-	4.5	-
Canada	-	-	-	3.7	-	-	3.7	-
Turkey	-	-	-	2.6	-	-	2.6	-
Iceland	-	-	-	1.7	-	-	1.7	-
China	-	-	-	1.6	-	-	1.6	-
New Zealand	-	-	-	1.5	-	-	1.5	-
Panama	-	-	-	-	-	-	-	2.2
Belize	-	-	-	-	-	-	-	0.2
Monaco	-	-	-	-	-	-	-	0.1
Total	24.6	2,648.0	2,672.6	502.8	4,377.0	-	4,879.8	406.9

In EUR million	AFS			L&R-Banks				L&R-Customers
Country 31/12/2012	NPL/ Impaired	Standard	Total	Other L&R	Reverse repo	Com. Paper	Total	Total
Supranational	-	520.6	520.6	-	-	-	-	-
France	11.0	467.4	478.4	25.0	646.6	35.8	707.4	17.5
Belgium	-	407.5	407.5	74.9	-	10.0	84.9	59.4
Italy	-	225.3	225.3	3.5	-	8.7	12.2	-
The Netherlands	-	138.9	138.9	0.2	-	29.9	30.1	2.0
United States of America	-	133.8	133.8	16.0	-	-	16.0	-
Germany	-	122.5	122.5	11.5	177.0	19.9	208.4	1.9
Luxembourg	-	112.4	112.4	64.5	-	-	64.5	275.5
Austria	-	86.5	86.5	1.5	-	9.9	11.4	-
Spain	-	86.1	86.1	2.0	-	14.9	16.9	61.6
United Kingdom	-	80.7	80.7	87.2	793.8	58.8	939.7	0.1
Ireland	-	76.4	76.4	-	-	-	-	-

Sweden	-	47.1	47.1	0.4	-	-	0.4	-
Russia	-	32.3	32.3	-	-	-	-	-
Switzerland	-	30.1	30.1	42.3	-	-	42.3	10.7
Denmark	-	24.7	24.7	6.3	-	19.9	26.2	-
Slovenia	-	21.3	21.3	-	-	-	-	-
Slovakia	-	18.6	18.6	-	-	-	-	-
United Arab Emirates	-	16.6	16.6	0.1	-	10.0	10.1	-
Norway	-	14.4	14.4	0.8	-	-	0.8	-
Qatar	-	12.0	12.0	0.2	-	-	0.2	-
Finland	-	11.6	11.6	2.8	-	-	2.8	-
Czech Republic	-	10.8	10.8	1.9	-	-	1.9	-
Panama	-	10.3	10.3	-	-	-	-	-
Canada	-	10.2	10.2	6.0	-	-	6.0	-
Poland	-	10.1	10.1	3.8	-	-	3.8	-
Australia	-	8.9	8.9	1.1	-	-	1.1	-
Croatia	-	8.8	8.8	-	-	-	-	-
Hong Kong	-	7.6	7.6	2.0	-	-	2.0	-
New Zealand	-	6.5	6.5	2.0	-	-	2.0	0.3
Brazil	-	6.5	6.5	7.1	-	-	7.1	-
Portugal	-	5.1	5.1	0.6	-	-	0.6	1.5
Lithuania	-	5.0	5.0	-	-	-	-	-
South Korea	-	5.0	5.0	-	-	-	-	-
South Africa	-	4.6	4.6	0.3	-	-	0.3	-
Israel	-	4.5	4.5	0.4	-	-	0.4	-
India	-	4.2	4.2	-	-	-	-	-
Japan	-	3.8	3.8	-	-	-	-	-
Mexico	-	3.5	3.5	5.6	-	-	5.6	-
Chile	-	2.6	2.6	-	-	-	-	-
China	-	2.4	2.4	0.6	-	-	0.6	-
Argentina	0.7	-	0.7	0.4	-	-	0.4	-
Singapore	-	-	-	4.7	-	-	4.7	-
Turkey	-	-	-	2.7	-	-	2.7	-
Taiwan	-	-	-	2.5	-	-	2.5	-
Iceland	-	-	-	1.8	-	-	1.8	-

Other	-	-	-	0.7	-	-	0.7	-
Palestine	-	-	-	0.6	-	-	0.6	-
Indonesia	-	-	-	0.5	-	-	0.5	-
Nigeria	-	-	-	0.3	-	-	0.3	-
Estonia	-	-	-	0.3	-	-	0.3	-
Philippines	-	-	-	0.2	-	-	0.2	-
Hungary	-	-	-	0.1	-	-	0.1	-
Oman	-	-	-	0.1	-	-	0.1	-
Thailand	-	-	-	0.1	-	-	0.1	-
Egypt	-	-	-	0.1	-	-	0.1	-
Colombia	-	-	-	-	-	-	-	-
Pakistan	-	-	-	-	-	-	-	-
Kenya	-	-	-	-	-	-	-	-
Kuwait	-	-	-	-	-	-	-	-
Greece	-	-	-	-	-	-	-	2.1
Peru	-	-	-	-	-	-	-	-
Bahamas	-	-	-	-	-	-	-	-
Ghana	-	-	-	-	-	-	-	-
Cayman Islands	-	-	-	-	-	-	-	-
British Virgin Islands	-	-	-	-	-	-	-	56.4
Belize	-	-	-	-	-	-	-	0.2
Venezuela	-	-	-	-	-	-	-	-
Total	11.6	2,807.1	2,818.7	385.8	1,617.3	217.8	2,221.0	489.2

a) Market risk management: Trading risk

KBL *epb* being mainly Private Banking oriented, its trading risk-taking activity aims to support the core business activities. The trading positions reflect the necessary intermediation of the Dealing Room, in Luxembourg, supporting client flows in terms of debt instruments, equity intruments, structured products, forex and deposits. Most of the instruments used by the Dealing Room are plain vanilla.

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), price volatility 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).

Before 1 August 2012, the measurement of exposure and the limit framework were based on the methodology of KBC Group:

- 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.

Following KBC divestment, KBL *epb* regained its autonomy in terms of calculation and monitoring of trading risks. Therefore, the system of measures and limits globally in place before integration into KBC Group was reactivated, consisting in:

- nominal amounts for the activities subject to currency risk (Forex) and to price volatility risk (Equity, Structured Products, Special Bonds);
- limits in global BPV at 10 bps for activities subject to interest rate risk (Treasury and Bonds);

These new primary limits are supplemented by a structure of secondary limits allowing a more detailed analysis of the Trading risks. Those secondary limits consist in concentration limits by currency and by time bucket as well as in limits by issue and issuer on their rating or on their market liquidity.

In this way, the Executive Committee has formalized a new set of trading limits ensuring an identical level of risks (versus the former limits) for all Dealing Room activities, with an exception for Structured Products where the primary nominal limit was doubled. This new set of limits and systems became effective just after the closing of the sale on 1 August 2012.

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* Group Board of Risk Commitee.

As at 31 December 2012, the use of limits in the Trading activities are as follows (sensitivity indicator for Treasury and Bonds activity and nominal limits for the other activities) :

Trading Activities over 2012 (In EUR million)	Since 1 August 2012 limit in BPV 10 bps [1]	Estimated outstanding 31/12/2011	Maximum [2] observed in 2012	Average [3] observed in 2012	Outstanding 31/12/2012
Treasury Activity	2.50	0.27	1.01	0.61	0.59
Bonds Activity	0.80	0.31	0.41	0.23	0.18

[1] BPV 10 bps outstanding corresponds to the sum in absolute value of the BPV 10 bps in each currency
[2] and [3] Period from 1 August to 31 December 2012 for Treasury and Bond activities

	Since 1 August 2012 limit in BPV 10 bps [1]	Estimated outstanding 31/12/2011	Maximum [3] observed in 2012	Average [4] observed in 2012	Outstanding 31/12/2012
Forex	20.00	3.94	12.35	4.23	4.40
Equity	8.00	0.08	1.33	0.38	0.21
Bond Special [5]	20.00	9.64	17.88	12.84	12.69
Structured Product	80.00	19.69	57.85	34.70	54.19

[3] and [4] Period from 1 August to 31 December 2012 for Forex and equity, over the year 2012 for Bond Special and Structured Product
[5] Bond Special activity: constant maturity swap notes (CMS) and steepeners

Over the year 2012 (since 1 August 2012 for Treasury, Bonds, Forex, Equity activities that were previously in HVaR), oustandings in each activity remained well below the limit authorised as expressed by the maximum outstanding observed.

For the activities formely monitored through HVaR, no overrun was seen during the period from 1 January to 31 July 2012. The global HVaR limit was fixed at EUR 7.93 million and the maximum outstanding observed amounted to EUR 3.71 million, with an average of EUR 1.89 million over the period.

e) Market risk management: ALM

The traditional activity of a private bank entails little ALM risk compared to a retail bank: most of the client assets are reported as an off-balance sheet item in the form of securities deposits. Most short-term client deposits offer variable rates depending on the money market rates. The same applies to Lombard/mortgage loans to customers. When fixed rates are granted for loans, hedging swaps are contracted.

Once KBL *epb* was excluded from KBC's ALM governance in the context of the divestment process, the KBL *epb* Executive Committee took over the direct responsibility for the ALM of KBL *epb* through a monthly ALM Committee (ALCO). This Committee, which was created in December 2010, is an extended Executive Committee dedicated to financial risks (market, credit and liquidity risk in addition to balance sheet and capital management).

While the ALM methodology applied before the closing was limited to the reinvestment of the Bank's free capital and of the clients fixed rate deposits (current accounts, savings accounts) into dedicated portfolios, the ALCO decided to further optimize the ALM activity after the closing:

- a new ALM Function was created on 1 January 2013, in charge of the supervision of the balance sheet management, aiming to reinforce the ALM governance and strategy at KBL *epb* group level;
- new ALM portfolios were set up in order to reinvest the excess liquidity in a context of low remunerating replacement alternatives (deposits with the Central Bank, reverse repos).

As a consequence, KBL *epb* holds the following ALM portfolios, in addition to some limited remaining 'historic' portfolios with bonds that will come to maturity in the next few years:

- the reinvestment of free capital: 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 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;
- bonds portfolios set up in the context of the new ALM governance:
    - a short term (maturity of maximum 1 year) treasury portfolio invested into commercial papers;
    - a medium term (up to 4 years) bond portfolio mainly invested in corporate bonds, hedged against interest rate risks for maturities beyond 2 years;
    - a portfolio set up according to a risk/return optimization approach by asset class, respecting minimum liquidity eligibility criteria, mainly invested in sovereign and corporate bonds, financed by deposits in congruent currency (mainly in EUR).

The interest rate ALM limit is currently defined at KBL *epb* group level only. It is a 100 bpv (basis point value) limit corresponding to 90% of half of the regulatory 200 bpv limit (i.e. 20% of eligible own funds) for all banking book positions. The 100 bpv sensitivity at Group level amounted to EUR 54 million as at 31 December 2012 (31 December 2011: EUR 26 million) for a limit of EUR 70 million for 2012 and 2011.

While the concentration risk in the ALM bond portfolio is monitored through limits described in section c) (Credit Risk Control), concentrations in the equity portfolio are calculated monthly by economic and geographical sector.

ALM positions are reported monthly to the KBL *epb* ALCO and to each meeting of the Board Risk Committee.

A new set of ALM limits will be proposed to reflect the risk appetite of the new Board of Directors (possible split per entity or ALM strategy), and will be monitored through the new ALM risk measurement tools recently developed by KBL *epb* after the closing.

The sensitivity of the economic value of the balance sheet to interest rates (impact of a parallel increase by 1% of the interest risk curve) is as follows:

(In EUR million) 100 bpv as at 31/12/2011	Less than 3 months (incl. accrued interests)	Between 3 months and 1 year	Between 1 year and 3 years	Between 3 years and 5 years	More than 5 years	Total 100 bpv	Carrying amount
Financial assets	-12	-11	-14	-18	-26	-81	10,146
Held-for-trading	-1	-7	-1	0	0	-9	560
Designated at fair value through profit or loss	0	-	0	-	-	0	15
Available-for-sale financial assets	-1	-1	-12	-17	-24	-56	3,683
Loans and receivables	-1	-2	-1	0	-2	-6	5,791
Hedging derivatives	-9	0	0	0	0	-10	34
Accruals	-	-	-	-	-	-	63
Financial liabilities	14	34	7	14	5	73	9,159
Held-for-trading	3	9	1	0	0	14	295
Measured at amortised cost (excluding deposits from CB)	3	3	6	5	5	22	8,508
Subordinated liabilities	0	0	0	9	0	9	262
Hedging derivatives	7	21	0	0	-	29	57
Accruals	-	-	-	-	-	-	36
Gap	2	23	-7	-4	-21	-8	

(In EUR million) 100 bpv as at 31/12/2012	Less than 3 months (incl. accrued interests)	Between 3 months and 1 year	Between 1 year and 3 years	Between 3 years and 5 years	More than 5 years	Total 100 bpv	Carrying amount
Financial assets	-9	-10	-14	-29	-37	-99	7,552
Held-for-trading	-1	-5	0	0	0	-6	446
Designated at fair value through profit or loss	0	0	0	-	0	0	15
Available-for-sale financial assets	0	-2	-13	-28	-34	-78	3,682

Loans and receivables	-1	-2	-1	-1	-3	-7	3,309
Hedging derivatives	-7	0	0	0	0	-8	34
Accruals	-	-	-	-	-	-	66
Financial liabilities	13	28	8	13	5	66	6,850
Held-for-trading	0	5	0	0	0	6	255
Measured at amortised cost (excluding deposits from CB)	3	2	7	5	5	23	6,244
Subordinated liabilities	0	0	0	7	0	7	254
Hedging derivatives	9	20	0	0	-	30	67
Accruals	-	-	-	-	-	-	31
Gap	4	18	-7	-17	-32	-33	

The sensitivity of the interest margin to the interest rates (impact of a parallel increase by 1% of the interest rate risk curve) is as follows:

(In EUR million) Sensitivity 100 bpv Shift 31/12/2011	Less than 3 months (incl. accrued interests)	Between 3 months and 1 year	Between 1 year and 3 years	Between 3 years and 5 years	More than 5 years	Total impact
Financial assets	-3.0	-6.8	-13.6	-7.5	-19.8	-50.8
Financial liabilities	4.2	9.3	7.1	5.8	16.2	42.7
Net impact	1.2	2.5	-6.5	-1.7	-3.6	-8.1

(In EUR million) Sensitivity 100 bpv Shift 31/12/2012	Less 3 months (incl. accrued interests)	Between 3 months and 1 year	Between 1 year and 3 years	Between 3 years and 5 years	More than 5 years	Total impact
Financial assets	-2.0	-9.2	-12.1	-10.9	-14.6	-48.8
Financial liabilities	3.5	9.7	6.7	5.7	15.3	40.8
Net impact	1.5	0.4	-5.4	-5.2	0.7	-8.0

Regarding the equity risk, the impact of a decrease of 25% on both the income statement (impairment) and the equity AFS revaluation reserve (excluding Equity instruments at cost) is as follows:

(In EUR thousand) 31/12/2011	Current situation [1]	*Impact of a market decrease of 25%*	Stock after decrease
Marked-to-Market value	179,633	*-44,908*	134,725
Gain/Loss	35,760	*-44,908*	-9,148
Equity impact (AFS reserve)	35,781	*-26,511*	9,271
Income statement impact (impairment)	-21	*-18,398*	-18,419

(In EUR thousand) 31/12/2012	Current situation [1]	*Impact of a market decrease of 25%*	Stock after decrease
Marked-to-Market value	208,151	*-52,038*	156,113
Gain/Loss	63,850	*-52,038*	11,812
Equity impact (AFS reserve)	63,851	*-48,741*	15,110
Income statement impact (impairment)	-1	*-3,296*	-3,298

[1] Some Equity instruments classified as available-for-sale financial assets are not covered here.

f) Market risk management: liquidity risk

Like Asset and Liabilities Management, the Liquidity Risk Management of KBL *epb* is now the direct responsibility of KBL *epb*'s ALCO. Within KBL *epb* group, the liquidity risk has always been closely monitored, though it is not seen as a major risk. Indeed, the Bank as a Group has a large and stable funding base due to the natural accumulation of deposits from its two core businesses: Private Banking and GIS, which absorb relatively little liquidity.

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.

As the excess liquidity throughout the Group is centralised at KBL *epb*'s Treasury Department, concentrating the Group's liquidity risk at the Bank level, KBL *epb*'s liquidity situation is closely monitored through both operational and structural indicators.

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 to the Risk Control Function:

- a contractual liquidity gap of up to five days, as if the activity was to be continued (no stress test). This report is also sent to the BCL;
- a stock of available liquid assets;
- a monthly estimate of the Basel III Liquidity Coverage Ratio, which stood at 86% as at 31 December 2012 under the assumptions of the previous release of the text (December 2010);
- the value of quantitative indicators, which can potentially trigger the Liquidity Contingency Plan (the Plan consists of various actions depending on the gravity - minor, major - of the liquidity crisis).

Moreover, the significant counterparties in terms of funding sources (>1% of total liabilities, according to Basel III definition) are reported monthly to the ALCO in order to reflect the funding concentration risk.

As far as the structural liquidity is concerned, the liquidity excess report assures 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 2012, the liquidity excess amounted to EUR 2,457 million. The liquidity excess will be calculated according to the provisions of the Basel III Net Stable Funding ratio when they will be released.

Moreover, the Loan-to-Deposit (LTD) ratio is established on a monthly basis. As at 31 December 2012, it stood at 13.8%, confirming the excellent liquidity situation of KBL *epb* as natural deposit collector.

Monthly liquidity stress tests aim 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). Liquidity stress tests are being refined in order to better fit the business model of KBL *epb* defined by the new shareholder.

Finally, KBL *epb* is also an active member of the Association des Banques et Banquiers de Luxembourg's 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.

<u>Quantitative information</u>

The maturity analysis of financial assets held for managing liquidity risk (unencumbered marketable assets) is as follows:

(In EUR million) Marketable assets 31/12/2011	Stock of available assets	Less than 3 months	Between 3 months and 1 year	Between 1 year and 3 years	Between 3 years and 5 years	More than 5 years
Initial stock of available assets		2,949	16	99	271	25
CB eligible	2,506	-2,908	133	272	-200	159
Marketable securities	443	-25	-51	-99	-45	-126
Total	2,949	-2,933	82	172	-246	34
Residual stock of available assets	2,949	16	99	271	25	59

(In EUR million) Marketable assets 31/12/2012	Stock of available assets	Less than 3 months	Between 3 months and 1 year	Between 1 year and 3 years	Between 3 years and 5 years	More than 5 years
Initial stock of available assets		2,732	2,092	1,716	1,163	556
CB eligible	1,794	-85	-311	-512	-490	-582
Marketable securities	938	-555	-65	-41	-117	-115
Total	2,732	-640	-376	-553	-607	-697
Residual stock of available assets	2,732	2,092	1,716	1,163	556	-141

The analysis by remaining contractual maturity for financial assets and liabilities is as follows:

(In EUR million) 31/12/2011	Less than 3 months (incl. accrued interests)	Between 3 months and 1 year	Between 1 year and 3 years	Between 3 years and 5 years	More than 5 years	Undetermined	Total
Cash and balances with central banks	875	-	-	-	-	-	875
Financial assets	5,843	644	957	615	1,034	1,053	10,146
Held-for-trading	273	46	100	83	57	1	560
Designated at fair value through profit or loss	-	-	15	-	-	-	15
Available-for-sale financial assets	241	323	724	470	873	1,052	3,683
Loans and receivables	5,266	275	118	28	103	-	5,791
Hedging derivatives	0	-	0	34	-	-	34
Accruals	63	-	-	-	-	-	63
Other assets	-	-	-	-	-	348	348
TOTAL ASSETS	6,718	644	957	615	1,034	1,401	11,369
Deposits from central banks	773	-	-	-	-	-	773
Financial liabilities	8,211	448	157	279	36	28	9,159
Held-for-trading	182	36	28	8	13	28	295
Measured at amortised cost (excluding subordinated liabilities)	7,987	403	103	15	1	-	8,508
Subordinated liabilities	5	4	13	238	2	-	262
Hedging derivatives	1	5	14	19	19	0	57
Accruals	36	-	-	-	-	-	36
Other liabilities	-	-	-	-	-	144	144
Shareholders' equity	-	-	-	-	-	1,293	1,293
TOTAL LIABILITIES	8,984	448	157	279	36	1,465	11,369
Gap	-2,266	197	800	336	998	-64	

Of which derivatives:

	Cashflows by bucket						
	Less than 3 months (incl. accrued interests)	Between 3 months and 1 year	Between 1 year and 3 years	Between 3 years and 5 years	More than 5 years	Total	Carrying amount
Inflows	5,534	3,046	150	74	37	8,841	367
Interest rate	54	160	146	73	37	470	119
Equity	1	4	3	0	0	8	41
Currency	5,479	2,882	2	0	-	8,363	206
Other	0	0	0	0	-	0	1
Outflows	-5,478	-3,044	-158	-64	-38	-8,782	340
Interest rate	-53	-171	-151	-64	-38	-476	163
Equity	-1	-4	-5	0	0	-11	34
Currency	-5,424	-2,869	-2	0	-	-8,294	142
Other	0	0	0	0	-	0	1
Gap - Derivatives	55	2	-7	9	-1	59	

(In EUR million) 31/12/2012	Less than 3 months (incl. accrued interests)	Between 3 months and 1 year	Between 1 year and 3 years	Between 3 years and 5 years	More than 5 years	Undetermined	Total
Cash and balances with central banks	409	-	-	-	-	-	409
Financial assets	2,960	862	1,011	891	915	913	7,552
Held-for-trading	159	72	121	41	52	1	446
Designated at fair value through profit or loss	-	8	7	-	0	-	15
Available-for-sale financial assets	121	362	729	792	766	912	3,682
Loans and receivables	2,612	420	154	25	97	0	3,309
Hedging derivatives	2	-	0	33	0	-	34
Accruals	66	-	-	-	-	-	66
Other assets	-	-	-	-	-	250	250
TOTAL ASSETS	3,369	862	1,011	891	915	1,163	8,212
Deposits from central banks	-	-	-	-	-	-	-
Financial liabilities	6,004	329	199	273	44	-	6,850
Held-for-trading	154	14	59	6	22	0	255
Measured at amortised cost (excluding subordinated liabilities)	5,812	310	120	1	1	0	6,244
Subordinated liabilities	7	3	8	233	2	-	254
Hedging derivatives	0	2	12	33	20	-	67
Accruals	31	-	-	-	-	-	31
Other liabilities	-	-	-	-	-	239	239
Shareholders' equity	-	-	-	-	-	1,122	1,122
TOTAL LIABILITIES	6,004	329	199	273	44	1,361	8,212
Gap	-2,635	533	812	618	872	-198	

Of which derivatives:

	Cashflows by bucket						
	Less than 3 months (incl. accrued interests)	Between 3 months and 1 year	Between 1 year and 3 years	Between 3 years and 5 years	More than 5 years	Total	Carrying amount
Inflows	6,577	3,415	155	52	23	10,222	263
Interest rate	37	123	152	51	22	384	134
Equity	0	1	1	1	1	5	19
Currency	6,540	3,291	2	-	-	9,833	109
Other	-	0	-	-	-	0	0
Outflows	-6,575	-3,440	-159	-48	-23	-10,245	324
Interest rate	-37	-133	-156	-47	-22	-395	182
Equity	0	-1	-1	-1	-1	-4	18
Currency	-6,538	-3,307	-2	-	-	-9,846	124
Other	0	0	-	-	-	0	0
Gap - Derivatives	3	-25	-5	4	-1	-24	

NOTE 37 – AUDIT FEES

(In EUR thousand)	31/12/2011	31/12/2012
Standard audit services	627	581
Other services	25	-
Total	652	581

NOTE 38 – SIGNIFICANT SUBSIDIARIES

As at 31 December 2012, 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 COUNTRY OF THE HEAD OFFICE	CAPITAL HELD		EQUITY Excluding result of the year (2)		RESULT (2)
Brown, Shipley & Co, Ltd – U.K. (1) and (3)	100.00%	GBP	39,757,733	GBP	1,722,664
KBL (Switzerland) Ltd - Switzerland	99.99%	CHF	88,393,570	CHF	-8,200,813
KBL Richelieu Banque Privée – France	100.00%	EUR	139,196,235	EUR	-10,267,997
KBL Monaco Private Bankers S.A. – Monaco	100.00%	EUR	31,357,492	EUR	-6,441,370
Financière et Immobilière S.A. – Luxembourg (1) and (3)	100.00%	EUR	2,422,294	EUR	56,070
KB Lux Immo S.A. – Luxembourg (1) and (3)	100.00%	EUR	35,725,768	EUR	831,186
Centre Europe S.A. – Luxembourg (1) and (3)	100.00%	EUR	25,261,527	EUR	531,275
Merck Finck & Co – Germany (1)	100.00%	EUR	139,313,499	EUR	-27,230,107
European Fund Administration – Luxembourg (1)	51.13%	EUR	22,399,610	EUR	2,895
Kredietrust Luxembourg S.A. – Luxembourg (1) and (3)	100.00%	EUR	7,204,785	EUR	3,961,639
Theodoor Gilissen Bankiers N.V. – Netherlands (3)	100.00%	EUR	93,298,709	EUR	-14,139,003
Fidef Ingenièrie Patrimoniale S.A. – France (3)	100.00%	EUR	-3,549,960	EUR	-82,042
Puilaetco Dewaay Private Bankers S.A. – Belgium (1)	100.00%	EUR	83,528,625	EUR	8,157,518
KBL Beteiligungs A.G. – Germany	100.00%	EUR	256,443,487	EUR	-224,179,054
Vitis Life S.A. – Luxembourg	100.00%	EUR	40,595,755	EUR	3,049,483

(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 2012.

MANAGEMENT REPORT

DECLARATION ON THE CONFORMITY OF THE ANNUAL ACCOUNTS

We, Jacques Peters, Chief Executive Office, and Yves Pitsaer, Chief Financial & Risk Officer, confirm, to the best of our knowledge, that the annual accounts which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union give a true and fair view of the assets, liabilities, financial position and profit or loss of KBL European Private Bankers S.A., and that the management report includes a fair review of the development and performance of the business and the position of KBL European Private Bankers S.A. together with a description of the principal risks and uncertainties that the Bank faces.

Luxembourg, 21 February 2013

Jacques Peters
Chief Executive Officer

Yves Pitsaer
Chief Financial & Risk Officer