

**FINANCIAL REPORT 2011**  
of  
KBC INTERNATIONAL FINANCE N.V.  
CURAÇAO

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## **DIRECTORS' REPORT**

### **General**

The purpose of KBC International Finance N.V. (the “company”) is the issue of bonds and the on-lending of the proceeds to KBC Bank NV, its subsidiaries and associated companies. The company has no employees and the principal activity of the company consists of the administration of the bonds issued and the loans made.

As stated in the notes to the accounts, the bonds issued by the company are fully guaranteed by KBC Bank NV.

### **Financial**

The net profit after tax for 2011 amounted to € 111,183.

There have been no further important events, material or financial, relating to the company since December 31<sup>st</sup>, 2011.

The interest income of the company amounted to € 974,261 compared to € 1,686,268 in 2010.

The solvency ratio (net worth to total liabilities) was 16.57 % at December 31<sup>st</sup>, 2011  
(2010: 4.27 %).

The liquidity ratio (current assets to current liabilities) was 1.20 at December 31<sup>st</sup>, 2011  
(2010: 1.07).

### **Management**

Mr. T.A.J. Van Craen resigned from the Management Board on June 30<sup>th</sup>, 2011. Mrs. H.B.J. Wouters was appointed to the Management Board of the company on July 1<sup>st</sup>, 2011.

Mr. L.L.S.G. Gijssens resigned as supervisory director of the company on April 30<sup>th</sup>, 2011. Mr. D.C.M. Mampaey was appointed supervisory director on April 30<sup>th</sup>, 2011.

### **Responsibility Statement**

To the best of our knowledge, and in accordance with the applicable reporting principles, the financial statements give a true and fair view of the assets, liabilities, financial position and profit of KBC International Finance N.V. and the directors' report includes a fair review of the development and performance of the business and the position of KBC International Finance N.V. together with a description of the principal opportunities and risks associated with the expected development of KBC International Finance N.V.

### **Corporate Governance**

The company is a wholly owned subsidiary of KBC Internationale Financieringsmaatschappij N.V. and complies with the control requirements and standards of the KBC Group with regard to accounting, operations, internal controls and risk management. Furthermore, the company is subject to audits carried out periodically by the internal audit department of the KBC Group.

The directors' reporting line is to the corporate treasury department within KBC Bank NV.

The Board of Supervisory Directors of the company is comprised of senior officials of KBC Bank NV. The Supervisory Directors monitor the transactions and operations of the company periodically during the financial year. Because of the limited size of the company's operations, a separate report of the Supervisory Directors is not considered necessary.

### **Risk Management**

The structure and organisation of the company are such that liquidity risk, interest rate risk, exchange rate risk and credit risk to the company are strictly limited. All bonds issued are on-lent to the KBC Group for the same amount and currency and the same maturities. In addition, the coupon dates for interest receivable on the loans coincides with the dates of the coupons payable on the bonds.

The company's liquidity is generated by the cash flows from interest margins earned on the loans granted. The cash inflows and outflows coincide because the maturity dates and currencies of the loans outstanding and the bonds issued are matched, as are the due dates of interest coupons receivable and payable. Interest margins earned on the loans are principally in Euro.

The company is therefore not exposed to a liquidity risk.

Similarly, interest rate risk is eliminated by virtue of the matching of the periods for which interest is received and paid and of the maturities of loans and bonds issued.

As stated above under General, the lending of the company is entirely to KBC Bank NV, its subsidiaries and associated companies. As such, a credit risk exists in respect of lending to these companies. The bonds issued by the company are fully guaranteed by KBC Bank NV; therefore the risk for investors in the company's bonds is ultimately a risk on KBC Bank NV, whose credit rating as at 30<sup>th</sup> March 2012 is as follows:

<u>Rating agency</u>	<u>Long-term rating and outlook/watch</u>	<u>Short-term rating</u>
Fitch	A- (stable outlook, since January 2012)	F1, since December 2008
Moody's	A1(negative outlook, since February 2012)	P-1, since February 2012
Standard & Poor's	A- (stable outlook, since December 2011)	A-2, since December 2011

### **Future Developments**

KBC International Finance N.V. did not launch any new issues, bonds or other financing programme during the financial year ending December 31, 2011 and, in line with the group policy, it is not planned that the company will do so in the future. The last of the outstanding bonds will mature in 2012, after which it is intended to liquidate the company.

Rotterdam, March 30<sup>th</sup>, 2012

Management Board:

J.G. Heffernan

H.B.J. Wouters

**BALANCE SHEET AS AT DECEMBER 31, 2011**  
(before profit appropriation)

		<b>2011</b>		<b>2010</b>	
		€	€	€	€
<b>A s s e t s</b>					
<b>Fixed assets</b>					
Financial fixed assets	(1)		-		5,394,126
<b>Current assets</b>					
Loans falling due within one year	(1)	5,427,769		16,603,802	
Interest receivable	(2)	249,639		720,134	
Cash		1,384,530		2,060,189	
			7,061,938		19,384,125
<b>Total assets</b>			<u>7,061,938</u>		<u>24,778,251</u>
<b>L i a b i l i t i e s</b>					
<b>Capital and reserves</b>					
Paid-in and called-up share capital	(3)	84,012		84,012	
Retained earnings	(4)	975,032		877,436	
Net profit for the year		111,183		97,596	
			1,170,227		1,059,044
<b>Long term liabilities</b>	(5)		-		5,565,411
<b>Current liabilities</b>					
Issued bonds falling due within one year	(5)	5,596,308		17,418,324	
Other current liabilities	(6)	295,403		735,472	
			5,891,711		18,153,796
<b>Total liabilities</b>			<u>7,061,938</u>		<u>24,778,251</u>

**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 2011**

		<b>2011</b>		<b>2010</b>	
		€	€	€	€
<b>Interest income</b>					
Interest income	(9)	974,261		1,686,268	
<b>Interest expense</b>	(9)	(811,734)		(1,542,371)	
<b>Gross margin</b>			162,527		143,897
<b>Operating expenses</b>					
General and administrative expenses	(10)	(13,749)		(13,678)	
Exchange rate differences		(534)		782	
			(14,283)		(12,896)
<b>Profit before taxation</b>			148,244		131,001
Corporation tax	(11)		(37,061)		(33,405)
<b>Net profit for the year</b>			111,183		97,596

**CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>2011</u>	<u>2010</u>
	€	€
Net profit	111,183	97,596
Adjustments for:		
Amortization on loans and bonds	52,150	105,387
Translation differences	<u>2,481</u>	<u>10,557</u>
	165,814	213,540
Change in other assets and liabilities	(2,130)	3,220
Taxes received/(paid)	<u>32,556</u>	<u>(5,631)</u>
<b>Net cash flow from operational activities</b>	<b>196,240</b>	<b>211,129</b>
Financial fixed assets - repaid	<u>16,712,710</u>	<u>11,177,561</u>
<b>Net cash flow from investment activities</b>	<b>16,712,710</b>	<b>11,177,561</b>
Bonds repaid	(17,584,609)	(11,500,158)
Dividend paid	<u>-</u>	<u>(1,000,000)</u>
<b>Net cash flow from financing activities</b>	<b>(17,584,609)</b>	<b>(12,500,158)</b>
<b>Net cash flow</b>	<b><u>(675,659)</u></b>	<b><u>(1,111,468)</u></b>
Cash balance as at January 1	2,060,189	3,171,657
Cash balance as at December 31	<u>1,384,530</u>	<u>2,060,189</u>
<b>Net cash flow</b>	<b><u>(675,659)</u></b>	<b><u>(1,111,468)</u></b>

## **NOTES TO THE FINANCIAL STATEMENTS 2011**

### **Accounting principles**

#### **General**

The company is a wholly-owned subsidiary of KBC Internationale Financieringsmaatschappij N.V., Rotterdam and is legally incorporated according to the applicable laws of Curaçao. The main activity of the company is to assist in financing the activities of KBC Bank NV, its subsidiaries and associated companies. The address of the company is Watermanweg 92, 3067 GG Rotterdam, The Netherlands and the company is registered under number 46197 in the Commercial Register of the Curaçao Chamber of Commerce and under number 24317534 in The Netherlands Chamber of Commerce, Rotterdam. KBC International Finance N.V. is formally a foreign company.

The financial statements are prepared in accordance with accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code. The last of the outstanding bonds will mature in 2012 and it is not expected that any new bonds will be issued. After repayment of the remaining bonds in 2012 it is planned to liquidate the company and therefore the company changed its basis of presentation from the going-concern basis to liquidation basis whereby assets are presented at estimated realizable values and liabilities at estimated settlement amounts and are presented in the joint currency of the European Monetary Union, the euro ("EUR").

#### **Currency translation**

Assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rates ruling at the dates of the transactions. Resulting translation differences are taken to the profit and loss account.

#### **Balance sheet**

#### **Financial fixed assets**

Loans to group companies and bonds issued under the various programmes are stated at amortized cost. The differences with the proceeds resulting from premiums or discounts are taken to the profit and loss account on the basis of effective interest over the remaining term of the loans/bonds concerned; the unamortized amounts are added to, or deducted from, the amounts of the loans/bonds issued.

#### **Interest receivable and accrued expenses**

Interest receivable and accrued expenses are stated at face value.

#### **Profit and loss account**

Income and expenses are recognized in the financial year to which they relate.



## **Interest**

Interest is accrued based on the effective interest level in the financial year. Both loans granted to group companies and bonds issued have been treated in the same way.

## **Taxes**

Corporation tax is based on the income for the year. KBC Internationale Financieringsmaatschappij N.V. is the head of a fiscal unity formed with its subsidiary company KBC International Finance N.V. Corporation tax is paid by KBC Internationale Financieringsmaatschappij N.V. on behalf of the fiscal unity. KBC International Finance N.V. pays to KBC Internationale Financieringsmaatschappij N.V. the corporation tax due on its taxable income each year.

**NOTES TO THE BALANCE SHEET****1 Financial fixed assets**

The financial fixed assets consist of loans to group companies.

	<b>2011</b>	2010
	€	€
Balance as at January 1, over 1 year	5,394,126	21,678,092
Balance as at January 1, less than one year	16,603,802	11,051,585
	<u>21,997,928</u>	<u>32,729,677</u>
Amortization of premiums and discounts	-	3,836
Repayments	(16,712,710)	(11,177,561)
Translation differences	142,551	441,976
	<u>5,427,769</u>	<u>21,997,928</u>
Falling due within one year	(5,427,769)	(16,603,802)
Balance as at December 31, due over 1 year	<u>-</u>	<u>5,394,126</u>

Early redemption under specified conditions is possible. Such conditions are laid down in the final terms of the loans which reflect the conditions of the bonds. An example where early redemption could occur, is when the credit rating of KBC Bank NV would deteriorate or where the conditions of the bond entitle the issuer to redeem the bond early; the related loan would then also be early redeemed.

Loans to group companies are at arm's-length basis. The loans reflect exactly the same market prices as the related bonds issued. The effective rate of interest income on loans to group companies is 7.1% (2010: 6.16%).

The maturity breakdown of the loans to group companies, being the remaining maturity of the loans based on their contractual terms, as at December 31 is as follows:

	Total	< 1 year	1 < 5 years	> 5 years
<i>Loans:</i>				
As of December 31, 2011	5,427,769	5,427,769	-	-
As of December 31, 2010	21,997,928	16,603,802	5,394,126	-

**2 Interest receivable and accrued expenses**

	<b>2011</b>	2010
	€	€
This represents:		
Accrued interest receivable	249,639	720,134
	<u>249,639</u>	<u>720,134</u>

Interest receivable relates to interest accrued on loans granted.

**3 Paid-in and called-up share capital****Authorised**

10,000 ordinary shares of USD 10

USD 100,000

**Paid-in and called-up share capital**

€ 84,012

There were no movements in paid-in and called-up share capital:

	2011	2010
	€	€
Balance at January 1	84,012	84,012
Balance at December 31	84,012	84,012

The paid-in and called-up share capital is fully held by KBC Internationale Financieringsmaatschappij N.V., Rotterdam.

The share capital is valued in euros, using the original exchange rate of USD 1.1903/€ 1.000

**4 Retained earnings**

	2011	2010
	€	€
Balance as at January 1	877,436	1,678,371
Net profit appropriation	97,596	199,065
Dividend paid	-	(1,000,000)
Balance as at December 31	975,032	877,436

**5 Long term liabilities**

	<b>2011</b>	2010
	€	€
This represents:		
Bonds issued as at January 1, over 1 year	5,565,411	22,550,991
Bonds issued as at January 1, less than 1 year	17,418,324	11,371,146
	22,983,735	33,922,137
Amortization of premiums, discounts and issue expenses	52,150	109,223
Repayments	(17,584,609)	(11,500,158)
Translation differences	145,032	452,533
	5,596,308	22,983,735
Falling due within one year	(5,596,308)	(17,418,324)
Balance as at December 31, due over 1 year	-	5,565,411

The effective rate of interest on the outstanding bonds is 5.68% (2010: 5.53%).

The maturity breakdown of the bonds issued, being the remaining maturity of the loans based on their contractual terms, as at December 31 is as follows:

	Total	< 1 year	1 < 5 years	> 5 years
<i>Bonds:</i>				
As of December 31, 2011	5,596,308	5,596,308	-	-
As of December 31, 2010	22,983,735	17,418,324	5,565,411	-

All bonds are guaranteed by KBC Bank NV, Brussels, Belgium.

**6 Other current liabilities**

	<b>2011</b>	2010
	€	€
This represents:		
Accrued interest	252,390	723,747
Payable to parent company in respect of tax	37,061	4,505
Sundries	5,952	7,220
	295,403	735,472

Accrued interest is the amount accrued payable on outstanding bonds.

## 7 Fair value of financial instruments

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties at an arm's length transaction.

The assets and liabilities of the company mainly consist of financial instruments. For most of the financial instruments fair values, such as market values, are not available and can only be estimated using certain calculation models, applying interest rates which are market-conform at balance sheet date. The fair value is determined using valuation models based on the discounted cash flow model. The input for the model consists mainly of market observable data like Euribor and exchange rates. The proceeds of the bonds issued are used for intercompany financing of KBC Bank NV. The contracts for intercompany financing do not differ other than an interest margin, where applicable, from the structuring of the bonds in terms of maturity, currency, interest terms and fixings.

The financial assets consist of loans. The financial liabilities are comprised of outstanding bonds issued. The outstanding loans and bonds issued are in various currencies, for various periods and at various rates of interest depending on the contractual terms of the individual bonds and related loans.

The fair value of cash balances held at the bank and current liabilities does not differ substantially from the amounts presented in the balance sheet and they are therefore not included here.

The fair value of the financial instruments at December, 31 is as follows:

	2011 €	2010 €
<b>Financial assets</b>		
Loans	<u>5,483,762</u>	<u>22,352,874</u>
Total financial assets	<u>5,483,762</u>	<u>22,352,874</u>
<b>Financial liabilities</b>		
Bonds issued	<u>5,652,653</u>	<u>23,355,261</u>
Total financial liabilities	<u>5,652,653</u>	<u>23,355,261</u>

## 8 Risk management

It is the policy of the company to strictly limit interest rate, exchange, market and operational risks to the company and the structure and organisation of the company are designed to give effect to this policy. Furthermore, the company's financial administration is so arranged as to prevent exposures to the above risks and controls are in place to ensure strict adherence.

This policy, which applies to all bond issues, ensures that the company has no exposures in relation to open or unmatched positions in interest rate risk, market risk, currency risk, liquidity risk, cash flow risk or interest re-pricing risk and consequently runs no risks in respect to these categories. This policy is the basis of the company's asset and liability management.

The interest margins on the loans where applicable, have been set in conjunction with KBC Bank NV and take account of the company's obligations under an Advance Pricing Agreement entered into with the Dutch tax authorities.

- **Liquidity risk:** cash inflows and outflows are matched with regard to amount, currency and timing; with the exception of interest margins earned on loans granted which generate cash flows on the coupon payment dates, the net cash flows of the company on bond issue, coupon payment (except for interest margin) and bond redemption dates are zero. In this manner liquidity risk is eliminated.
- **Credit risk:** as explained in the Directors' Report, the company on-lends to KBC Bank NV, its subsidiaries and associated companies the proceeds of bonds issued. A credit risk therefore exists in relation to lending to these companies. The bonds issued by the company are guaranteed by KBC Bank NV; investors in the bonds issued by the company are therefore subject to a credit risk in KBC Bank NV.
- **Interest rate risk and exchange rate risk:** The operations of the company are such that bonds issued are on-lent within the Group with the same conditions, for the same amount, in the same currency, for precisely the same period, with the same interest re-pricing dates, for the same rate of interest (plus an interest margin where applicable) and with the same maturity date. Risks to the company arising from changes in interest rates and exchange rates are restricted in this manner.
- **Market risk:** The risk of losses on financial assets and liabilities arising from changes in market prices is eliminated by the policy of matching the bonds issued with the loans granted in respect of amount, currency, coupon payment and maturity date.

As stated in the Director's Report, the company has not issued any new bonds during the year and when the outstanding bonds mature in 2012, it is intended to liquidate the company.

**NOTES TO THE PROFIT AND LOSS ACCOUNT****9 Interest income and expense**

The interest receivable mainly results from the loans granted by the company to KBC Bank NV, Brussels, Belgium. The interest payable relates to bonds issued.

**10 General and administrative expenses**

	<b>2011</b>	2010
	€	€
This represents:		
Management fees	2,579	3,323
Audit and legal fees	6,050	5,950
Sundries	4,625	3,848
Bank charges	495	557
	<u>13,749</u>	<u>13,678</u>

The company has no employees. The directors and members of the Supervisory Board did not receive any remuneration.

Audit fees paid in 2011 amounted to € 5,000 (2010: € 4,141).

**11 Corporation tax**

Corporation tax is calculated based on the profit before taxation at the applicable tax rate in the Netherlands at 25 % (2010: 25.5%). The effective tax rate amounts to 25 % (2010: 25.5%).

KBC International Finance N.V. forms a fiscal unity together with KBC Internationale Financieringsmaatschappij N.V. (head of the fiscal unity). Both companies are severally liable for the corporation tax payable.

**12 Commitments**

The company has not entered into any commitments.

**13 Related Parties**

The loans of the company are extended exclusively to group companies and interest income on loans is earned entirely from group companies.

## NOTES TO THE CASH FLOW STATEMENT

### 14 Cash Flow Statement

The Cash Flow Statement is compiled according to the indirect method. Net cash flow from operational activities includes Interest Received amounting to € 1,444,756 (2010: € 2,142,134) and Interest Paid amounting to € 1,283,091 (2010: € 1,998,074).

The cash balances of the company are free of encumbrance.

Rotterdam, March 30<sup>th</sup>, 2012

Board of Directors:

J.G. Heffernan

H.B.J. Wouters

Supervisory Board:

P. Roppe

D. Mampaey



## **OTHER INFORMATION**

### **Statutory rules concerning appropriation of profit**

In accordance with Article 19 of the company's Articles of Association, the net profit is at the disposal of the annual General Meeting of Shareholders.

### **Dividend 2010**

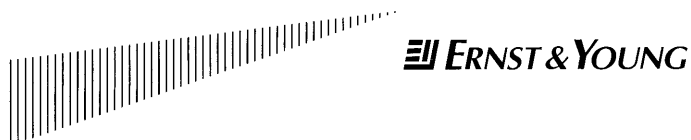
A dividend amounting to € 1,000,000 was paid on December 28<sup>th</sup>, 2010.

### **Dividend 2011**

No dividend was paid or is proposed in 2011.

### **Subsequent events**

There have been no material events subsequent to balance sheet date which impact the balance sheet and profit and loss account.



## Independent auditor's report

To: the Board of Directors of KBC International Finance N.V.

### Report on the financial statements

We have audited the accompanying financial statements 2011 of KBC International Finance N.V., Curaçao, The Netherlands Antilles, which comprise the balance sheet as at December 31, 2011, the profit and loss account for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

#### *The Board of Directors' responsibility*

The Board of Directors is responsible for the preparation and fair presentation of these financial statements and for the preparation of the Directors' report, both in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Board of Directors is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

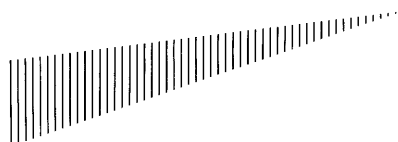
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### *Opinion with respect to the financial statements*

In our opinion, the financial statements give a true and fair view of the financial position of KBC International Finance N.V. as at December 31, 2011 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.



*Emphasis on basis of presentation*

We draw attention to page 6 of the financial statements, which describes that the company changes its basis of presentation of these financial statements from the going concern basis to liquidation basis whereby assets are presented at estimated realizable values and liabilities at estimated settlement amounts. Our opinion is not qualified in respect of this matter.

**Report on other legal and regulatory requirements**

Pursuant to the legal requirement under Section 2:393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the Directors' report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b-h has been annexed. Further, we report that the Directors' report, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Dutch Civil Code.

Eindhoven, March 30, 2012

Ernst & Young Accountants LLP

signed by P.J.A.J. Nijssen