Corporate Social Responsibility Report 2006

GROUP PROFILE

Area of operation and activities

KBC is an integrated multi-channel bancassurance group, catering mainly for retail customers, small and medium-sized enterprises and private banking clientele. Geographically, our focus lies on Belgium and Central and Eastern Europe for our retail bancassurance and asset management activities, as well as for the provision of services to business customers, and we occupy significant, even leading positions in these two home markets. We are also active in a selection of other countries in Europe in private banking and the provision of services to businesses. Elsewhere around the globe, the group has established a limited presence in selected countries and regions. Our group headquarters is located in Brussels, Belgium.

Shareholders	31-12-2006[1]
KBC Ancora (formerly Almancora)	20.9%
Cera	6.4%
MRBB	11.7%
Other core shareholders	11.8%
KBC group companies	4.3%
Free float[2]	44.9%
Total	100.0%

1 Estimates based on the number of shares filed
2 All other shareholders holding less than 3% of the share capital

Network, customers and personnel	31-12-2006
Bank branches	
Belgium	927
Central and Eastern Europe[1]	874
Customers (banking and insurance)[2]	
Belgium	4.8 million
Central and Eastern Europe	8.2 million
Personnel	
Total full-time equivalents (FTEs)	49 492
Belgium	38%
Central and Eastern Europe	51%
Rest of the world	11%

1 Czech Republic, Hungary, Poland and Slovakia
2 Based on KBC estimates

Long-term credit ratings

	Credit rating	Rating changes in 2006-07	Outlook
KBC Group			
Fitch	AA-	-	stable
Moody's	Aa3	-	stable
Standard & Poor's	A+	-	stable
KBC Bank			
Fitch	AA-	-	stable
Moody's	Aa2	change in methodology	stable
Standard & Poor's	AA-	upgrade	stable
KBC Insurance, claims-paying ability			
Fitch	AA	-	stable
Standard & Poor's	AA-	-	stable

Key financial figures, KBC group[1]	2004[2]	2005	2006
Balance sheet, end of period (in millions of EUR)			
Total assets	285 163	325 801	325 400
Loans and advances to customers	111 177	119 475	132 400
Securities	98 862	125 810	121 414
Deposits from customers and debt securities	157 712	171 572	180 031
Gross technical provisions and liabilities under investment contracts, insurance	17 190	22 394	25 121
Parent shareholders[2] equity	12 328	15 751	17 219
Risk-weighted assets, banking	105 768	117 730	128 968
Income statement (in millions of EUR)			
Gross income	12 333	11 498	12 556
Operating expenses	-4 944	-4 914	-4 925
Impairment	-365	-103	-175
Net profit, group share	1 615	2 249	3 430
of which, underlying result	1 615[2]	2 306	2 548
KBC share			
Number of shares outstanding, end of period ('000)	310 849[4]	366 567	363 217
Basic earnings per share (in EUR)	4.48	6.26	9.68
Diluted earnings per share (in EUR)	4.39	6.15	9.59
Equity per share, end of period (in EUR)	33.6	43.8	49.2
Highest share price for the financial year (in EUR)	59.8	79.0	93.3
Lowest share price for the financial year (in EUR)	37.3	56.0	76.2
Average share price for the financial year (in EUR)	49.2	66.4	85.9
Share price at year-end (in EUR)	56.5	78.7	92.9
Equity market capitalisation, end of period (in billions of EUR)	17.6[4]	28.8	33.7
Ratios*			
Return on equity, based on net profit	14%	18%	24%
Return on equity (based on underlying profit)	14%[3]	18%	18%
Cost/income ratio	65%	60%	53%
Cost/income ratio, banking (based on underlying profit)	65%[3]	58%	58%
Combined ratio, non-life insurance	95%	96%	96%
Tier-1 ratio, banking	10%	9%	9%
Solvency ratio, insurance	347%	385%	374%

1 More details in Appendix I and in KBC's 2006 Annual Report (available on www.kbc.com).
2 Based on a combined KBC-Almanij entity. The IAS 32, IAS 39 and IFRS 4 standards were not applied to the 2004 figures, which means they are not fully comparable with the 2005 and 2006 figures.
3 For 2004, underlying profit was equated to net profit.
4 Pre-merger (thus for the KBC Bank and Insurance Holding Company).

Key financial figures per business unit based on underlying result[1]

(in millions of EUR, except where otherwise indicated)	Belgium Business Unit	Central & Eastern Europe Business Unit	Merchant Banking Business Unit	European Private Banking Business Unit	Group Centre[2]	Total
2005						
Gross income, group share	5 558	2 468	2 522	882	21	11 451
Total operating expenses	-1 744	-1 318	-1 065	-568	-99	-4 794
of which staff expenses	-1 116	-519	-757	-315	-27	-2 734
Income tax expense	-498	-38	-356	-54	-53	-999
Net profit	1 096	327	821	190	-127	2 306
Return on allocated capital (based on underlying profit)	31%	25%	22%	27%	-	18%
2006						
Gross income, group share	5 361	2 696	2 752	821	13	11 644
Total operating expenses	-1 824	-1 338	-1 234	-537	-42	-4 976
of which staff expenses	-1 181	-606	-897	-346	9	-3 021
Income tax expense	- 434	-92	-329	-42	-34	-931
Net profit	1 104	426	871	181	-33	2 548
Return on allocated capital (based on underlying profit)	29%	25%	21%	29%	-	18%

1 Underlying result = results on IFRS basis, excluding exceptional items
2 Including consolidation adjustments

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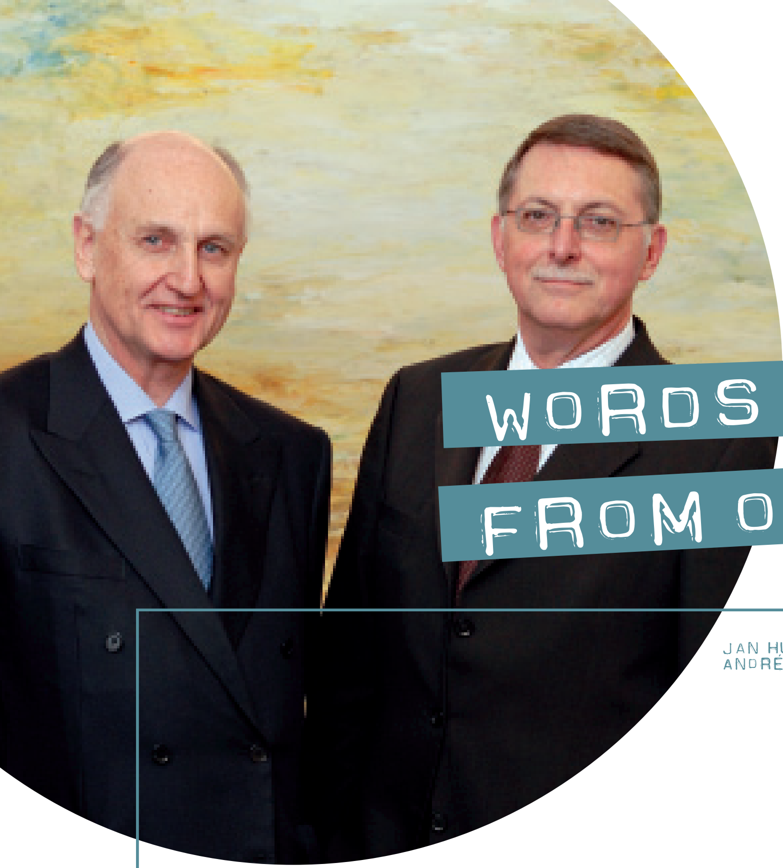


WORDS OF WELCOME FROM OUR CHAIRMAN AND

JAN HUYGHEBAERT, CHAIRMAN OF THE BOARD OF DIRECTORS OF KBC GROUP
ANDRÉ BERGEN, PRESIDENT OF THE EXECUTIVE COMMITTEE OF KBC GROUP

Dear Reader,

Corporate social responsibility (CSR) has become very much ingrained in the way business is conducted, and not least at KBC. As such, no one can deny the importance of CSR: sustainable and socially responsible business essentially entails planning and conducting one's business not only with a view to making a profit, but also with an eye to the economic, social, ecological and cultural impact of that business in both the short and the long term. In this respect, KBC has played a pioneering role over the years, particularly with regard to employee volunteerism and community building, whilst introducing socially responsible investment products and raising public environmental awareness via ARGUS in Belgium. However, concerns about global warming and climate change are becoming ever more vociferous, as we see clear signs that weather patterns around the world have become destabilised, not least due to mankind's irresponsible behaviour in the past. This is one of the challenges that we are continually faced with at KBC: how to ensure that our strategic objectives in the short term are in line with our long-term commitments to our various stakeholders and the environment.

This report provides you with a snapshot of our CSR performance throughout the group for the 2006 calendar year. It bears witness to our efforts to act upon our mission statement[8] and our *'Principles for Socially Responsible Business'*[9]. We are aware that we are far from perfect, but we did not expect a transformation overnight when we began our reporting efforts two years ago. CSR requires a long-term vision, and the road to becoming a more CSR-minded organisation is not a smooth one, as not only does this involve continuous improvements on our part but we must also be mindful of our stakeholders. This is why we chose to endorse and support the United Nations Global Compact as a multi-stakeholder platform on which to engage more actively in CSR. Nevertheless, we are proud of our achievements thus far and even the smallest of improvements should be viewed as an important step forward. We therefore invite you to discover what we mean by CSR at KBC and we welcome your comments on this report.

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

1 *'Through our customer-friendliness, efficiency, enterprising spirit and capacity for innovation, we will provide the best solutions for our customers, earn the loyalty of our employees, guarantee a high return to our shareholders and contribute towards the economic, social and cultural development of the community to which we belong.'*
2 *See Appendix II.*

OUR GROUP CEO

To our readers,

I am pleased to present you our third report on KBC's performance in the various areas of corporate social responsibility (CSR). We continue our commitment to enhance transparency on non-financial matters. The report now covers our global operations.

This time, the report has been prepared in accordance with the new generation of guidelines formulated by the Global Reporting Initiative (the G3 Guidelines) and represents a balanced and reasonable presentation of our organisation's economic, environmental, and social performance. The table of contents reflects our desire to address each of our stakeholders in turn rather than our previous attempts at grouping the various themes, and thereby simplifies and buttresses our efforts to increase transparency. We have broadened our reporting scope, having gradually expanded coverage from our entities operating in our home markets in Belgium and Central & Eastern Europe to our merchant banking and private banking business activities in Western Europe and the rest of the world.

2006 was without doubt a memorable year for KBC. From a financial perspective, we exceeded all the profitability targets we set ourselves for the mid-term. In terms of our non-financial performance, we entered into major international commitments, including our adoption of the revised Equator Principles and the endorsement of the United Nations Global Compact. We feel that the UN Global Compact is an important platform by which we can show our support for and solidarity with the Ten Universal Principles of the Global Compact, more of which will be discussed in this report. Within KBC, we implemented a CSR Action Plan to set up a group-wide CSR policy framework. The CSR policies ensuing from the Action Plan are designed to serve as group-wide principles and guidelines in such specific areas as our relationship with our customers and our suppliers and our commitment to our employees and our community involvement. They are in the course of being implemented throughout the group.

In closing, we would like to take this opportunity to express our gratitude to all our stakeholders, in particular, our employees for our group's excellent performance in 2006 and our shareholders, our customers and our suppliers for the confidence they have placed in our group. A special word of thanks, lastly, goes to Willy Duron, who retired on 1 September 2006 and who, as CEO, actively worked to enhance the future of our group, not least in the area of CSR.

André Bergen, President of the Executive Committee of KBC Group and Group CEO

STRATEGY & ANALYSIS

ORGANISATIONAL PROFILE

Our strategy

KBC is a multi-channel bancassurer with a core focus on Belgium and Central and Eastern Europe[1] for retail bancassurance and wealth management activities and services for SMEs and corporates. In private banking and merchant banking, we are active in selected Western European countries (mostly neighbouring Belgium), and we maintain a specific presence in the United States and the Asia Pacific region with respect to particular corporate banking and niche operations. We are intent on pursuing a standalone strategy, firmly convinced that we can finance our own growth, be highly profitable, pay an attractive dividend while still maintaining sufficient reserves to carry out add-on acquisitions when the right opportunities arise, and contribute to the communities in which we operate.

Main events in 2006 regarding organisation and strategy

In March 2005, KBC Group NV was created through the merger of the KBC Bank and Insurance Holding Company and its parent company, Almanij. This resulted in a more streamlined group with one single entity controlling the underlying companies, KBC Bank, KBC Insurance, KBC Asset Management, Kredietbank SA Luxembourgeoise (or KBL European Private Bankers, i.e. KBL EPB) and Gevaert. Since then, the structure has continued to be simplified, with Gevaert being integrated into the holding company and KBC Asset Management being moved to KBC Bank (previously KBC Asset Management had been majority-owned by KBC Group NV). The group's legal structure is now even more transparent, with the holding company (KBC Group NV) left controlling three direct subsidiaries, namely KBC Bank, KBC Insurance and KBL EPB.

As part of the streamlining process, the management structure was reorganised and put into place in May 2006. KBC is now split into five units:

- the Belgium Business Unit,
- the Central & Eastern Europe Business Unit,
- the Merchant Banking Business Unit,
- the European Private Banking Business Unit
- and the Shared Services & Operations Business Unit[2].

Each unit oversees the banking, insurance and asset management activities and is managed by its own management committee headed by a member of the Group Executive Committee, which has oversight over all the business units. This new organisation aims to achieve:

- the unity of strategy, management and capital as targeted by the group;
- a streamlined organisational structure that fosters synergies among the various group companies, while guaranteeing continuity of management.

Regarding our strategic investments internationally, in 2006, we strengthened our position in Central and Eastern Europe via organic growth (with plans to expand our bank branch network there by nearly 300 new branches) and by buying out minority shareholders (in our banking and insurance operations in the Czech Republic, our banking arm in Hungary and our insurance activities in Poland).
By the start of 2007, our presence in the region had also expaned via relatively small acquisitions in Romania, Serbia, Hungary, Bulgaria and Russia.

With respect to our private banking operations, the European private banking policy of achieving a minimum critical mass in selected countries continued to be adhered to, with our expansion in France through our acquisition of private banker, Aballea Finance. Meanwhile, we disinvested from both Spain and Italy by selling Banco Urquijo and Banca KBL Fumagalli Soldan.

At group level, several of our non-core activities were spun off, including our 27% stake in the industrial company, Agfa-Gevaert.

1 The focus lies on the core countries of the Czech Republic, Slovakia, Hungary and Poland.
2 The Shared Services & Operations Business Unit includes group-wide product factories and departments providing support to the other business units.

As KBC has exceeded its financial targets almost continually over the past few years, and because we are convinced that this is due mainly to our intrinsic strength (besides the favourable economic cycle), we decided to review our financial targets at the end of 2006. The following profitability and efficiency targets were consequently revised for the 2007-09 period:

- return on equity (ROE) was raised from 16% to 18.5%;
- average annual growth in earnings per share was raised from 10% to 12%;
- the cost/income ratio for the banking activities was tightened from 58% to 55% (in 2009)
- the combined ratio, non-life insurance, remains at 95%.

All the targets are based on underlying profit (base year 2006).

REPORTING POLICY AND DISCLAIMER

We drafted this report in accordance with the new G3 Global Reporting Initiative (GRI) guidelines[3], as well as the GRI Financial Services Sector Supplements on Social Performance and on Environment[4], as we feel that these standards, though not compulsory, provide the necessary structure to ensure transparency and clarity, as well as comparability over time. We are applying the level of C+ to our report, with the intention of upgrading this level in future reporting cycles. The GRI application level is provided in a table, along with the GRI content index on pages 58-60, showing the relevant indicators that are covered in this report. Additionally, in-house environmental performance has been measured and presented according to the VfU Indicators[5], which are increasingly being applied within the financial sector to complement the GRI principles. Notes on methodology have also been provided where necessary in the text or as footnotes for the employee and environmental performance indicators.

Furthermore, wherever possible, we have referred to the UN Global Compact within the report. As part of our obligations under the UN Global Compact, this CSR Report serves as an in-depth document on our Communication on Progress (COP). The Global Compact index on page 60 provides a summary of how we have met our commitments under the Ten Universal Principles.
The information presented in this report is based on data collected by means of detailed questionnaires sent to the various group entities covered herein, and relates to KBC's Principles for Socially Responsible Business (see Appendix II). The data amassed in these questionnaires have, in turn, been drawn on various sources and local information management systems, supported by on-site interviews with several of the sources responsible for the information provided. Although there are some inherent limitations to the quality of the data reported herein[6], we have attempted to provide a balanced description of our CSR performance. However, we expect to enhance the accuracy of the performance measures in future reports, as we continue to improve our data collection methodology and move towards a centralised and automated CSR information system.

The reporting framework has been modified to reflect our desire to address our stakeholders more clearly and transparently. We are clearly strong in some areas (e.g., our employees), while we still need to improve in other areas (e.g., regarding our suppliers). Nevertheless, we have attempted to map our performance and provide information that would be useful to our individual stakeholders. Hence, the chapter beginning on page 19 delves into our rapport with the entire community, including our approach to business ethics and the environment, our relationship with the public authorities and opinion makers and our philanthropic activities. Successive chapters focus on each of our core stakeholders: employees, customers, suppliers and our shareholders and investors. We plan to adapt the CSR section of our corporate Web site[7] during the course of 2007 to reflect this new stakeholder orientation.

3 Launched in October 2006
4 Cf. http://www.globalreporting.org/ReportingFramework/G3Online/SectorSupplements/
5 Outlined in 'VfU Indicators 2005: Internal Environmental Performance Indicators for the Financial Industry', available at www.epifinance.com. See p. 29.
6 The quantitative information provided herein is based in part on best estimates, extrapolations and own calculations.
7 www.kbc.com/social_responsibility

Finally, a glossary of commonly used CSR terms is also provided in Appendix IV.

Disclaimer

This report has been drawn up for the purpose of informing our stakeholders on KBC's performance and commitment with respect to CSR.
Nothing in this document is intended to extend or amend KBC's existing obligations to its customers, shareholders, employees, suppliers, shareholders and investors or other stakeholders.

All references to external Web links in this report are provided purely for information purposes. KBC is not responsible for the reasonableness, accuracy or completeness of the information available on these Web sites, nor does their mention in this report constitute tacit approval or endorsement by KBC of such sites or the products or services offered therein[8]. KBC accepts no liability with regard to any such information that has been or will be provided by external parties via their Web sites.

SCOPE OF THIS REPORT

This report covers KBC's CSR commitments and accomplishments in our home markets of Belgium and Central and Eastern Europe[9] and our operations in Western Europe[10] and around the world[11] (henceforth, referred to as 'rest of the world', unless otherwise stated). Although we are also present in Slovenia via our minority stake in Nova Ljubljanska banka (NLB), NLB does not qualify as a subsidiary in the strict sense of the term. Hence, the Slovenian operations are not reported.

Unless otherwise stated, the data and information provided cover the 2006 calendar year. As shown in the tables and charts below, this report now covers virtually all of our operations (except where indicated), both in terms of profit contribution and with respect to social capital. More information can also be found in KBC's 2006 Annual Report (see www.kbc.com).

An independent assurance review was conducted on the quantitative data and the policies and measures provided in this report by Ernst & Young Bedrijfsrevisoren BCVBA ('E&Y'). Due to the extension of the reporting scope and on account of changes in the assumptions and the data processing methodology, the data described herein may not be used for comparison purposes with the data in our 2005 CSR Report. Moreover, issues of data quality with regard to performance indicators provided by individual entities have meant that estimates and extrapolations were used to arrive at the consolidated data in this report. In addition, as we are currently reviewing our supply chain management processes, we aim to improve the qualitative and quantitative aspect of our reporting on our suppliers in future publications. Consequently, E&Y's assurance review does not extend to assurance on those elements or information disclosed in this report where the quality of the data is subject to uncertainty, or on the comparative data provided herein (i.e. 2005-2006).

KBC in figures

Key figures (in m EUR)	FY 2005	FY 2006
Gross income	11 498	12 556
Profit before tax	3 369	4 595
Net Group profit	2 249	3 430
Total assets	325 801	325 400
Other		
Number of staff	Approx. 51 000	Approx. 50 000
Number of customers	11 million	11 million

8 Other than those Web sites managed by KBC.
9 Czech Republic, Hungary, Poland and Slovakia
10 France, Ireland, Germany, Luxembourg, Netherlands, United Kingdom
11 USA

Geographical breakdown of KBC staff and gross income as at year-end 2006

	% of staff	% of gross income[1]
Belgium	38	54
CEE	51	24
Rest of the world	11	22
Total	100	100

1 Excluding the sale of Banco Urquijo.

Main group companies*, 31-12-2006

KBC Bank	KBC Insurance	KBL EPB group
Belgium Business Unit		
KBC Asset Management[1]	ADD	
KBC Bank (Belgian retail and private bancassurance activities)	Fidea	
CBC Banque	KBC Insurance	
Centea	VTB-VAB[2]	
Central & Eastern Europe Business Unit		
ČSOB (Czech Republic and Slovakia)	ČSOB Pojišt'ovna (Czech Republic)	
K&H Bank (Hungary)	ČSOB Poist'ovňa (Slovakia)	
Kredyt Bank (Poland)	K&H Insurance (Hungary)	
Nova Ljubljanska banka (Slovenia, minority shareholding)	NLB Vita (Slovenia)	
	WARTA (Poland)	
Merchant Banking Business Unit		
Antwerp Diamond Bank (different countries)	Assurisk (Luxembourg)	
IIB Bank (Ireland)	Secura (Belgium)	
International Factors (Belgium, joint venture)		
KBC Bank (merchant banking, including establishments in various countries abroad)		
KBC Clearing (Netherlands)		
KBC Bank Deutschland (Germany)		
KBC Bank Nederland (Netherlands)		
KBC Finance Ireland (Ireland)		
KBC Financial Products (different countries)		
KBC Lease (different countries)		
KBC Internationale Financieringsmaatschappij (Netherlands)		
KBC Peel Hunt (UK)		
KBC Private Equity (Belgium)		
KBC Securities (different countries)		
European Private Banking Business Unit		
	VITIS Life (Luxembourg)	Brown Shipley & Co (UK)
		Kredietbank SA Luxembourgeoise (Luxembourg)
		KBL France (France)
		KBL Monaco (Monaco)
		Kredietbank (Suisse) (Switzerland)
		Merck Finck & Co (Germany)
		Puilaetco Dewaay Private Bankers (Belgium)
		Theodoor Gilissen Bankiers (Netherlands)

** The Shared Services & Operations Business Unit, which is made up mainly of divisions, but also a few subsidiaries (such as Fin-Force), is not shown in the table.*
1 Present not only in Belgium, but other countries as well.
2 Roadside automobile assistance and travel assistance.

SPECIFIC NON-FINANCIAL ASSETS

Our financial reporting system categorises our non-financial assets as 'intangibles and goodwill' for valuation purposes. However, a key shortcoming of this approach is the inadequate accounting of our non-financial assets such as brands, market share, customer retention levels, quality of human capital, employee satisfaction levels and intellectual property. We address our key non-financial assets in more detail in various parts of this report (our employees, our approach to the environment and the community at large, our customers and suppliers and our investors). Here, we focus on those assets that are not necessarily associated with any particular stakeholder, including our brand, our main franchises and our IT systems.

Our brand

In line with our mission statement (see footnote, p. 4), we seek to become an efficient bancassurer and wealth manager with a strong affinity for our customers, while ensuring that our employees are looked after. We also strive to identify with the various communities we serve by such means as using local company names, employing local management and adhering to socially responsible business practices in keeping with the standards of the relevant countries. At the same time, we are aware of the importance of harmonising our corporate values and strengthening our brand. This is why most of our banking and insurance subsidiaries around the world changed over to a uniform brand logo as part of our global brand strategy, incorporating the familiar KBC light blue logo with the individual company name[12].

We have a systematic measure of our brand strength and brand recognition in our home markets. Within our Belgian bancassurance network, the latest study, conducted in November 2006[13] by an independent consultancy in the region of Flanders, revealed that KBC's recognisability as a bancassurance brand has remained stable at a high level over time, as has been the case with the three other large bancassurers in Belgium. Moreover, KBC scored highest in the area of public sympathy for the brand, and came out well with regard to brand success and 'brand potential' (including brand awareness, brand attractiveness and brand loyalty). In comparison with the previous study[14], more existing customers were also willing to continue using KBC.

Branding studies were also carried out in our Central and Eastern European markets. For instance, our Polish banking and insurance entities commissioned a study at the start of 2007[15], which showed that brand awareness remained rather high, especially for the insurance arm, but that 'brand potential' strength still had some room for improvement. In Hungary, a study carried out in 2006[16] demonstrated that the levels for brand awareness, acceptance and appreciation were satisfactory, and that brand attractiveness amongst customers and non-customers alike was quite high.

12 With the exception of certain smaller subsidiaries in Belgium and within the KBL European Private Banking network, which maintain their own 'valued' brand name as part of a deliberate differentiation strategy.
13 'KBC imago en communicatie meting november 2006' (KBC's image and communication - measurement, November 2006), Significant Market Research (GfK Group), Belgium.
14 This study is conducted twice a year to measure KBC's image and communication efforts in Flanders. In 2006, this took place in May and November.
15 'Image of Warta and Kredyt Bank – Report from the research, Warsaw, April 2007', GfK Polonia.
16 'Brand Equity Survey for K&H, March-April 2006', Free Association Research Kft., Budapest.

Our main franchises

KBC in Belgium

At the end of 2006, KBC had a network of 927 bank & insurance branches in Belgium (KBC branches in the Dutch-speaking part of the country and CBC branches in French-speaking Belgium). This network includes 869 retail branches, 33 corporate branches (including branches catering for the social profit segment) and 25 private banking branches. The retail market is also served via 708 independent agents of the savings bank, Centea.

Besides traditional bank products, our network also markets insurance products. To sell these products, we have – besides our branches that sell standard insurance products – an extensive network of tied insurance agents (566 agencies at year-end 2006), who also handle claims settlement. In addition, we offer the insurance products of subsidiary Fidea through independent brokers and agents associated with our savings bank, Centea.

We serve an estimated 3.3 million bank customers and around 1.5 million insurance customers in Belgium through all these networks. In 2006, we had a share of approximately 20% of the Belgian deposit market, a share of 22% of the lending market and a share of as much as 34% of the market in investment funds, a market it leads in Belgium. In the capital-guaranteed funds market, we hold an extremely strong position, with an estimated share of 54% in 2006. In lending, home loans again proved particularly successful. There was a net increase in the portfolio of as much as 12%, giving us an estimated market share of 24% (around the same as a year earlier). In deposit accounts, we have around 19% of the market (again, on a par with 2005), while our share of the savings certificate market comes to some 16%[17].

According to provisional estimates, we are the third largest life insurer in Belgium, with an estimated market share of 15% measured by premium income. We attribute this strong position mainly to our share of the market in unit-linked life insurance, which is put at 43%. For other life insurance products (mainly guaranteed-rate products), our market share is estimated at 7%. In non-life insurance, where we are prominent in virtually all classes for private households (less for commercial risks), our market share comes to some 9% (12% for third-party liability insurance for motor vehicles and 13% for fire and other property damage).[18]

KBC in Central and Eastern Europe

Over the past few years, we have built up an extensive banking and insurance network in strategically chosen countries in Central and Eastern Europe and we are now

Network and market position in Belgium, 31-12-2006

	Belgium
Network	
Bank branches (KBC & CBC)	927
Bank agencies (Centea)	708
Insurance agencies, (KBC)	566
Customers (estimate)	
Bank customers	3.3 million
Insurance customers	1.5 million
Market share (estimate)	
Traditional bank products (loans and deposits)	21%
Investment funds	34%
Life insurance	15%
Non-life insurance	9%

17 Data in this paragraph are based on KBC estimates.
18 Idem.

Network and market position in Central and Eastern Europe, 31-12-2006

	Czech Republic	Slovakia	Hungary	Poland
Network				
Bank branches*	234	103	188	349
Tied insurance agents	1 213	709	566	3 547
Customers (estimate)				
Bank customers	2.9 million	0.2 million	0.8 million	0.9 million
Insurance customers	0.7 million	0.2 million	0.5 million	2.0 million
Market share (estimate)				
Traditional bank products (loans and deposits)	22%	7%	10%	4%
Investment funds	28%	10%	18%	4%
Life insurance	9%	4%	4%	3%
Non-life insurance	4%	4%	4%	11%

** Corporate branches are counted separately, even if located in a retail branch*

one of the biggest financial groups in the region. Unlike many of our competitors there, we not only have banking subsidiaries, but also have an insurance company and an asset management entity in each of the main countries, enabling us to develop our bancassurance concept to the full.

At the end of 2006, our banking network in our Central and Eastern European home markets comprised 874 branches, i.e. ČSOB in the Czech Republic and Slovakia, K&H Bank in Hungary, and Kredyt Bank in Poland. Besides selling products through these bank branches, we also use other channels, such as the more than 3 000 Czech post offices, the points of sale of Kredyt Bank's Polish consumer finance subsidiary, and of course the various electronic channels, such as the Internet and phone-banking. This number does not take account of our presence in Slovenia and the other republics of the former Yugoslavia through our minority interest in Nova Ljubljanska banka (a total of some 400 branches) and our presence in Serbia via the recently acquired A Banka (around 40 branches).[19]

With respect to insurance activities, at year-end 2006, this network included ČSOB Pojišťovna in the Czech Republic, ČSOB Poisťovňa in Slovakia, WARTA in Poland, NLB Vita in Slovenia (a joint venture with Nova Ljubljanska banka), and K&H Insurance in Hungary. Together, these companies have a network of some 6 000 tied insurance agents. At the start of 2007, a deal was concluded for the acquisition of DZI Insurance, Bulgaria's largest insurance company (see below), with a network of around 8 000 agents.[20]

Given the increasing sophistication of the Central and Eastern European region, there has been a shift to some extent away from traditional deposits to off-balance-sheet products, such as investment funds. Here, too, KBC enjoys a very strong position in the region, in part because it is continuously introducing innovative products (including funds offering capital protection, which present an attractive alternative to traditional deposits in Central and Eastern Europe, too). Over the past few years, the asset management activities in Central and Eastern Europe have been streamlined to the point that KBC now has one asset management company in each of its home market countries in the region. They operate under the umbrella of KBC Asset Management in Belgium, which – acting as a group-wide 'product factory' – assists the local companies to develop their asset management activities and launch investment funds (see the 'Shared Services & Operations Business Unit' section).

Thanks to this extensive banking and insurance network, we have captured a prominent market position in selected countries and serve nearly 5 million banking customers (not

19 *Idem.*
20 *Idem.*

counting NLB) and over 3 million insurance customers in the region. We expect that this region will not only achieve significantly higher economic growth than Western Europe, but also that it will continue to catch up with respect to the penetration of bank and insurance products. We consequently remain convinced that our presence in this region gives us a strong motor to drive growth in the future.[21]

The estimated market shares for bank products, investment funds and insurance in the various countries are shown in the table.
Our broking house KBC Securities consolidated its position in Central and Eastern Europe by acquiring Swiss Capital, a Romanian brokerage, followed by Equitas, a Hungarian online retail broker (start of 2007). These acquisitions added to the already strong presence in Central and Eastern Europe, where KBC Securities leads the market (number one in the Czech Republic, with an estimated 28% share of the local market; number two in Hungary, with roughly a 14% share – now supplemented by a significant presence in the online retail market – and a share of the Polish market of approximately 5%). In recent years, KBC Securities has grouped the equities activities in each of these three core countries in a single entity that caters for both institutional and private customers. KBC Securities also plays a major role in the distribution of Central and Eastern European shares. For instance, it is the only Belgian market player offering private investors the opportunity (via its Bolero online broking application) to trade shares online on the stock markets of Warsaw, Prague and Budapest. Its corporate finance department also provides guidance and assistance to Belgian companies planning acquisitions or mergers in Central and Eastern Europe.

KBC in the rest of the world

Outside Belgium and Central and Eastern Europe, our corporate banking operations are focused in particular regions, with KBC branches and subsidiaries in Western Europe, Southeast Asia and the US. Most of these establishments, which target local mid-cap customers and customers that already do business with the group's Belgian or Central and Eastern European network, specialise in certain niche sectors or activities (government finance, health care, real estate, financial institutions, trade finance and/or acquisition finance, diamond trade, depending on the establishment concerned). In addition, KBC Bank departments and subsidiaries provide global corporate banking services, such as project finance and structured trade finance.

As for the KBL European Private Banking (EPB) group, it is headed by Kredietbank SA Luxembourgeoise and focuses on local private banking activities. These activities are conducted via a network of local pure-play private banks centred on the Benelux and certain Western European countries. At the moment, KBL EPB is present in Germany, France, the United Kingdom, Switzerland, Monaco, the Netherlands, Luxembourg and Belgium.

Our ICT systems

Our ICT systems are also a valuable non-financial asset for KBC. In this respect , all of our ICT services are brought together in the Group ICT division, which is responsible for the group-wide provision of such in-house ICT services as communication, data processing and tailor-made systems development. Its mission is to foster synergy within the group, including group-wide standardisation, among other things, with a view to exploiting economies of scale and enhancing efficiency. Besides achieving cost-savings through harmonised business processes, it will enable us to offer similar products and services in the various local markets. Examples of group-wide projects in 2006 included establishing a KBC-owned offshore development centre in India, introducing a uniform ICT purchasing policy and implementing a business-ICT management model and a company-wide credit risk-monitoring system.

In addition, our ICT division is responsible for developing and enhancing our web-based applications and tools, including our online banking and insurance facilities, as well as our local bancassurance and group-wide Internet Web sites and Intranet communication channels. Indeed, an increasing number of retail customers are actively using our e-banking/e-insurance systems in Belgium and in the Central and Eastern European markets. We have also developed e-solutions for corporate customers, including KBC@Isabel – an offline application integrated into Isabel (a multi-bank network facilitating communication among

21 Idem.

banks and companies) – and KBC-Online for Business, an online application – likewise developed by us – for the SME market in Belgium. Other important electronic services for businesses include KBC-Flexims, an Internet channel for sending and receiving documentary credit, documentary collection and bank guarantee applications, amendments or payments to and from KBC, and w1se Corporate e-Banking®, an Internet-based e-banking program for companies operating internationally.

Finally, we should also note that we place much emphasis on operational excellence. We seek to achieve operational excellence by putting in place swift, error-free, core processes that respond efficiently to market demand and can be quickly and adequately adapted to changes in the marketplace. Accordingly, a number of operational excellence projects are currently ongoing within the group that are designed to streamline processes and enhance efficiency. We also aim to speed up cross-border activities and processes and to intensify the exchange of effective business processes and know-how between the various entities.

KEY CSR IMPACTS - 2006

General:

The main events in 2006 regarding CSR in general at KBC were:

- the approval and implementation of a CSR Action Plan, which entailed setting up a group-wide policy framework with regard to our various CSR stakeholders,
- we changed the CSR reporting framework to focus on our stakeholders rather than on general CSR areas (as in our first two reports),
- we also extended the scope of the CSR data collection process to our merchant banking and private banking business units,
- in a competition organised by the Belgian Institute of Statutory Advisers, our 2005 CSR Report was amongst the top five nominees for best CSR report in Belgium,
- we joined external CSR-related organisations, including the UN Global Compact.

Ambitions for 2007:

- to draft and implement group-wide CSR stakeholder policies vis-à-vis customers, employees, suppliers, shareholders & investors the society as a whole, as well as group-wide policies concerning the environment and investments,
- to further improve and refine our data collection methodology,
- to continue our involvement in our external CSR networks, both locally and internationally, including the UN Global Compact.

Corporate governance:

The main events in 2006 were:

- the publication of our Corporate Governance Charter, in accordance with the best practices for listed companies outlined in the Belgian Code on Corporate Governance,
- the reorganisation of our group operational structure into five distinct business units,
- the succession of André Bergen as Group CEO on the retirement of Willy Duron,
- explicit inclusion of the CSR issue as a topic for yearly discussion by the Board of Directors.

Ambitions for 2007:

- to follow up on corporate governance best practices.

Business ethics:

The main events in 2006 were:

- the approval at group level of a new whistleblower policy and a know-your-customer policy,
- the introduction of a new CSR screening prerequisite within our credit approval process,
- adoption of the revised Equator Principles, which effectively reduced the application threshold for project financing activities from 50 to 10 million USD (in terms of capital costs). In line with this change, Equator Principle co-ordinators were appointed at those entities involved in project financing operations,
- in Belgium, active participation in dialogue with various non-governmental organisations (NGOs) in 2006 on subjects such as cluster bombs and how to safeguard human rights in our loans and investments.

Ambitions for 2007:

- the implementation throughout all group entities of the CSR screening prerequisite within the credit approval process,
- the setting up of a database and reporting system to monitor and follow up projects which come within the revised Equator Principles threshold,

- the approval and implementation of a group-wide general investment policy which will incorporate the UN Principles for Responsible Investment,
- the review and update of our group-wide code of conduct, to be rolled out by year-end.

Employees:

The main events in 2006 were:

- the management decision to initiate procedures in Belgium to facilitate the promotion of talented women to management positions
- the drop in the total number of employees was almost fully accounted for by the sale of Banco Urquijo within the European Private Banking network,
- we spent nearly 52 million euros on training for 83% of the group.

Ambitions for 2007:

- the approval and implementation of a revised group-wide employee policy, based on existing employee policies.

Customers:

The main events in 2006 were:

- very positive results in customer satisfaction surveys at many of our entities – the majority of customers appear to be satisfied with the products and services provided and would recommend KBC or its subsidiaries to their friends or acquaintances,
- a wider choice of socially responsible investment (SRI) funds in Belgium, likely due to growing demand by retail and institutional customers,
- the assets under management in our SRI funds almost tripled over the 2006 calendar year.

Ambitions for 2007:

- the approval and implementation of a group-wide customer stakeholder policy,
- the selective introduction of our SRI funds in Central and Eastern Europe.

Environment:

The main events in 2006 were:

- participation in the Carbon Disclosure Project[22] for the fourth year in a row,
- continued support of ARGUS, the independent provider of information on environment in Belgium, founded by KBC in 1970,
- further attention to intelligent use of energy (e.g., increase in the proportion of ‘green energy’ in Belgium, energy- and cost-saving initiatives for the new head office in the Czech Republic),
- drafting of a group-wide environmental policy, approved at the start of 2007 and to be implemented during the course of the year.

Ambitions for 2007:

- refinement of data capture and data collection for environmental management purposes,
- further initiatives related to the issue of global warming (e.g., the launch of an SRI fund wholly focused on climate change),
- a study on the offsetting of our carbon emissions.

Community initiatives

The main events in 2006 were:

- continued support of philanthropic and cultural initiatives, with a particular focus on community building, the (re-)integration of disadvantaged persons in society, health issues, education and help for the elderly and orphans,
- the total budget spent on philanthropic and cultural initiatives exceeded 7 million euros,
- employee volunteerism and engagement were further encouraged particularly in Belgium, for example via the various microfinance projects designed and managed by the Belgian Raiffeisen Solidarity[23] (BRS).

Ambitions for 2007:

- the drafting and approval by year-end of a CSR policy concerning philanthropic and cultural initiatives and employee engagement.

22 www.cdproject.net
23 Formerly the Belgian Raiffeisen Foundation.

EXTERNAL CSR INITIATIVES AND BENCHMARKS

Commitments to external CSR initiatives

With regard to our commitments to external initiatives related to CSR, at a local level, we are a member of Business & Society Belgium. Internationally, we adopted the revised Equator Principles (see p. XX) and United Nations Global Compact.

In April 2006, our Belgian unit became a member of Business & Society Belgium, a network of over 40 Belgium-based companies wishing to become more familiar with CSR tools and advance the CSR cause. Business & Society Belgium is part of a Europe-wide CSR network (CSR Europe). Most of its activities are related to organising workshops for and disseminating information to its members on CSR topics that are particularly in focus within Belgium (see www.businessandsociety.be). As a member, we actively participated in some of the activities organised by the network, including hosting a session on CSR education at our Brussels head office in January 2007.[24]

To move towards establishing our CSR credentials on an international platform, we joined the United Nations Global Compact in October 2006, endorsing and supporting the Ten Universal Principles in October 2006. We took part in a preliminary meeting of the Belgian network of Global Compact companies last year, and intend to continue our participation in future initiatives, as well as meeting our obligations under the Communication of Progress criteria.

As part of our commitment to the Global Compact, we are in the process of drafting group-wide CSR policies that address each of our stakeholders and should be implemented during the course of 2007. These include a revised code of conduct which is aimed at reinforcing our observation of anti-corruption and human rights, as well as policies focusing on the environment, customers and suppliers, among other things.

CSR share indices - 2006

FTSE4Good

FTSE Group is delighted to confirm that KBC has been independently assessed according to the FTSE4Good criteria[25], and has satisfied the requirements to become a constituent of the FTSE4Good Index Series. Created by the independent financial index company FTSE Group, FTSE4Good is a financial index series that is designed to identify and facilitate investment in companies that meet globally recognized corporate responsibility standards. Companies in the FTSE4Good Index Series are doing more to manage their social, ethical and environmental impacts, and are better positioned to capitalize on the benefits of responsible business practice.
For more information, surf to www.ftse.com/Indices/FTSE4Good_Index_Series

Ethibel

In Spring 2006, KBC was selected for inclusion in the Ethibel Pioneer and Excellent Investment Registers and Sustainability Indices.
Based in Brussels, Belgium, Ethibel was established in 1992 and is a leading European screening company in the field of socially responsible investments (SRI). The Ethibel Investment Register is used as the basis for SRI products for a growing number of European banks, fund managers and institutional investors.

The Ethibel Sustainability Indexes combine a sound financial return with a positive impact on society by selecting the world's leading companies in terms of sustainability. Ethibel's methodology is based on the integration of two of the most significant aspects of corporate social responsibility: sustainable development and stakeholder involvement. For more information on Ethibel and the Ethibel Investment Register, surf to www.ethibel.org.

24 The session disclosed the results of a survey entitled 'What do business leaders think about and expect from CSR education?'
25 FTSE4Good indices are reviewed semiannually in September and March by the FTSE4Good Policy Committee. The research on and analysis of a company's CSR performance is undertaken by EIRIS (the Ethical Investment Research Service).

Triodos Bank

KBC was selected by Triodos Bank, the Dutch ethical bank, in October 2005 to be included in its sustainable investment universe. Based on this universe, Triodos has designed socially responsible investment funds, such as the Triodos Values Funds in Belgium and the Triodos Meerwaarde Fonds in the Netherlands. These funds invest in carefully selected companies that have outperformed within their respective sectors with regard to sustainable development and the implementation of responsible social and environmental policies.
For more information on Triodos Bank, surf to www.triodos.com

CSR ratings - 2006

SiRi Company (Dutch Sustainability Research)

Originally formed in 2000 as a network of socially responsible investment (SRI) organisations across Europe, SiRi Company is now a leading for-profit independent global provider of SRI research and consulting services for institutional investors and financial professionals. It continues to work with its local network partners, including Dutch Sustainability Research of the Netherlands. KBC was screened in August 2006 by Dutch Sustainability Research and the CSR scores are provided below:

	Company scores (out of 100)
Corporate sustainability score	**71.9**
Business ethics	75
Community	75
Corporate governance	74
Customers	78
Employees	74
Environment	68
Contractors	55

SAM

SAM Group[26], an independent asset management company based in Switzerland with a focus on sustainability, conducts research to identify companies meeting sustainability criteria. Together with Dow Jones Indexes and STOXX, SAM has launched a family of sustainability indexes to track the performance of companies that are industry leaders in terms of sustainability. The results of the latest Benchmarking Report for KBC (September 2006) are summarised as follows:

Company scores (in %)	2005	2006
Overall assessment	61	61
Economic dimension	72	68
Environmental dimension	45	46
Social dimension	63	64

26 www.sam-group.com

CORPORATE GOVERNANCE

SUMMARY

The Belgian Code on Corporate Governance, which came into effect on 1 January 2005, seeks to ensure transparency in corporate governance by requiring every listed company to disclose information in two separate documents: the *Corporate Governance Charter* and the Corporate Governance Chapter of the annual report. KBC Group NV (the legal name of our corporate entity) publishes its Charter on www.kbc.com.

The Corporate Governance Chapter in KBC's 2006 Annual Report[1] contains more factual information regarding the company's corporate governance, including the composition of the Board of Directors and its committees, details on the remuneration and shareholdings of the members of the Board and the Executive Committee, any changes to it and any relevant events that took place during the year under review. It also provides reasons for any non-compliance with the Code. All points that must be disclosed under the Code are covered in the annual report for the 2006 calendar year, unless otherwise indicated.

RISK MANAGEMENT AT KBC

Vision and principles

The businesses of banking and insurance are exposed to a number of typical risks, such as credit risk, market risk and liquidity risk, as well as technical insurance risk and operational risk. Controlling all these risks is one of the most crucial tasks of group management.

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

Risk governance model

Our risk governance model defines the responsibilities and tasks required to manage value creation and all the associated risks. The governance model is organised in three tiers.

Senior level:

- the Board of Directors (assisted by the Audit Committee),
- the Group Executive Committee,
- the Group ALCO (Asset/Liability Management Committee).

These committees concentrate on global risk management and on monitoring value creation and capital adequacy for the entire group. Regular reporting to the Audit Committee ensures that there is an ample flow of information to the relevant members of the Board of Directors. Each year, the full Board sets the risk tolerance limits. The Group Executive Committee is responsible for the implementation of the value and risk management strategy and outlines the structure of such management. The Chief Financial and Risk Officer (CFRO), a member of the Group Executive

1 *Also available on www.kbc.com .*

Committee, has been entrusted with the specific task of supervising risk management and the internal control structure. The Group ALCO takes the investment and finance decisions, monitors the relevant risk exposure and is responsible for developing capital management.

Specialised risk committees
These committees concentrate on developing a group-wide framework for one particular type of risk or cluster of activities and monitor the associated risk management process. Chaired by the CFRO, the risk committees are composed of representatives from line management and the Group Value and Risk Management Directorate. The various committees are as follows:

- the Group Trading Risk Committee, which monitors all risks associated with trading activities;
- the Group Credit Risk Committee, which supervises the composition and quality of the loan portfolio (including credit risk in respect of (re)insurance);
- the Group Operational Risk Committee, which oversees operational risk management;
- the Group Insurance Risk Committee, which monitors specific insurance risks[2].

In 2006, the risk governance model was revamped to accommodate the new group structure. Among other things, this entailed centralising all trading risk management in the Group Trading Risk Committee, centralising ALM for all euro group companies and, where necessary, replicating the group risk committees at lower levels (i.e. at the level of the business units and subsidiaries). At KBL European Private Bankers (KBL EPB), the risk management policies and procedures were also brought fully into line with the risk governance principles that were introduced in all group entities in 2006.

Line management
It is here that primary responsibility for value and risk management lies. The Group Value and Risk Management Directorate measures risks, economic capital and value creation for all business entities and reports its findings to line management. Line management is entrusted with the task of developing transactional models, whereas the Group Value and Risk Management Directorate is responsible for developing portfolio models, as well as for validating all models (both transactional models and portfolio models). However, there is a clear separation of responsibilities within this directorate, as validating staff is different from modelling staff.

KBC'S CSR ORGANISATION

At KBC, CSR matters are handled by specific persons or units within various departments at both the group and business-unit levels. These include the compliance department (in charge of matters concerning business ethics and the monitoring of KBC's ethical codes), the human resources department (on employee matters), the facilities department (regarding the environmental performance management of KBC buildings and supplier issues), the sponsorship department (involved in philanthropic and cultural sponsorship), the marketing and customer services departments (concerned with products and services related to our customers), the asset management unit (which designs and markets socially responsible investment – SRI – funds on the basis of research conducted by our in-house team of SRI analysts and has drafted a new policy on responsible investment[3]), and the corporate credit department (which establishes policy guidelines for the granting of corporate credits, as well as co-ordinates policy matters concerning the Equator Principles).

Communication and reporting on all CSR-related matters to the external world is the responsibility of the CSR communications function. This function was set up within the Investor Relations Office at KBC's Brussels head office in response to the increasing prominence of CSR both within KBC and amongst the general public and the need to establish a central point of contact for reporting purposes between the various business lines and KBC's senior management, on the one hand, and between KBC and its stakeholders, on the other. It is involved in various working groups concerned with CSR issues.

2 See basic organisation chart in KBC's 2006 Annual Report, p. 59 (available on www.kbc.com).
3 To be implemented during the course of 2007.

RESPONSIBILITY TOWARDS THE COMMUNITY

BUSINESS ETHICS

Codes of conduct and compliance

At KBC, we perceive business ethics to be a key element in ensuring that our operations are being conducted in a responsible manner and in accordance with all legislation and regulation in place at both national and international levels. The core of a company's business ethics infrastructure is a code of conduct for its employees. Our basic code is the *Code of Conduct for KBC Group Employees*, which sets out uniform rules of behaviour applicable to all KBC employees in relation to their respective companies, customers and suppliers, colleagues, society, competitors and the media. The concepts of customer-friendliness, efficiency, enterprising spirit and capacity for innovation, as laid down in KBC's mission statement, do not exist in isolation, but only take on their full significance in a wider ethical context. At Group level, this code of conduct is being updated continually to reflect structural and organisational changes and to bring it in line with the changing realities within our group and the general environment[1]. More detailed codes derived from this document address particular sectors or more sensitive or specialized activities (e.g., *Code of conduct of KBC Group for the use of means of communication*, as well as codes for dealing room, asset management, advisory functions and services handling medical data). In 2006, moreover, a revised 'dealing code' was introduced to comply with new insider-trading regulations[2], as well as a 'gifts' policy, which provides clear

KBC Group's statement on human rights[3]
KBC Group fully respects, supports and has implemented the principles underlying universal human rights throughout the Group, including the right to equal opportunity and non-discrimination, the right to the security of persons, the rights of employees (including opposition to any forms of forced labour or child labour, the right to a safe and healthy working place, the right to freedom of association and collective bargaining), respect for national sovereignty and human rights (including opposition to bribery in whatever form), and obligations with regard to consumer protection and environmental protection.
In this respect, KBC Group abides by the letter and spirit of the United Nations Universal Declaration of Human Rights, the eight Fundamental International Labour Organisation Conventions, the European Convention for the Protection of Human Rights and Fundamental Freedoms and other international and regional human rights treaties containing internationally recognised standards that the business sector must respect, and complies with the laws, rules and regulations of every country in which the Group operates. Hence, KBC agrees in principle with the first fourteen points set out in the Draft UN Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights, as these are a summation of all of the aspects of human rights as laid down in the aforementioned international and regional treaties in force.
Moreover, we endeavour to further enhance communication on our policy and stance regarding human rights to our stakeholders - including our customers, employees, shareholders and suppliers - as part of our overall communication efforts on corporate social responsibility.

1 An updated and revised version is expected by the end of 2007.
2 In accordance with the EU Directive 2003/6/EC on insider dealing and market manipulation (market abuse), and following publication of the Belgian Royal Decree of 24 August 2005 amending the provisions regarding market manipulation in the Act of 2 August 2002 on the supervision of the financial sector and financial services, the Board of Directors of KBC Group NV drew up a dealing code which, among other things, requires a list of key employees to be drawn up, annual blocking periods to be set, and transactions by persons with managerial responsibility and with persons connected with them to be reported to the CBFA. The principles of this code have been appended to the Corporate Governance Charter of KBC Group NV. The code entered into effect on 10 May 2006.
3 KBC's statement on human rights serves to underline its commitment to respecting international and national norms – including the UN Global Compact's Universal Principles – on a group-wide basis, and appears on its Web site, www.kbc.com.

guidelines and definitions on what constitutes a reasonable gift for commercial purposes.

We already clarified our position on bribery in our anti-corruption policy statement (2005), which reiterates KBC's zero tolerance of bribery or corruption in any form, be it in the private or the public spheres and vis-à-vis national and foreign public officials[4]. Our support for all the aspects of human rights as defined by the UN Universal Declaration of Human Rights and the International Labour Organisation has also been set out in our statement on human rights (2005) (see boxed text). These commitments have been reinforced via our endorsement of the UN Global Compact in October 2006.

All of KBC's ethical codes apply throughout the group as a general framework. In practice, our group entities draft and adopt their own-company codes of conduct within this framework[5]. In 2007, all entities plan to have codes of conduct modelled on our group-wide code and in accordance with local laws and regulation, which integrate specific commitments to, for example, anti-bribery and employee rights[6].

Compliance

Within KBC, the Compliance Division serves as an autonomous 'watchdog', monitoring and promoting compliance of our entities with our internal ethical codes and with regulations in force regarding banking and insurance operations. It reports directly to the President of the Executive Committee and to the Chairman of the Audit Committee. In particular, it is charged with ensuring that no illegal or criminal transactions occur in connection with money laundering, insider trading or other fraudulent activities, as set down in detail in the Compliance Charter and in KBC's Integrity Policy (see boxed text). In this regard, the Compliance Division collaborates with the internal Audit Division at KBC, which is in charge of monitoring risk management at and assessing internal control systems within

KBC's Integrity Policy – areas of priority:

- Money laundering
- Prevention of tax evasion and other fiscal irregularities
- Transactions in financial instruments
- Insider trading
- Price manipulation and market abuse
- Observance of the Privacy Act
- Ethical code on proprietary trading
- Incompatibility of mandates

all KBC entities. Special units have been set up within the Compliance Division to handle particular issues, including the Anti-Money-Laundering Unit and the Anti-Fraud Unit. In addition, local compliance units have been set up at virtually all our main international subsidiaries and entities, which work with the Compliance Division with regard to all areas of priority, and, in particular, the areas of money laundering, fraud and tax evasion.

We also pay much attention to maintaining the confidentiality of information and to respecting privacy, in accordance with local privacy laws. At group level, the Compliance Division's Financial Ethics Unit is responsible for monitoring compliance with policies in this area, as well as with issues related to insider trading and incompatibility of mandates at KBC. There are specific guidelines on combating corruption and fraud, as well as set restrictions regarding limiting trading in securities by staff members who have access to price-sensitive information. The Compliance Division has also stepped up its contribution to KBC's training courses by way of traditional classes or information sessions for staff on various aspects of compliance, as well as an e-learning package for employees in the bank branches in order to prevent the laundering of funds from criminal activity. To further buttress our commitment to anti-money

4 KBC against corruption:
KBC Group is formally opposed to any form of corruption, including extortion and bribery, in both the private and public spheres. Under no circumstances will KBC or any member of its staff offer or give bribes, either directly or indirectly, in the conduct of its operations. KBC does not condone any form of donations whatsoever to persons or parties in a political or public capacity that is in contravention of the applicable law, nor will KBC tolerate such behaviour by its employees.
Any evidence of such practice will be dealt with accordingly by the relevant department at KBC. In this respect, KBC fully complies with the letter and the spirit of the legislative and regulatory proscriptions in force against bribery and corruption, including vis-à-vis national and foreign public officials.

5 Such as within the KBL EPB network, in Ireland, Hungary, Czech Republic and Slovakia, and at our Polish banking unit. The exception to this is our Polish insurance unit, which is in the process of drafting one.

6 Almost all of KBC's Central and Eastern European entities have already implemented (or will have implemented by mid-2007) a company-specific code of conduct for employees with the requisite monitoring and control systems in place. KBL and the EPB network also have strict ethical codes for employees and a policy related to anti-money-laundering and 'Know Your Customer', while the international entities involved in retail and corporate banking activities have implemented Group codes as standard practice.

Group Standards for the Protection of Whistleblowers – Key points

Basic principles

- Employees who have reasons to suspect that fraud or gross malpractice has occurred or may occur are encouraged to report their concerns.
- All reported concerns shall be treated objectively and in strictest confidence.
- Specially trained staff shall investigate all reported concerns thoroughly, fairly and objectively within a reasonable time period. In principle, this is the responsibility of the internal audit department.
- Employees reporting such concerns shall not suffer any negative consequences as a result of their disclosures, on the understanding that they are made in good faith.
- The rights of persons about whom concerns are reported shall be safeguarded and respected.
- Anonymous reports shall be seriously discouraged.

These standards apply to all types of fraud and gross malpractice relating to gross violations or gross infringements of internal rules and cover all KBC entities and companies.
Concerns about fraud or malpractice may be reported via every possible means of communication. The compliance division is responsible for monitoring the functioning of these standards in all group entities.

laundering and anti-terrorism and to safeguard our operations from such risks, a new 'Know Your Customer' policy was approved at Group level in 2006 with well-defined guidelines regarding customer acceptance. This policy will have been communicated for implementation throughout all entities before the end of 2007.

Moreover, to ensure the protection and privacy of staff members who wish to report irregularities or operational shortcomings in good faith, we introduced new whistleblower guidelines in the second half of 2006, to be implemented in stages throughout the group in 2007 (see boxed text).

Lending policy and the Equator Principles

At KBC, the borrower-lender relationship has traditionally been evaluated and monitored on the basis of potential financial risks, with account taken of the relevant environmental and social concerns. Indeed, our corporate lending business is governed by strict policies and guidelines. The principles and rules set out in the General Credit Policy apply throughout KBC worldwide. In our dealings with our customers and the communities in which we operate, KBC observes both the regulations and standards in force, and the principles of fairness, reasonableness, openness, transparency and discretion, whilst ensuring privacy. Loan applications are generally assessed not only on the purely financial and economic aspects of the loan, but also on the relevant social and environmental aspects. These last two aspects are important concerns at KBC, as the risks associated with these may be translated into credit risk. For this reason, the General Credit Policy stipulates that:

- Aspiring borrowers with activities that are potentially polluting must present an environmental permit to KBC.
- KBC is reluctant to finance companies that are exposed to significant environmental risks.
- Criminal and other socially unacceptable activities, including the drug trade, prostitution and illegal arms-related transactions, are ruled out.
- Potential borrowers must have a known and undoubted reputation.
- KBC is very reluctant to finance any manufacturer or trader in the weapons sector. In particular, KBC rules out loans to manufacturers or traders of weapons prohibited by law (e.g., anti-personnel mines, chemical and biological weapons, cluster bombs and munitions – this last banned under Belgian law) or to companies that manufacture or trade in weapons that are not prohibited by law, but are internationally recognised as having led to disproportionate suffering among civilians in the last fifty years (such as weapons containing depleted uranium)[7].

7 Exceptionally, the granting of credits to subsidiaries of controversial weapons manufacturers that are not involved in the defence sector may be considered, if and only if it is certain that the credits will be used for the financing of activities which have no relationship with arms or weapons. This condition is strictly monitored and must be met before any such credits are granted.
KBC's total loan portfolio, including bonds and uncommitted and unused credit lines, was 185.7 billion EUR as at 31 December 2006. The share of outstanding loans to companies involved in the production or sales of weapons is 0.015%. This figure is expected to decline further, in line with contractual repayments.

- KBC will not provide loans to those customers of which we know that they do not respect human rights.

In order to reinforce the socio-environmental elements in our lending business, we incorporated a new sustainability screening prerequisite into the standard credit appraisal process in 2006 for corporate loan applications. This prerequisite has already been put into practice in our Belgian operations and with regard to all non-Belgian credit advices managed by our Brussels head office. It is also applicable group-wide, but will be implemented within our other entities during the course of 2007. This prerequisite entails the following enhancements:

- Introduction of a classification of the borrower on the basis of a sustainability risk weighting according to the borrower's industry sector and core business,
- For project finance operations, the use of the project categorisation described in the Equator Principles (see below),
- Systematic and structured analysis and communication of relevant information on exclusions/exceptions with regard to a particular borrower or the industry sector of the borrower - this includes information on the borrower's potentially controversial products or activities.

The Equator Principles

Special rules in the form of the Equator Principles govern the global project finance operations of KBC group.
The Equator Principles are a continually evolving set of voluntary guidelines for the banking industry, developed in conjunction with the International Finance Corporation (IFC), the private sector arm of the World Bank, to address environmental and social issues that may arise in financing large-scale projects (cf. www.equator-principles.com/). The adoption of the Equator Principles reinforces our longstanding commitment to environmental and social responsibility in all our activities, both domestically and internationally. Moreover, we also apply the 'spirit' of the Equator Principles to our structured trade finance transactions, in the event the investments related to the transaction could have significant environmental and/or social impacts. Such qualification is decided on a case-by-case basis by the relevant credit committee.

Initially, when we adopted the Equator Principles in early 2004, the Principles applied to all projects exceeding the capital-cost threshold of 50 million US dollars. However, recognising the need to revise and strengthen the Equator Principles framework in the face of changing market conditions and public opinion, the IFC drew up an updated version (the 'Revised Equator Principles') based on its new Performance Standards, which was formally adopted by all participating financial institutions, including KBC, in July 2006.

The main modifications to the Principles, which apply globally and to all sectors, are as follows:

- The Principles now apply to:
  - all projects with capital costs above 10 million US dollars,
  - all project finance advisory activities,
  - upgrades or expansions of existing projects where the environmental and/or social impacts are significant.
- The application of the Principles has been streamlined to reflect the differences between countries with respect to the level of existing standards for environmental and social issues. For projects in *High Income OECD countries* (as defined by the World Bank), a social and environmental assessment of the project under and in compliance with local or national law is considered to be sufficient to be 'Equator Principles-compliant'. For projects in *non-High Income OECD countries or in non-OECD countries*, the social and environmental assessment has to be conducted in accordance with the local legislation, the IFC Performance Standards and the Environmental Health and Safety (EHS) Guidelines of the World Bank and IFC.
- The Principles are based on stronger and better social and environmental standards, including more robust public consultation standards.
- Each Equator Principles bank is now required to report publicly about the progress and experience of the Equator Principles' implementation, at least on an annual basis.

Applying the Principles

At KBC, the Equator Principles apply equally to our project finance business, which is handled by around 50 professionals out of six centres (Dublin, London, Brussels, New York, Hong Kong and Sydney) and to the project finance units of our four main non-Belgian banking units (K&H, ČSOB, Kredyt Bank and IIB). The focus is on transactions within the infrastructure, energy (power, renewables and oil & gas) and telecommunication sectors. As an 'Equator Bank', KBC will not provide loans to projects where the borrower is unable to or will not comply with the Equator Principles-related environmental and social policies and processes. To facilitate matters, a senior manager within the central project finance department serves as the co-ordinator responsible for all Equator Bank matters.

We are usually involved in project-finance transactions either as an arranging bank or as a member of a bank syndicate. Irrespective of the position of non-Equator Banks in the syndicate, we require compliance with the Principles. We always see to it that adherence to the Equator Principles is included in any term sheet submitted to a borrower or project sponsor. Special attention is also given to the loan documentation process in order to make sure that the appropriate environmental and social clauses are incorporated. When we appoint legal advisers, we request them to verify that the loan documentation requires the borrower to maintain compliance with the Environmental Management Plan (EMP) and the reporting of any material breaches. These are standard terms and conditions for all our project finance transactions.

Implementation and training

Specific Equator Principles procedures were already developed and incorporated in the credit application manual, prior to the introduction of the Revised Equator Principles. Projects are initially categorised by the project finance officer as either 'A' 'B' or 'C', and is then reviewed by the central credit department[8]. The final decision on the project category is taken by the central credit committee. Moreover, when KBC works with an independent technical adviser, we ensure that the scope of the adviser's tasks includes the requirement to provide us with expert assessment on environmental and/or social considerations regarding the project, including feedback with respect to the potential environmental or social impacts, the environmental management plan and overall compliance of the project with the Equator Principles. The reasons for categorisation are documented during this process. In accordance with the parameters of the Principles, we always require an environmental impact assessment to be drawn up for projects classified 'A' or 'B'.

To ensure optimal implementation of the Revised Equator Principles, the existing procedures and processes with regard to project finance were amended in stages during the second half of 2006. This includes:

- adjustments to our corporate credit policy, the credit application manual and the credit application itself,
- the appointment of an Equator Principles Co-ordinator at each KBC entity which is already engaged in or will be involved in project financing operations. This Co-ordinator function is a senior position and demands the requisite experience in corporate banking and lending activities. The responsibilities and obligations of the Co-ordinator are broadly defined to include:
  - dissemination of all Equator Principles-relevant material within his/her respective entity;
  - acting as liaison between the central credit department and his/her respective entity;
  - serving as the main point of contact within his/her entity on issues/questions related to the Equator Principles and their application;
  - maintaining records of the number of deals submitted for approval and the number of deals approved and declined;
  - reporting to the central credit department on a yearly basis, with a summary of the deals approved and closed during the previous year. The central credit department will centralise this information and a synopsis is planned to be provided in the CSR report as of 2008.

Moreover, as a greater number of entities and departments within KBC are now affected by the lower capital-cost threshold of the Revised Equator Principles, specific documentation has been made available via our Intranet system, covering general background information on the Equator Principles and the impact of the Revised Equator Principles on our lending procedures and processes.

8 Category A: projects with significant adverse environmental and social impacts which are sensitive, diverse or unprecedented
Category B: projects with (less) adverse environmental and social impacts which are site-specific, reversible and susceptible to mitigation
Category C: projects with little or no environmental impact.

Equator Principle projects in 2006

The table below provides the number and share of the transactions which were approved and concluded by KBC in 2006. Although we adopted the revised Equator Principles in July 2006, it should be noted that our reporting of transactions in 2006 was still based on the original threshold amount of 50 million USD. The revised threshold of 10 million USD will be used for reporting purposes as of 2007.

2006	New transactions		Refinancing transactions
	Number	As % of 2006 project finance lending volume	
Category A	2	4%	-
Category B	11	26%	-
Category C	20	70%	6

In the above table, the 'A' project represents one transaction each in the energy sector and in the infrastructure sector. The 'B' projects entail projects in the energy (oil and gas projects and power plants) and infrastructure sectors. The 'C' projects refer to the financing of wind farms and largely projects within the telecom and infrastructure sectors involving light construction works. If the refinancing of existing assets (which involves no expansion or construction) - usually categorized by KBC as C projects - were included in the above table, the number of C projects would rise to 26.

Although a number of transactions were rejected in 2006, none of them were primarily on account of environmental or social concerns. As our lending executives apply the Principles strictly and at an early stage, any transaction that is not or cannot be made to comply with the Principles is turned down and not submitted for approval to the credit committee.

Investment policy

In the past, our investments carried out for our customers and for our account were not necessarily subject to as stringent a set of exclusionary criteria as in the case of our lending operations. This is set to change in 2007 as a group-wide general investment policy is in the process of being implemented at the time of this writing. The policy is based on the UN Principles for Responsible Investment, launched in April 2006, and will thereby incorporate environmental, social and governance (ESG) issues (cf. boxed text below and www.unpri.org).

However, one particular type of restriction has been in place for our investments since 2004, in the form of an overarching policy vis-à-vis the weapons industry. Initially, we blacklisted companies involved in the manufacture of or trade in weapon systems that are banned under international law. This includes anti-personnel mines and biological and chemical weapons. The ban was later extended to other controversial weapons systems[9], in consultation with the External Advisory Board for Sustainability Analysis.

KBC's General Investment Policy – basic principles

- We will incorporate environmental, social and governance (ESG) issues into our investment analyses and decision-making processes.
- We will be an active 'owner' and incorporate ESG issues into our ownership policies and practices[10].
- We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- We will promote acceptance and implementation of the UN Principles for Responsible Investment within the investment industry.
- We will work to enhance our effectiveness in implementing the principles of this general investment policy.
- We will report on our activities and progress towards implementing this policy[11].

9 Controversial weapons are weapons that are not prohibited under international law, but for which there is a broad consensus that they be banned.
10 E.g., via the voting and engagement policy.
11 On a yearly basis, via the CSR report, for instance.

Absolute and relative investments in the aerospace and defence sectors (31/12/2006)[1]

	Equity investments	Bond investments
Investments in Aerospace & Defence	76.6 m EUR	0 EUR
Total equity/bond investments[2]	26 723 m EUR	34 215 m EUR
Share of Aerospace & Defence in total	0.25%	0%

1 These figures apply to KBC's asset management unit.
2 Source: KBC asset management's database system (Decalog), covering almost two-thirds of the assets under management.

Hence, we also exclude manufacturers of cluster bombs and munitions and weapons using depleted uranium. This means that the shares and bonds of companies found to be involved in any of the weapons systems mentioned have been purposefully withdrawn from our investment universe with regard to both our actively and passively managed mutual funds. The list of the relevant companies is updated yearly. In 2006, eleven companies were added to the list, raising the number of blacklisted companies to 19. Stemming from this policy and from the work carried out by our in-house Sustainable and Socially Responsible Research Department (SRI research team – see p. 50), our asset management unit in Belgium approved a new voting and engagement policy for the investments carried out within the unit. This voting and engagement policy will specifically focus on stimulating CSR efforts in the companies that our asset management unit invests in, and, if necessary, use the voting rights associated with the shares held.

Although the weapons policy applies in principle to all investments at KBC group entities, in practice, there are still some legacy issues in Central and Eastern Europe which are not yet fully consistent with group policy. Nevertheless, in 2006, more than 85% of our Central and Eastern European entities had a similar policy in place, as is the case at most of our banking branches in the rest of the world. Our European private banking network is also deliberating the introduction of a similar policy in the affiliated entities.

ENVIRONMENTAL STEWARDSHIP

Policy and recent achievements

Climate change has become a hot topic in recent times and KBC is aware that it has an impact on the environment by way of the buildings and office space it occupies and via the emissions resulting from commuter and business travel. To ensure that all our group entities are on the same wavelength with regard to how we should reduce our environmental footprint by making rational use of natural resources, we published an updated Environmental Policy Statement last year (see www.kbc.com/social_responsibility), which was further streamlined into our Group Environmental Policy, expected to be implemented throughout the group during the course of 2007.

Recent initiatives and achievements in the area of environmental stewardship include:

- For the fourth year in a row, we took part in the Carbon Disclosure Project, which manages the world's largest registry of corporate greenhouse gases and is used particularly by global institutional investors (cf. www.cdproject.net).
- The sustained collaboration with ARGUS, KBC's environmental centre. This organisation endeavours to contribute to sustainable welfare by ensuring that objective information is made available via its publications and Web site, training courses and other services (see boxed text, p. 31).
- The continuous attention paid to waste management: in 2006, we entered into new contracts in Belgium for the transport of waste (i.e. paper/cardboard, residual waste, glass, ink toners, etc.), streamlining the number of waste containers and bringing together several group companies in the region under one waste collection company contract to allow for more efficient collection rounds. In

Group environmental policy - summary

I. General principles

- We acknowledge:
  - a. our direct impact on the environment and that the rational use of natural resources can reduce this impact;
  - b. our indirect impact via our customers/suppliers is greater than our own direct impact. Consequently, we will monitor how the companies and projects we finance could affect the environment, and try preventatively to limit such effects.
- We will ensure:
  - a. that our use of resources is ecologically sound and rational;
  - b. we act in full compliance with the relevant environmental legislation;
  - c. we apply - in so far as is economically feasible - the highest technical standards in order to reduce and/or limit our impact on the environment.
- We encourage:
  - a. sustainable building guidelines;
  - b. our suppliers to adopt a similar approach to reduce their environmental footprint
  - c. developing and upgrading the environmental management systems in various entities, inspired by the ISO 14001 standard (model for environmental management systems developed by the International Organization for Standardization, cf. www.iso.org).

II. Principles related to specific areas

1. **Energy**
   We seek to further reduce our overall energy consumption over time by applying the best available technology that is also cost-efficient, whilst ensuring that the needs for employee comfort are well balanced against that of energy efficiency.
2. **Business travel**
   We are dedicated to a policy that is centred on maintaining a good balance between customer focus and easing the environmental impact of transportation. More concretely:
   - KBC provides transportation options with regard to domestic commuter travel by encouraging employees to carpool, use the public transportation network or commute by bicycle, striving to ensure optimal commuting distance to the workplace and creating further opportunities for work closer to home.
   - For domestic business travel, the time efficiency requirement will be balanced against attention to customer needs.
   - For international business travel, time efficiency continues to be the prevailing factor.
   - The use of video conferences is encouraged whenever possible.
3. **Paper consumption**
   We intend to continue to systematically look into ways of implementing procedures and equipment which focus on efficient paper use. Moreover, the use of recycled paper or paper made from sustainably manufactured wood fibre is encouraged.
4. **Water consumption**
   We intend to further reduce consumption of drinking water by ensuring that new office space planned for construction is fitted out with water-saving installations and systems to enable the channelling of rainwater for practical purposes (e.g., water-cooling mechanisms, toilet flushes, etc.)
5. **Waste**
   We will continue to curtail the environmental impact of waste by optimising waste collection (e.g., separation of waste, if this is supported by the local public waste collection infrastructure) in order to achieve a maximum degree of recycling and to minimise transport to waste sites.

Central and Eastern Europe, Hungary has been monitoring compliance with selective waste collection technology with the intention of extending this to all of the entities in the region, while the Czech Republic aims to build in a high quality waste management programme within the Archibus software (a complete, integrated group of applications that addresses all aspects of facilities and infrastructure management, including environmental sustainability modules).

- Continued focus on paper reduction at KBC's Belgian operations, including increased use of electronic invoicing systems.

- Further attention to enhance intelligent energy use in Belgium: initially, the focus was on enabling efficient use of office lighting, now the attention is also on smart management of HVAC (heating, ventilating and air-conditioning) systems. Moreover, in January 2006, KBC entered into a new contract with the electricity supplier in Belgium, ensuring that one-third of all energy supplied to KBC buildings in the region would be green energy. In Central and Eastern Europe, Poland carried out an energy audit in 2006 in the banking network and plans to implement energy- and cost-saving initiatives; the Czech Republic's new head office relies on a complex system which enables reduced energy consumption, and a similar initiative is planned for a new head office in Slovakia; in Hungary, old HVAC systems have been systematically replaced throughout the network with modern appliances that should increase energy efficiency. In the rest of the world, our private banking subsidiary in Luxembourg, for example, initiated a comprehensive renovation programme at its main office in October 2006 to ensure more efficient and rational use of energy.
- With regard to business travel, KBC's policy focuses on enhancing relationships with customers, while, at the same time, minimising the burden of business travel on the environment. Hence, alternative commuter arrangements such as carpooling and public transport are continually encouraged. KBC has also piloted a system of localised work stations in Belgium as part of an effort to reduce commuting distance to office locations. A similar pilot scheme of home-working, in place since 2006 at our Czech banking unit, should also help to cut down on some of the emissions generated from commuter travel there. Moreover, to cut back on excessive business travel, video conferencing facilities have been set up in the head offices.
- In Belgium, we signed the West Flanders Environmental Charter again for the third year in a row in 2006 for all 179 branches located in that province. This initiative aims to bring together companies that voluntarily endorse environmental objectives and that seek to continually improve their environmental performance. Each year, a commission judges the participating companies on the progress they have made in this regard (cf. http://www.pomwvl.be/site/index.php?p=/pages/8).
- Also in Belgium, KBC's Brussels head office was again awarded the 'Eco-dynamic Company' label in late 2006 for another three years by the Brussels Institute for Management of the Environment (cf. http://www.ibgebim.be/nederlands/contenu/content.asp?ref=906).
- At the start of 2006, KBC's private equity arm helped to establish and finance 4Energy Invest NV, a Belgian company specialising in the production of renewable energy ('green electricity') based on biomass. Biomass is the organic matter in trees, agricultural crops and other living plant material. The use of biomass for energy does not increase carbon dioxide emissions and is a way to dispose of waste materials that otherwise would create environmental risks. 4Energy Invest is initially focusing on projects in Belgium, but plans to expand into Central and Eastern Europe.
- Finally, in Belgium, plans are underway to enter into a covenant with the Forest Stewardship Council during the course of 2007 regarding responsible paper use.

Environmental performance indicators

The following table is based on that provided in '*VfU Indicators 2005: Internal Environmental Performance Indicators for the Financial Industry*'[12], available at www.epifinance.com. It shows the environmental performance of KBC entities in Belgium, Central and Eastern Europe and our operations in our other markets, where available. This is the first time that the data is presented in consolidated form for almost all of our group. As it is also the first time comprehensive data related to the environmental performance indicators have been collected from our operations in the rest of the world, there are some inherent limitations to the quality of the figures reported on, due to the assumptions, estimations and calculations that have been used. Moreover, although we have enlarged the scope to cover all our group-wide operations, for the purpose of data collection, we set down certain basic conditions particularly for those entities which have entered our reporting scope

12 VfU, or Verein für Umweltmanagement in Banken, Sparkassen und Versicherungen e.V. (Association for Environmental Management in Banks, Savings Banks, and Insurance Companies), is a German organisation which has been instrumental in developing a pragmatic and practical approach to measure and report on environmental performance within the financial sector.

for the first time. The conditions specify that companies which are owners and/or majority-occupants of building facilities and employ more than 400 FTEs are required to report environmental performance data. These conditions may be changed in future as we improve our methodology for data capture and storage. Finally, it should be noted that the quantitative data in the table below is not comparable to the data which appeared in our 2005 CSR Report. This

	KBC's environmental performance[1]	2006 Number of FTEs	2006 Absolute figures	2006 Per FTE	2006 vs. 2005 (per FTE)	2005 Number of FTEs	2005 Absolute figures	2005 Per FTE
Internal Energy	**1) Total internal energy consumption in GJ**		**2 054 305**	**48.0**	**-3.4%**		**2 002 687**	**49.7**
	1a) Electricity consumed in GJ	44 291	1 033 756	23.3	12.8%	41 287	854 556	20.7
	- from green energy		16.26%				9.93%	
	1b) Fossil fuels consumed in GJ	43 628	773 742	17.7	-20.8%	41 137	921 317	22.4
	- natural gas		76.3%				57.5%	
	- heating oil		23.4%				38.7%	
	- fuels for emergency power units (petrol, diesel)		0.2%				0.1%	
	- coal		0.1%				3.7%	
	1c) Other energy consumed in GJ	35 780	246 807	6.9	5.2%	34 586	226 813	6.6
Business Travel	**2) Total business travel in '000 kms**							
	2a) commuter travel	33 300	**246 068**	**7 389 kms**	**-16.2%**	**28 389**	**250 244**	**8 815 kms**
	rail travel		42.1%				26.2%	
	road travel		32.2%				50.0%	
	car pooling		4.1%				5.6%	
	bus		20.2%				16.4%	
	bicycle, on foot		1.4%				1.8%	
	2b) business travel	33 735	**106 349**	**3 153 kms**	**12.9%**	**29 838**	**83 308**	**2 792 kms**
	2a) rail travel		2.7%				0.7%	
	2b) road travel		81.7%				93.9%	
	2c) short-haul air travel (< or = 500 kms)		0.5%				0.4%	
	2d) long-haul air travel (> 500 kms)		15.2%				4.9%	
Paper	**3) Total paper consumption in tons**	44 246	**7 148**	**0.162**	**16.0%**	**42 150**	**5 872**	**0.139**
	3a) post-consumer recycled (in tons)		3.3%				1.0%	
	3b) new fibres ECF + TCF (in tons)		67.9%				64.9%	
	3c) new fibres chlorine bleached (in tons)		28.4%				27.5%	
	3d) consumption of FSC-labelled paper in tons		0.4%				0.4%	
Water	**4) Total water consumption in m3**	44 168	**759 479**	**17.20**	**-9.5%**	**41 287**	**784 680**	**19.01**
Waste	**5) Total waste in tons**	44 246	**11 576**	**0.262**	**-34.3%**	**37 231**	**14 834**	**0.398**
	5a) valuable materials separated and recycled		25.2%				37.6%	
	5b) waste incinerated		6.8%				10.7%	
	5c) waste disposed of in landfills		68.5%				53.5%	
Emissions	**6) Direct and indirect GHG emissions in tons**							
	6a) GHG emissions of direct energy use	39 627	55 423	1.399	-18.5%	37 269	63 978	1.717
	6b) GHG emissions of indirect energy use	31 108	41 057	1.320	34.8%	13 998	13 709	0.979
	6c) GHG emissions of other indirect energy use	27 917	5 421	0.194	-37.2%	10 493	3 243	0.309

1 The figures in the table are based on best estimates.

is due to the fact that the 2005 CSR Report provided data that was consolidated only for our Belgian and Central and Eastern European operations, whereas the data provided below have been aggregated across our worldwide operations for both 2005 and 2006.

Methodological notes and main conclusions to the environmental performance table

The total number of full-time equivalents (FTEs) covered for the environmental performance data is 44 291, or almost 90% of KBC Group[13].

The number of FTEs relating to the indicators covered differs according to the indicator and by year. For comparison purposes, it is therefore preferable to focus on the figures per FTE rather than the absolute data.

Indicator 1 (Internal energy consumption)

Indicator 1 entails the overall amount of energy used within KBC's buildings. Not included is the fuel consumption for business travel, which is covered by indicator 2a (Business travel).
Under electricity consumption (indicator 1a), the proportion of electricity derived from 'green' (renewable) energy is provided. Indicator 1c concerns district heating, which is exclusively based on data from Central and Eastern Europe, where its usage is still quite common in certain countries.

Internal energy consumption per full-time equivalent (FTE) fell somewhat over the year, with a remarkable drop in the use of fossil fuels nearly offset by a rise in electricity and district heating use. The proportion of green energy in total electricity consumption nearly doubled, while with regard to fossil fuels use, the proportion of natural gas rose, with corresponding declines in heating oil and coal. At the regional level, electricity consumption was down in Belgium, but shot up in Central and Eastern Europe. Belgium's fossil fuel consumption also fell (with significant reductions in natural gas and heating oil use). In Central and Eastern Europe, fossil fuel use was down, as well, with the proportion of natural gas almost doubling at the expense of heating oil and coal.
In Belgium, as most KBC buildings are new, any major efforts to improve the power systems would be difficult because the present installations are already performing optimally.
Most of the gains to be made have already been reaped (i.e. good housekeeping actions have already been implemented). Under the current operational conditions (present comfort levels, business hours, etc.), the overall energy consumption will continue to be at the same level. However, improvements to achieve greater energy efficiency are being made in Central and Eastern Europe.

Indicator 2 (Commuter and business travel)

This indicator covers business trips undertaken by the company's employees. Travel undertaken by clients and suppliers are not included. Road travel is defined as business trips undertaken in leased, business or private cars, documented by kilometre.

The relative data shows that commuter travel per FTE declined, incorporating a noticeable drop in Belgium and a modest increase in Central and Eastern Europe. On the other hand, business travel increased, probably due to the increased exchange between our Belgian and Central and Eastern European home markets. In 2006, cars were still the preferred means for both commuter and business travel, in particular, although the use of public transportation also increased noticeably for commuter travel, while the proportion of air travel for business purposes rose, too. In Belgium, car travel for commuter purposes appears to have fallen in comparison to rail travel, while cars are still the preferred means of transport for business travel. In Central and Eastern Europe, commuters continued to favour public transportation over cars, while cars were the preferred medium for business travel. As for the rest of the world, in 2006, car transport was the overwhelming favourite for commuters, while air travel was resorted to most for business purposes.

Indicator 3 (Total paper consumption)

Total paper consumption is defined as the amount of paper ordered by the various group entities.
The following categories make up the largest share of paper used:

- office paper
  (multi-functional paper for copying and printing);

13 89% of total group-wide FTEs of 49 492. The entities covered include the main entities in Belgium, Central and Eastern Europe, Ireland and Luxembourg.

- letterhead/pre-printed forms;
- envelopes;
- continuous paper forms (account statements for clients, etc.);
- marketing material and publications (internal and external).

Indicator 3a concerns recycled paper. This includes only paper which is 100% recycled post-consumer waste. Indicators 3b and 3c both represent new-fibre-type paper. Here, the issue which is environmentally relevant is whether the paper is still bleached using elementary chlorine (indicator 3c) or whether a more ecologically friendly technology is employed (indicator 3b).
Indicator 3d concerns paper which is approved by the Forest Stewardship Council (FSC) as having originated from responsibly managed forests.

At group level, paper consumption in 2006 rose and most of the paper used was new ECF/TCF paper.

Indicator 4 (Total water consumption)

KBC's water supply is mainly from drinking water. Estimating the water volume used based on financial data is impossible because of significant differences between the prices charged in the various regions/cities covered. For this reason, only data based on meter readings are taken into consideration.

Water consumption per FTE was down over the year – this was also the case in our Belgian and Central and Eastern European home markets.

Indicator 5 (Waste)

The waste indicator covers the total amount of waste produced by KBC. The following waste categories are included:

- paper/cardboard
- residual waste/domestic-type waste
- special/hazardous waste
- electronic scrap.

Total waste does not include:

- waste from staff restaurants (the total amount of waste they produce is not very relevant)
- waste from construction and building remodelling.

Total waste per FTE dropped by one-third in 2006 vis-à-vis 2005. The proportion of waste separated and recycled fell somewhat year-on-year to one-fourth of total waste, and that of incinerated waste also declined, while almost 70% of waste in 2006 appeared to be disposed of in landfills.

ARGUS: KBC's environmental centre

ARGUS is an independent organisation based in Antwerp, Belgium, which KBC has funded since 1970. ARGUS is entirely staffed by KBC employees and KBC was the sole financial supporter until the start of 2006. Since then, CERA, an important KBC shareholder and well-known in philanthropic circles in Belgium, has also become a patron of ARGUS. ARGUS is supervised by an independent board chaired by Baron Rudi Verheyen, Emeritus Professor of the University of Antwerp and one of the pioneers in environmental studies. Other members of the board include representatives from universities, NGOs, labour organizations and public authorities. It aims to contribute to sustainable well-being by providing objective information via its magazine, SME-newsletter and Web site, through education and other services, as well as arranging innovative initiatives to raise public awareness on environmental issues.

Some of the initiatives that ARGUS recently organised include a lecture series on water management by international experts[14], a walk and treasure hunt on the theme of quality of life in the city and debates on alternative fuels for automobiles and negotiable emission rights. ARGUS also sponsors Go4Nature (a broadly focused project which brings together young people and owners/managers of nature reserves)[15] and the ARGUS photo contest. In 2006, ARGUS used over 430 000 euros for its informational and awareness-raising initiatives.

14 Lecture series entitled 'Water in de wereld – de uitdagingen voor het waterbeheer in de 21ste eeuw' ('Water in the world – the challenges facing water management in the 21st century')
15 www.go4nature.be

On a regional level, waste per FTE in Belgium dropped on account of streamlined waste collection contracts and increased waste recycling to 94% of all waste produced. In Central and Eastern Europe, however, waste per FTE rose slightly, and most waste is still disposed of in landfills (79%), although efforts at waste separation and recycling have stepped up to 14.9% of total waste.

Indicator 6a (Direct greenhouse gas emissions), 6b and 6c (Indirect greenhouse gas emissions)
Direct greenhouse gas (GHG) emissions per FTE was down in 2006 vis-à-vis a year earlier.

Indirect GHG emissions per FTE are provided for the first time for our Belgian and Central and Eastern European home markets. Although the year-on-year changes are provided, we would be cautious to come to any conclusions on the basis of the data provided in 2005.

DIALOGUE WITH OPINION MAKERS

With respect to our ongoing dialogue on our CSR performance with opinion makers such as the media and non-governmental organizations (NGOs), we generally maintain good relationships with the local media in the home markets where we operate and we are continually open to pro-active discussions with NGOs, such as Netwerk Vlaanderen in Belgium (cf. www.netwerkvlaanderen.be). At our entities outside Belgium, there have so far been no cases of similar discussions with NGOs, other than with regard to corporate philanthropy.
Our Sustainable and Socially Responsible Research Department (SRI research team) in Belgium has been in the forefront of discussions with Netwerk Vlaanderen and debates since 2004. The main area of discussion in the last few years focused on controversial weapons manufacture, resulting in a concrete, overarching policy vis-à-vis the weapons industry (cf. pp. 25-26). Another issue that we discussed in 2006 was on our approach to safeguarding human rights in our loans and investments. For this purpose, we invited members of Netwerk Vlaanderen to provide an in-depth presentation on this issue.

In addition, in Belgium, our SRI research team organized the first of a series of yearly NGO breakfast meetings in April 2006, bringing together approximately 30 representatives of various Belgian and international NGOs. This was yet another initiative to increase transparency, particularly with how KBC rates the CSR performance of the companies that it invests in. And in November, we held a seminar for our clients and NGO representatives and members of the academic world on CSR and its relevance to investors[16].

RESPECT FOR GOVERNMENT

As KBC's operations span various countries on several continents, we take particular care in observing national and local laws and regulations of our host countries and are mindful of our obligations under them. Not only do we seek to act as a law-abiding corporate citizen, we also make the necessary efforts to cultivate a good and long-standing relationship with local authorities.

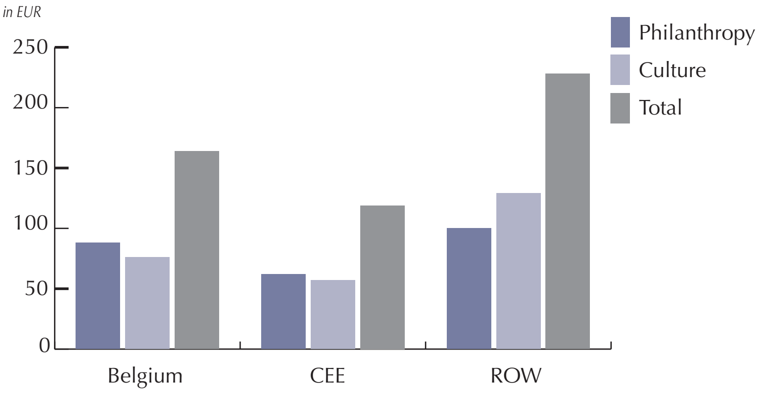
In particular, we are committed to be a responsible taxpayer, based on solid tax compliance and legitimate tax planning. This is also part of our group-wide tax strategy. More specifically, we aim to:
- ensure correct and timely payment of all taxes due,
- manage our tax risks and tax disputes pro-actively,
- enable tax clearance for KBC products,
- provide first-rate tax advice.

These objectives are to be met by means of:
1. an optimal system of tax management,
2. compliance with tax obligations in the various jurisdictions in which KBC operates,
3. a code of conduct specifying the standards of fiscal best practice[17],
4. policies aimed at limiting and controlling tax risk,
5. increased transparency via a reporting system and information exchange.

At KBC, the tax administration and management function is spearheaded by our group tax department. Tax issues relevant to our international operations are managed along entity and country lines. Moreover, each year, the local tax

16 *'Duurzaam ondernemen: ook relevant voor de belegger?' (21 November 2006)*
17 *This includes the prohibition of illegal tax practices, such as tax evasion, and full disclosure of tax information to the relevant tax authorities.*

BUDGET PER FTE FOR COMMUNITY ACTIVITIES - 2006



KBC's budget for community endeavours[1]

	2005	Cost/FTE in 2005[2]	2006	Cost/FTE in 2006[3]
Philanthropic deeds	3.01 m EUR	60 EUR	3.75 m EUR	76 EUR
Cultural sponsorship (the arts)	3.05 m EUR	60 EUR	3.56 m EUR	72 EUR
Total	**6.06 m EUR**	**120 EUR**	**7.31 m EUR**	**148 EUR**

1 The figures in the table are based on best estimates.
2 Total group FTEs in 2005 = 50 479
3 Total group FTEs in 2005 = 49 492

functions are required to report to the group tax function on tax matters. International tax legislation and trends are monitored centrally and communicated to local tax functions, while the latter collect information on tax laws and trends relevant to their countries.

PHILANTHROPIC ACTIVITIES AND CULTURAL SPONSORSHIP

By providing funds and other assistance to various community projects, we strive to improve the general welfare and working environment in the areas in which KBC operates. Our policy on community engagement has been based on collaboration and dialogue with the various stakeholders: not only has our policy been steered by the numerous requests for financial support on account of KBC's visibility as a large financial institution, but also by our desire to demonstrate our commitment to act responsibly towards the community.

According to the table above, our total budget for community-related projects group-wide rose by 21% between 2005 and 2006. The increase in the total budget was seen for all regions, with the rest of the world forging ahead at 49%, whilst our home markets' budgets grew by under 20%. The budget for philanthropic deeds increased by 25%, somewhat more than the 17% rise in cultural sponsorship over the same period. The bar chart shows that, in general, the budget per full-time equivalent (FTE) in 2006 was highest in the rest of the world, followed by Belgium and Central and Eastern Europe.

Philanthropic initiatives

In our home markets of Belgium and Central and Eastern Europe, we are actively engaged in initiatives for community building and with self-help groups involved in the restoration of the urban social fabric and the integration of disadvantaged persons through co-operation with local community centres and other social associations. These projects - mostly small in scale - are designed to promote social integration over the long term at the local level and to help towards community development. Much attention is also focused on health and prevention issues and education. At our merchant banking and private banking entities, initiatives tend to be taken on a more *ad hoc* or individual basis, partly dictated by local culture. Examples from various countries are provided below:

Belgium:

- Collaborative efforts with neighbourhood organizations to lower the threshold between the company and the surrounding community and raise awareness amongst KBC employees over the social plight of the lower-income neighbourhoods in which KBC's main administrative buildings are significantly present (in Brussels and Antwerp)
- Long-term donations to *De Sleutel* particularly for their drug prevention programmes aimed at young people
- Renewal of support for two leading solidarity campaigns: *Levenslijn* (a charity that organises fund-raising campaigns for various health-care-related issues) and *Kom op tegen Kanker* (the anti-cancer campaign)
- Accident prevention campaigns such as fire prevention and road safety and children's health and safety themes
- Donations to various foundations and charities via the diamond banking arm (e.g., the King Baudouin Foundation, Action in Focus – a Kenyan charity)

Czech Republic and Slovakia:

- Goodwill Committee: providing financial support for the Education Fund - scholarships for disabled or socially handicapped secondary school students
- Sponsorship of foundations/civic associations to help disabled people to better integrate themselves in society, general partner of the international championship for disabled athletes
- LIFE 90 - partnership with an NGO to provide Internet training for senior citizens
- Partnership with regional orphanages and support of regional hospitals, including provision of respiratory monitors and other equipment for new-born infants
- Long-standing support of UNICEF, financial support for associations providing childcare and child safety initiatives, anti-cancer initiatives
- Sponsorship of *Ekofilm* – films to raise public awareness on environmental issues
- Co-sponsor in Slovakia with the ECOPOLIS foundation to encourage citizens to improve their neighbourhood/ public spaces, strengthening community ethos

Hungary:

- Magic Cure Programme: a series of ongoing projects to enhance health care, including purchase of medical appliances for children's hospitals
- Sports events, including for disabled persons
- Sponsorship of the National Paralympics Committee

Poland:

- Projects focusing on children: donations and national fund-raising campaigns to support orphanages and NGOs helping poor and disadvantaged children, sponsor of 'Childrens' Day' in association with UNICEF
- Financial support of cardiology associations and NGOs taking care of mentally handicapped persons
- Safety campaigns, including campaigns aimed at general crime prevention, prevention of accidents in water
- Promotion of higher education in the insurance field (sponsorship of a nationwide competition for the best MA and PhD dissertation in the field of insurance)

European Private Banking Business Unit:

- Support of the Papageno Foundation in the Netherlands, dedicated to using music therapy to help autistic children and the Ronald McDonald House Charities – to help families and children in need

Cultural sponsorship

Cultural sponsorship is well established in our entities in Europe. We regularly support a number of cultural and musical festivals and events, with particular emphasis on 'people' (education, increasing public awareness, supporting youthful talent) rather than on 'infrastructure' alone, including the following:

Belgium:

- Founding sponsor of the *Gouden Vleugels* project to help promote young, would-be classical musicians in Flanders by, among other things, arranging master classes and musical competitions for them. One of the prizes sponsored by KBC at the competitions is the KBC Music Prize.
- Sponsorship of 'Beaufort', a three-yearly event showcasing contemporary art both within and beyond enclosed spaces

Czech Republic and Slovakia:

- Sponsorship of film awards and film festivals (e.g., *Český Lev* – Czech Film Academy awards, the Febiofest in both the Czech Republic and Slovakia)
- Supporter of Prague's Academy of Arts, Architecture and Design

Hungary:

- Sponsorship of the Young Opera Friends Association
- Supporter of one of Central and Eastern Europe's largest multi-cultural pop/rock festival (Island Festival) for the promotion of cultural diversity

Poland:

- Sponsorship of exhibitions at the International Centre of Culture
- Financial support for the 4th Piano Festival organised by the Ludwig van Beethoven Association and for the premiere of Agnieszka Holland's new film, 'Copying Beethoven'

The Rockoxhuis, Antwerp's unique museum

The *Rockoxhuis* was constructed in the 17th century as the private residence for the mayor of Antwerp and art collector of the time, Nicolaas Rockox. This patrician edifice now serves as a museum and houses a wealth of paintings, furniture and sculptures, as well as an evocation of an early 17th-century town garden.
Purchased by KBC in 1970, the museum continues to be in the hands of KBC, but is open to the general public. Each year, a special exhibit takes place, focusing on a particular facet of the museum's collection. In 2006, the Rockoxhuis organised an exhibit to commemorate the 75th anniversary of Antwerp's first skyscraper and home to KBC's Antwerp offices. (cf. www.rockoxhuis.be)

- Patronage of the Rozmaitości Theatre, specialising in avant-garde performances
- Support for the production of various books on art and culture

Merchant Banking Business Unit:
- Sponsorship of 'Music in Great Irish Houses Festival'

European Private Banking Business Unit:
- Sponsorship of operas at the Grand Théâtre de Luxembourg and concerts at the Philharmonie de Luxembourg
- Sponsorship (via the Belgian private banking company's membership in the Prométhéa foundation) of WIELS, a project for a modern arts centre in Brussels

Volunteerism – employee involvement

At KBC, we believe in encouraging volunteer initiatives amongst our employees in the areas of social and community involvement.

In Belgium, this includes:
- providing a subsidy to employees who devote their free time to organisations dedicated to care for the handicapped, childcare, home assistance, Third-World initiatives, immigrant integration or neighbourhood improvement schemes (1 250 euros per employee and their organisation) ,
- calling upon employees to take part in a number of social and health-care projects, e.g., the fund-raising telethons for *Kom op tegen Kanker*; the anti-cancer campaign; multi-cultural lunches arranged by neighbourhood associations in Brussels (*'Anders gaan eten'* – 'Eating differently') to stimulate contacts between KBC and the neighbourhood,
- serving as a key supporter of the Belgian Raiffeisen Solidarity (BRS) via the active participation in an informal group composed of KBC employees in various international projects (see boxed text, p. 36).

Some of our entities in Central and Eastern Europe and within the Merchant Banking Business Unit are planning or have implemented initiatives to engage employees in socially responsible activities, as well:
- renovation of a playground or nursery (Czech Republic)
- individual financial donations to the Healthy Nation Fund (Hungary)
- fund-raising amongst Polish employees for donations to orphanage near Warsaw
- volunteers selected to carry out specific projects in city schools (Ireland)

KBC and microfinance: an update

Belgian Raiffeisen Solidarity[18]

The *Belgian Raiffeisen Solidarity* (BRS) was established in 1992 to serve as a conduit for development co-operation. Currently under the auspices of Cera, a co-operative financial group and a reference shareholder of KBC, its mission is twofold: to collaborate with microfinance institutions in the developing world, by offering financial assistance and training and consultancy in banking and insurance matters based on the co-operative movement, and to raise awareness in Belgium through various communication channels about BRS' efforts to help eradicate poverty in the Third World.

KBC has played a special role in BRS ever since its foundation, not only due to its historical and financial link to Cera, but also via the support of KBC staff. Indeed, BRS is open to all current and retired KBC employees to take active part in BRS' sustainable microfinance projects in Africa, Latin America and Asia, as well as in fund-raising and other campaigns in Belgium to promote North-South dialogue at the grassroots level. The ICT Division at KBC deserves special mention with *ICT4BRS*, an initiative involving ICT volunteers who offer IT-related assistance to BRS projects, including supplying/installing IT hardware and software and providing IT expertise to NGOs working with BRS. Additionally, KBC agreed to donate a substantial number of second-hand hardware (PCs) in 2006 to an organisation named Close the Gap, which aims to help narrow the digital divide between industrialised and developing countries and is working in partnership with BRS on various microfinance projects.
(cf. www.cera.be/brs, www.closethegap.be)

18 Formerly known as the Belgian Raiffeisen Foundation.

Impulse Microfinance Investment Fund

KBC is a shareholder in *Incofin*, a Belgian investment company founded as a 'co-operative association with a social purpose'. Incofin invests in and provides know-how to micro companies, SMEs and microfinance institutions in the developing world in order to support sustainable and profitable entrepreneurship. In December 2004, we helped to set up the *Impulse Microfinance Investment Fund* with Incofin and three other partners, with half of the starting capital of 5 million euros coming from KBC (still the largest contributor to date). By the end of 2005, the fund had doubled its capital to 10 million euros via a private placement. This is the first private-investment fund of its kind in Belgium. The closed-end fund has a life of 12 years and aims to earn both a financial and a social return ('double bottom line'), investing in commercially viable microfinance institutions and improving the accessibility of lending facilities for low-income entrepreneurs. Moreover, it aims to serve as a bridge between capital markets of the industrialised world and emerging markets in less developed countries. On account of these objectives, the fund was awarded the 2005 International Year of Microcredit label by the United Nations Capital Development Fund (UNCDF).

Microfinance was also set in the limelight in 2006, with the awarding of the Nobel Peace Prize to Muhammad Yunus and the Grameen Bank, the pioneers in this field, and helped to provide additional impetus to the Impulse fund.

Indeed, the fund's portfolio almost doubled from 8.73 million euros at year-end 2005 to 16.71 million euros a year later. Impulse now finaces 21 microfinance institutions (MFIs) in fourteen countries, of which eleven in Latin America, two in Africa, one in Southeast Asia and seven in Central and Eastern Europe/Central Asia. To help finance the increased loans outstanding, credit facilities were arranged with KBC Bank and VDK Savings Bank in the amount of 2.5 million euros each and a loan via the German Pax Bank (2 million euros).

These MFIs in turn provided loans in 2006 to 894 000 private individuals and small enterprises (+103% versus 2005) for an average loan of 847 euros (+43% versus 2005).

Moreover, Incofin itself expanded its own MFI portfolio in 2006 and now caters indirectly for 561 000 private individuals and small enterprises for an average loan of 760 euros.

The microfinance industry continues to grow by leaps and bounds. About 90 million people around the world have some form of access to microfinance, but, according to the UNCDF, the potential level is 400-500 million people. In accordance with the Milennium Development Goals, Impulse and Incofin are helping to halve extreme poverty by 2015.

(cf. www.incofin.be)

RESPONSIBILITY TOWARDS OUR EMPLOYEES

BASIC INDICATORS[1]

An overall breakdown of KBC's workforce in 2005 and 2006 is shown in the table below[2].

	as at 31/12/2005[1]	as at 31/12/2006[2]	
	Number	Number	% of total
Breakdown by gender			
Men	21 554	22 633	43%
Women	28 843	29 665	57%
Breakdown by pay category			
Senior management	1 718	1 732	3%
○ of which women	373	356	(21%)
Junior and middle management	14 879	16 641	32%
○ of which women	5 693	6 369	(38%)
White- and blue-collar staff	33 800	33 925	65%
○ of which women	22 777	22 939	(68%)
Breakdown by contract type			
Permanent	46 250	48 378	93%
Temporary	4 147	3 920	7%
Breakdown by workhour			
Full-time (100%)	42 497	43 887	84%
Part-time	7 900	8 411	16%
Total headcount	**50 397**	**52 298**	**100%**
Total FTEs covered in breakdown[3]	**47 606**	**49 461**	**-**
Total group FTEs	50 479	49 492	
Average age	39.4	39.2	-
Average seniority	11.2	11.4	-

1 2005: covers 94.3% of the group
2 2006: covers 99.9% of the group
3 The definition of a full-time equivalent (FTE) is not uniform throughout the group – in Belgium, the number of hours worked by a full-time employee is approximately 37.5 hours per week, whereas many of our non-Belgian entities, particularly in Central and Eastern Europe, define the number of hours worked as 40 hours per week. For practical reasons, we have therefore decided to use the pure figures provided by the entities, assuming that they are the same throughout the group.

1 The data presented herein are based on estimates and extrapolations as the case may be, and is not comparable with that provided in our 2005 CSR Report, which entailed data aggregates for our Belgian and Central and Eastern European operations only.
2 The figures in the table are based on best estimates.

Some key points that can be discerned from the table:

- Based on the total number of group FTES, a drop of almost 1 000 FTEs was registered between 2005 and 2006, to be accounted for mostly by the sale in 2006 of Banco Urquijo, the Spanish unit within the European Private Banking network.
- From a group-wide perspective, over half of the employees are women. On a regional basis, this disparity is even more evident in Central and Eastern Europe (68% female vs. 32% male employees), but is somewhat reversed in Belgium (47% female vs. 53% male employees) and more pronounced in the rest of the world (42% female vs. 58% male employees).
- according to the breakdown by pay category, nearly two-thirds of the workforce is made up of white-/blue-collar staff (employees in administrative functions), while almost one third are at junior/middle management level. In Belgium, however, junior/middle management accounts for over 40% of the region's workforce, whilst 22% of Central and Eastern European staff falls in this category. The overwhelming majority of Central and Eastern European employees (75%) are white-/blue-collar staff (vs. 55% in Belgium and 52% in the rest of the world).
- the number of women in senior management edged down almost 5% from 2005 to 2006. Women represent 21% of senior managers group-wide. On the other hand, regionally speaking, less than 10% of senior management in Belgium is composed of women, whereas approximately 13% of senior management in the rest of the world are women and almost one in three members of the senior echelons in Central and Eastern Europe are female (but, this region also saw a drop by 5% between 2005 and 2006).
- at junior/middle management level, 38% is made up of women. However, once again, this figure is weighed by the preponderance of women in Central and Eastern Europe (58%) as opposed to in Belgium (27%) and the rest of the world (32%).
- the majority of staff is employed on a permanent contract. In Belgium, over 99% are on a permanent contract vs. 87% for Central and Eastern Europe and 94% for the rest of the world.
- although full-time employees are still in the majority, the number of employees electing to work part time throughout the group rose more than 6% over 2006 and represents 16% of the total headcount. 95% of Central and Eastern European staff and 91% of employees in the rest of the world work full-time vs. 68% in Belgium.
- the average KBC employee is 39.2 years old and has an average 11.4 years work experience in the group, implying a high degree of loyalty to the company. On a regional basis, the average employee in Belgium is older than his/her Central and Eastern European or rest-of-the-world counterpart (42.5 vs. 36.9 and 37.7 years old, respectively) and tends to have a much longer career record in the group (18.1 vs. 6.9 and 7.7 years, respectively).

EMPLOYEE SATISFACTION

Employee satisfaction is a matter of concern not only for the employees themselves, but for KBC, as well, as retention of a talented workforce is critical to a company's success. The most common and simplest measure to track employee satisfaction is via specially designed satisfaction surveys. Thus far, no standardized employee satisfaction survey exists for the entire KBC group, as a uniform human resources management system is still in the process of being implemented in our home markets.

In Belgium, employee satisfaction surveys are carried out regularly (usually once or twice a year, covering one-half of the workforce each time), whether on an overall basis or on specific topics. Based on the results of these surveys, selective measures are taken where necessary. The latest survey took place towards the end of 2006 for employees at the main entities of KBC Belgium (representing approximately 80% of Belgian employees – see boxed text, p. 40).

In most of our Central and Eastern European subsidiaries – with the exception of our Polish insurance operations, periodic employee satisfaction surveys are gradually being introduced (currently, around 83% of staff in the region are covered by such surveys, varying between every 18 months to every two years). As for the rest of the world, employee satisfaction surveys are not necessarily carried out on a regular basis or have started up only very recently (e.g., KBC Bank New York branch conducted its first employee

Results of the 2006 employee satisfaction survey - Belgium

The latest survey was carried out anonymously via the company Intranet between mid-November and mid-December 2006). The response rate came to 72% or approximately 11 000 employees. The results show that employee satisfaction continues to run high:

- 95% of the respondents are satisfied to extremely satisfied with KBC as employer, unchanged from the results of the previous survey in 2004.
  However, the percentage of staff members who are very or extremely satisfied rose from 37% in 2004 to 48% in 2006.
- Almost 75% of the respondees are ready to recommend KBC as employer to prospective applicants.
- The majority (ca. 90%) feel attached to very attached to KBC.
- A distinct relationship exists between the pay scale and attachment to the company: the higher the pay, the higher the level of attachment. On the other hand, seniority is inversely related to attachment – the longer the employee works at KBC, the less attached he/she feels (employees with less than 5 years of seniority feel most attached).
- More generally, 75% of the respondents are positive about the climate surrounding bancassurers (versus 55% in 2004) and 95% consider KBC's competitive edge as being good to extremely good.
- Areas viewed as particularly positive:
  - o Job security - 95% satisfied to very satisfied
  - o Co-operation with team/department - 95% satisfied to very satisfied
  - o Co-operation with team head – 85% satisfied to very satisfied
- Room for improvement – career development, performance evaluation policy, co-operation with team head.

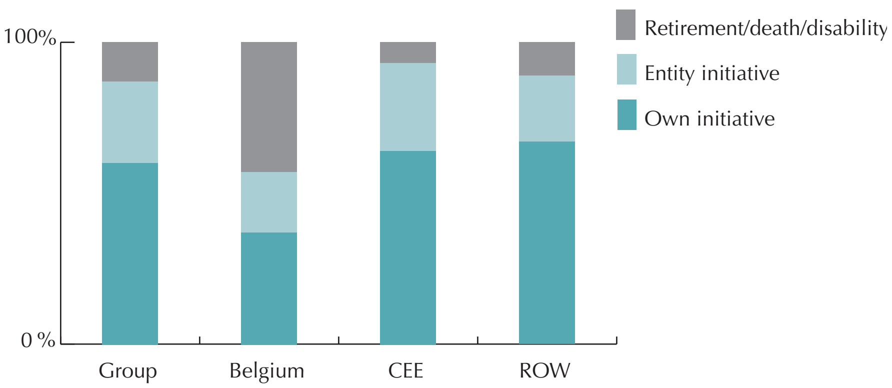
survey during the last quarter of 2006[3] with the intention of carrying it out yearly, while KBL in Luxembourg held its first survey at the start of 2007[4]).

Open, transparent communication is essential to ensure that employees are well informed on all matters that affect the company and its staff, be it with regard to strategy or practical issues such as IT upgrades or afterwork activities. Moreover, these channels serve as upward feedback, enabling employees to voice their opinions and/or concerns. In Belgium, KBC's intranet includes an interactive online forum and suggestion box, as well as provides in-house company news on a daily basis. A company-wide intranet is also available at each of the Central and Eastern European units. In 2006, a group-wide site was also introduced, with the purpose of providing a single, uniform platform to introduce new group policies and guidelines to all KBC entities. Company-specific magazines and newspapers are published regularly in our Belgian and Central and Eastern European home markets and at the larger entities in the rest of the world (e.g., the European Private Banking network). Since 2005, a new yearly event, *Mozaiek*, has been taking place in Belgium as another form of interactive forum for employees and senior management on various issues including group strategy and human resources management. Besides these channels, employees may discuss personal problems confidentially with their personnel adviser or a member of the Compliance Division, if the problem is related to financial ethics (see the new whistleblowing policy, p. 22)[5]. In Belgium, professional psychologists are also on hand within the Medical Service for particular problems arising from undesirable behaviour by members of staff, including violence, bullying and sexual harassment.

Employee absenteeism[6] may be construed as another indicator of employee satisfaction, albeit one that should be used with care. According to the table, employee absenteeism at KBC declined in 2006 after edging up somewhat in 2005, mainly due to a drop in sickness-related cases. From

3 The results of this survey were quite positive, with a mean score (out of 5) of 3.7 for 'work unit climate' and 3.5 for individual needs and values. A majority of employees feel to a great extent that they are making a significant contribution to KBC's success (mean score of 3.9 out of 5). Interestingly, employees indicated compensation and performance evaluation systems, career development and communication as some of the main areas requiring improvement.
4 Results not yet known at the time of this writing.
5 This is the case currently for our Belgian operations only.
6 Absenteeism is calculated here as the percentage of days absent due to sickness/maternity leave/accidents during the standard employment year (excluding weekends, national and banking holidays, and unpaid leave days). The standard employment year in each country differs, so that the total outcome is based on a weighted average according to the total number of FTEs per country. The 2006 figures cover 92% of the Group, whereas the 2005 data represent 83%.

REASONS FOR EMPLOYEE DEPARTURES (2006)



Employee absenteeism, KBC group (in %)			
due to	**2004**	**2005**	**2006**
Sickness	3.73	3.78	3.41
Maternity leave	2.05	2.10	2.01
Accidents	0.12	0.11	0.11
TOTAL	**5.93**	**6.04**	**5.56**
In Belgium	*4.07*	*2.77*	*2.48*
In C.E. Europe	*8.13*	*8.18*	*7.04*
In ROW	*3.48*	*3.46*	*3.54*

a regional perspective, absenteeism was highest in Central and Eastern Europe but went down in 2006, parallel with that of KBC Belgium, while the rest of the world saw a slight increase.

On the other hand, integration and nurturing of 'attachment' to the organization has been stepped up in recent times, as evidenced by the introduction of new, harmonised logos for all entities throughout much of the group. Moreover, there has been a greater flow of cross-border labour, with more employees from our Central and Eastern European subsidiaries being seconded to our head office in Belgium, on top of the 'traditional' flow of Belgian expatriates to international entities.

Several projects have been launched at KBC in recent years with a view to help employees feel more integrated in the company and to allow employees to strike a better balance between their professional and private lives, with incentives to reduce the stress of commuter travel. These projects have included the introduction of flex-time and gliding schedules in the head office buildings (in Belgium and Central and Eastern Europe), the reimbursement of expenses for regular commuter travel based on public transportation fares and for bicycle commuters, a carpooling database, home-/teleworking schemes for certain departments and the provision of childcare during the holidays. Finally, all employee complaints and grievances are handled in full confidence, whether by means of personal counselling or via a special letterbox system.

Last but not least, according to the latest results of an annual survey conducted by the Vlerick Leuven Gent Management School, KBC was amongst the top three best places to work in Belgium for companies with more than 500 employers. (cf. *'Wie is de Beste Werkgever van 2007?'* (Who is the best employer in 2007?) www.vlerick.be)

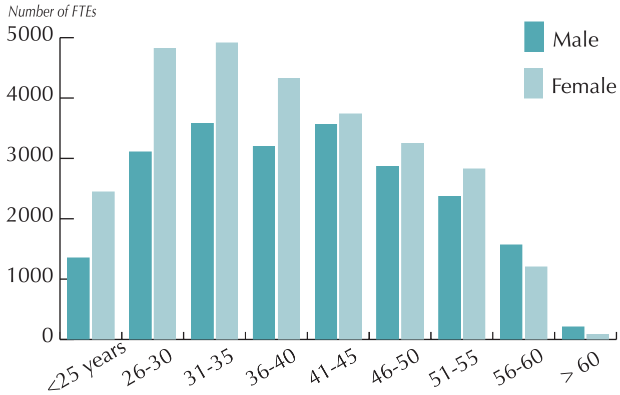
STAFFING LEVELS AND REMUNERATION POLICY

Staffing levels

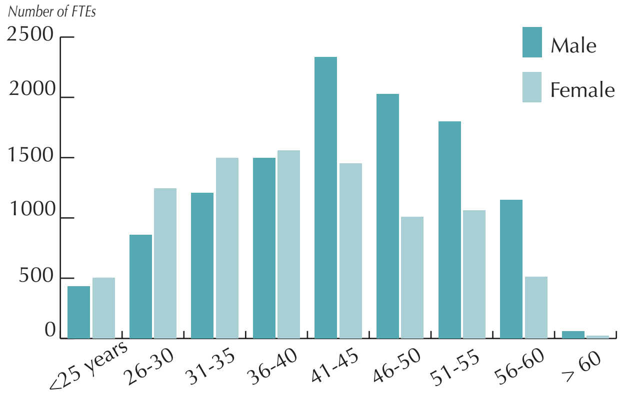
In 2006, the total number of employees in the group declined by approximately 2% to 49 492 full-time equivalents (FTEs), accounted for partly by the sale of Banco Urquijo. However, both internal and external recruitment continued apace in 2006 to replace staff departures and to fill new positions. This was particularly the case in Belgium, where – given the tight job market, the inversion of the demographic pyramid and the limited pool of qualified young graduates – the recruitment procedure was revamped and the first of a series of focused campaigns to hire new recruits was carried out during the second half of 2006. Moreover, the internal re-organisation that was implemented in May 2006 led to the creation of some new departments and many new positions at the group centre level, including a central personnel department (Group HR Department). By the end of 2006, approximately 88% more new employees were recruited than in 2005.

Our Central and Eastern European companies oversaw more recruitment initiatives on the whole, as well, such as in the Czech Republic, while in Poland, where the re-organisation of our banking and insurance operations has meant the integration and centralisation of many of the common support areas, including that of human resources, recruitment went hand-in-hand with some downsizing

GENDER BREAKDOWN – KBC GROUP



GENDER BREAKDOWN – BELGIUM



Employee turnover

	2005		2006	
	No. of FTEs	% of total	No. of FTEs	% of total
new recruits[1]*	5 309	10.5	6 260[2]	12.6
employee departures	5 204	10.3	6 115	12.4

1 Excludes new recruits on a temporary contract.
2 This figure does not take into account those employees who transferred between group companies in 2006.

Reasons for employee departures (2006)

	No. of FTEs	% of departures
Own initiative	3 710	61
Company initiative	1 639	27
Retirement/death/disability, etc.	766	12

efforts. Hence, new recruits in our second market rose by 11%. Our operations in the rest of the world displayed a more diverse trend, with downsizing occurring in part of our private banking network, while other entities conducted campus recruitment efforts (in Ireland and in the UK). New recruits nevertheless rose 34% year-on-year. The main reason for employee departures for the group as a whole in 2006 was once again on account of personal reasons, just as in 2005. According to a geographic breakdown, this was also the case in both Central and Eastern Europe and the rest of the world, but not in Belgium, where the main grounds for employee departures were on account of retirement, death or disability (see table above and chart on p. 41).

Remuneration policy

KBC endorses an equal pay policy for men and women with the same job content and job grade, both in terms of basic monthly salary and with respect to bonuses and other fringe benefits. Non-management staff members are paid according to a salary scale based on job content and seniority. The remuneration (fixed and variable) is strictly stipulated for each pay scale. This means that men and women receive identical salaries within their pay scale and based on their age, as well as identical fringe benefits and identical bonuses in the event of identical performance.

A number of adjustments were implemented prior to 2006 to KBC's pay and promotion policy, designed to make this policy even more balanced and transparent. In Belgium, the 'individual bonus' and the 'team or group bonus' were made more objective and consistent with one another, while the employee profit-sharing bonus was rationalised. Moreover, the system of pay categories and the career review process have also been revamped with the introduction of stricter standards for promotion.

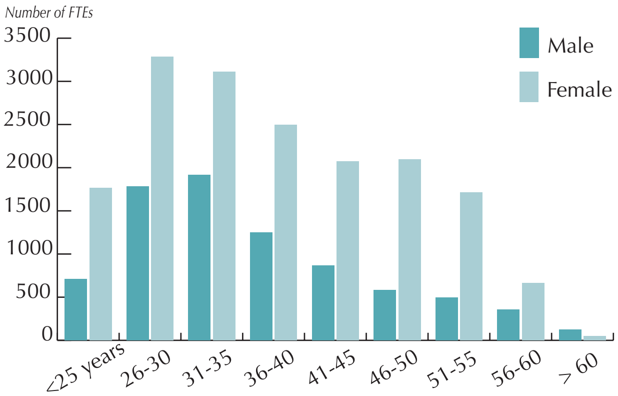
In the Central and Eastern European entities, the remuneration process continues to be under review, including the implementation of new bonus and benefits systems. Many of the entities have implemented or are contemplating implementation of a bonus scheme based on individual or team performance with reduced emphasis on a company-related bonus, which has so far constituted the bulk of variable compensation in an employee's pay package.

As for the entities in the rest of the world, the remuneration policy is much more diversified, depending on the type of activities and the prevailing local market conditions, so that no consistent trend can be determined.

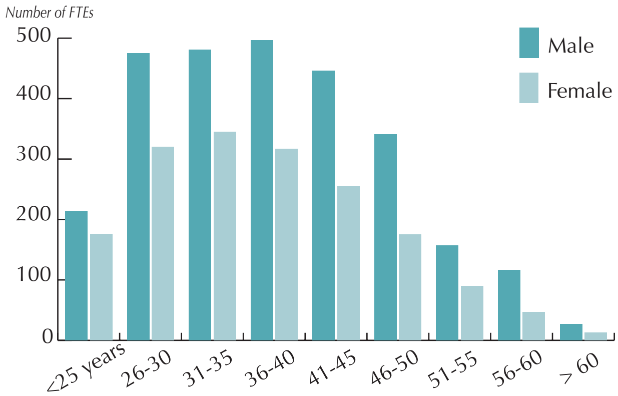
EQUAL TREATMENT AND NON-DISCRIMINATION

Our policy is to treat all members of staff equally, as underlined in our Human Rights Statement and our commitment to the Ten Universal Principles of the UN Global Compact, by supporting the right to equal opportunity and non-discrimination. Moreover, we do not make any distinction on the grounds of sex, religion, ethnic background or sexual

GENDER BREAKDOWN - CEE



GENDER BREAKDOWN - ROW



Employee breakdown, KBC group - 2006 (in % FTEs)

Age group	Male	Female
< 25 years	2.7	4.9
26 - 30	6.3	9.8
31 - 35	7.2	9.9
36 - 40	6.5	8.8
41 - 45	7.2	7.6
46 - 50	5.8	6.6
51 - 55	4.8	5.7
56 - 60	3.2	2.4
> 60	0.4	0.2
Total	44.1	55.9

orientation, etc. in our staff regulations, or in our selection and promotion policy and performance appraisal systems. In Belgium, we have also drawn up and communicated a procedure via the company intranet to preclude or do away with all forms of violence, bullying and sexual harassment at work.

Women employees

In Belgium, we have been keeping track of the percentage of women in management functions over the last few years to determine ways of redressing the 'glass ceiling' phenomenon. The promotion of women to management posts is related to the number of highly qualified female applicants and the resultant appointments. We have seen that the number of qualified women joining KBC has been at consistently high levels in recent years, resulting in a growing pool of women in management functions. Group-wide, approximately one out of five senior managers is now female, rising to about one in three at our Central and Eastern European entities. In the rest of the world, approximately 13% of the senior management posts are held by women, while Belgium still lags with less than 10%. This discrepancy resulted in a clear management decision in February 2006 to redress the gender imbalance at senior levels of management at KBC in Belgium by means of specific measures to encourage the promotion of talented women employees.
To facilitate a healthy work-life balance, we implemented a large number of initiatives including possibilities for part-time work, provision of childcare facilities during extended school holiday periods, flexible working hours, local working, measures to resolve mobility problems, etc. These measures enable our employees to combine jobs carrying a higher level of responsibility with their family life. In Central and Eastern Europe, our Czech banking subsidiary has launched a pilot programme for tele-working (working from home) and is investigating ways to help women on maternity leave via part-time work and shared jobs. Similarly, Hungary has instituted measures to help women returning to work after maternity leave. These initiatives cover approximately 42% of our Central and Eastern European workforce. As for our entities in the rest of the world, some are focusing on the issue of work-life balance, for example, in the UK and in Ireland.

The table and bar charts above show that in our home markets, female employees exceed the number of male employees amongst the younger age groups, while this is far from the case in the rest of the world. Moreover, particularly in Central and Eastern Europe, women continue to outnumber their male counterparts in almost all age groups[7].

7 Partially a consequence of the historic legacy there.

Non-discrimination

At KBC, we take the issue of non-discrimination seriously. However, due to privacy concerns and regulations to that effect in some countries, we are unable to report on the overall group breakdown of our workforce by nationality or ethnic background.

Regarding our stance on non-discrimination, this is reflected in our overall commitment to the UN Global Compact Principles[8]. Furthermore, in Belgium, we explicitly endorse the *Vlaams Manifest van het Bedrijfsleven tegen Sociale Uitsluiting van Migranten* ('Flemish Trade and Industry Manifesto against the Social Exclusion of Migrants') drawn up by the Flemish employer's federation, the *Ondernemers tegen racisme en voor diversiteit* ('Flemish entrepreneurs against racism and for diversity') charter, the *Charter voor diversiteit in de onderneming* ('Charter for diversity in the company') of the Brussels Region, and, since October 2006, we are member of the *Ondernemersplatform Diversiteit* (the Belgian Entrepreneurs' Diversity Platform)[9]. All these initiatives reflect KBC's commitment to condemning and forbidding any form of discrimination in the recruitment and promotion process throughout all its entities worldwide.

In Central and Eastern Europe, although no particular charters with respect to non-discrimination exist or have been signed, each of the countries in which KBC operates has adopted strict laws and regulations in this regard, which apply equally to private and corporate citizens, and KBC is no exception to the rule. In the rest of the world, our commercial banking operations have either an equal opportunities policy in place or comply with the anti-discrimination laws where the entities are established.

Finally, we are opposed to any form of child labour or forced labour, as delineated in the Human Rights Statement and in Principles 4 and 5 of the Global Compact Principles[10].

SOCIAL DIALOGUE

The right to freedom of association and collective bargaining is one of the fundamental tenets that is upheld and respected by KBC and set out in the Human Rights Statement[11] and in our commitment to the UN Global Compact Principles[12]. At KBC, every employee may become a member of one of the employee unions or submit his/her candidacy via such an organization for a mandate in the official consultative bodies. Our desire to maintain social dialogue is illustrated by the fact that the trade unions are viewed as true 'social partners' at our Belgian operations. However, as trade unions are not as well-established in our non-Belgian entities, we have committed ourselves to encourage social dialogue in the various countries in which we operate.

On account of the accession of the ten new Member States to the European Union in 2004, the countries that make up KBC's home markets are now subject to the same EU conventions and directives on freedom of association and collective bargaining. As a result, KBC's group-level European Works Council (EWC) meetings now include the participation not only of representatives from Belgium, but from those of Central and Eastern Europe, as well.

We are unable to publish the number of union members at KBC due to privacy concerns. However, our central HR department is charged with serving as intermediary in all matters of social dialogue in both Belgium and Central and Eastern Europe.

8 Principle 6: Businesses should uphold the elimination of discrimination in respect of employment and occupation.
9 Cf. www.verschillenversterken.be
10 Principle 4: Businesses should uphold the elimination of all forms of forced and compulsory labour.
Principle 5: Businesses should uphold the effective abolition of child labour.
11 In Belgium, both positive and negative freedoms of association are guaranteed by the Act of 24 May 1921. This is much broader in scope than ILO Conventions 87 (Freedom of Association and Protection of the Right to Organize Convention) and 98 (Right to Organise and Collective Bargaining Convention), ratified by Belgium, which guarantee positive freedom of association only. The right to collective bargaining is enshrined in Belgium's Collective Agreements and Joint Committees Act of 5 December 1968. This law stipulates that employee representative organizations alone are authorized to take part in such actions.
12 Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right of collective bargaining.

Training costs[1], KBC group

All	Cost in 1 000s of EUR	Number of FTEs covered	Cost/FTE
2004	42 557	39 040	1 090 EUR
2005	49 333	37 383	1 320 EUR
2006	52 844	41 046	1 287 EUR

1 Training costs cover 83% of the Group in 2006 (74% in 2005). The number of Belgian FTEs covered is based on an average number of FTEs over 2006, whereas, for Central and Eastern Europe and for the rest of the world, assumptions were made on the basis of the year-end FTEs for each of the companies that provided data on the costs.

Breakdown of courses according to course days	2005	2006
Number of course participant days (total)	**277 956**	**282 315**
In-house courses	187 045	207 709
External courses	90 911	74 607
Other		
average number of training days per FTE[1]	7.44	6.88

1 Total number of course participant days divided by number of FTEs covered (see costs table)

TALENT DEVELOPMENT AND KNOWLEDGE MANAGEMENT

Our vision on training is based on the fundamental belief that all employees have skills and talents, that appropriate remuneration should be paid for these talents and that opportunities should be provided for their further development. We therefore devote substantial time and effort not only in providing training to our employees, but in the development of the courses themselves, with the available range being continually reviewed and updated.
This is also reflected in our expenditure on in-house training. As shown in the table above, both the absolute and the relative costs per full-time equivalent (FTE) went up significantly between 2004 and 2005. In 2006, the cost per FTE declined somewhat, probably due to fewer external courses being taken (see table). The costs cover staff employed full time and any facilities used exclusively for the purpose of in-house classes (e.g., the Learning Centre in Belgium), as well as all costs associated with instructors (including members of staff who volunteer their work time to teach a class) and any equipment or supplies.

At KBC, we offer a differentiated range of developmental possibilities, taking account of an individual's skills. Various types of training tools are available (classical, individual study, learning on the job, etc.) across the entire banking and insurance spectrum. In Belgium, employees may consult and sign up for courses via an in-house, on-line catalogue. Depending on the envisaged goal, we arrange courses for in-class training, individual study or e-learning, while employees may also opt for non-work-related evening courses free of charge. Specific training programmes for new employees and particular job categories are also provided, as well. In Central and Eastern Europe, existing training programmes were evaluated according to new procedures and new competence centres are being planned (Czech Republic), e-learning possibilities and access are being extended and new rules for assessing training needs are being implemented via the competence centre in Poland, while, in Hungary, various new skills-/expertise-oriented courses have been or are in the process of being implemented.
We identify employees' competencies by means of career assessment surveys. This in turn enables us to draw up customized career development plans and facilitates the exchange of competencies within the group on an objective basis. The implementation in 2005 of new initiatives at group level to provide a systematic training 'ladder' in tandem with career goals resulted in the KBC Bachelor and KBC Master programmes, covering all aspects of banking and insurance and open to new or recent recruits. Central and Eastern Europe has been following Belgium's example, with the gradual introduction of courses aimed at young graduates and managers. Moreover, for young talented staff members with managerial potential, more advanced programmes are available, including the internationally geared

'KBC Academy', an intensive, five-week-long module for promising young 'high potentials' throughout the group's network worldwide.

The efforts that we put in to upgrading our in-house catalogue of courses and learning management system were recognized publicly in Belgium in April 2006, when KBC was awarded Best Employer for Lifelong Learning on the basis of a study carried out by Belgium's Vlerick Leuven Gent Management School.

According to the table on page 45, in 2006, the total number of course participant days went up somewhat, but the average number of training days per full-time equivalent (FTE) fell. A decline in the average number of training days per FTE was also seen in Central and Eastern Europe (from 11.9 to 9.74) and in the rest of the world (from 2.21 to 2.11), whilst in Belgium, the figure went up from 3.28 to 3.59 days per FTE. On the other hand, the overall rise in in-house course days may have been due to the wider selection of courses and programmes on offer for both recent graduates and employees with 'high potential'.

Frequency and severity of accidents

Two indicators used by KBC's Prevention Department in Belgium with regard to occupational accidents is the frequency and severity of accidents at work (including commuting to/from work), reported on an annual basis. The frequency of accidents provides a relative indication of the number of accidents vis-à-vis the number of work hours, while the severity of accidents reflects the number of work days lost vis-à-vis the number of work hours. These statistics enable KBC to compare its performance with that of the rest of the Belgian services sector.

Frequency and severity of accidents at work, KBC Belgium[13]

	2004	2005	2006
Frequency	4.3	2.5	4.0
Severity	0.06	0.02	0.04

In 2006, KBC recorded a frequency of 4.0 occupational accidents and a severity of 0.04, somewhat higher than a year earlier, but still much lower than the average for the Belgian services sector (24.25 and 0.58, respectively)[14].

HEALTH AND SAFETY

Our employees are our lifeblood. Occupational health and safety is therefore an important issue at KBC and at our subsidiaries. We ensure that health benefits are made available to our staff on top of any national government schemes in this regard.

In Belgium, we have an in-house health, safety and security department (approximately 40 members) which covers our group entities in the country. Its main focus is on the prevention of accidents at work and to safeguard the wellbeing of our staff and includes a medical service with certified doctors and nurses, professional psychologists, advisers in ergonomics and hygiene/sanitation. All professionals are encouraged to keep up to date in their field via internal or external courses. The initiatives taken by the health, safety and security department stem from yearly action plans and have also been approved by the various local Health and Safety Committees.

In Central and Eastern Europe, health care is provided in accordance with national laws. Additionally, our Hungarian arm has an in-house prevention department with eight members who are hired on a contractual basis. Regular reviews are conducted there on the status of occupational health and ergonomics. In Poland, our insurance unit aims to provide private medical care for its staff, while our Czech banking unit is planning an overhaul of its health care system in 2007, based on the results of the recent employee satisfaction survey. In our banking operations in the rest of the world, our German unit has established an in-house prevention department with medical professionals, while our Irish arm has a qualified health and safety officer.

13 Covers all group entities in Belgium
14 Source: Belgian government indicators, 2004

In the event that a work-related accident occurs, KBC has taken out insurance which also covers accidents occurring on the way to and from work. This insurance covers the medical costs and guarantees a substantial net income.

In Belgium, KBC also provides assistance in the case of other non-work-related accidents or hospital admissions (e.g., payment of hospitalisation expenses via an insurance policy, guaranteed income, repatriation from abroad, income top-up in the event of long-term incapacity for work, etc.). In the event of death - whether or not due to a work-related accident - there are also a number of financial assistance schemes for the next of kin (a lifelong annuity for the spouse and minor children, etc.). In Central and Eastern Europe, KBC's Polish arm provides medical care for employee families. In the rest of the world, some of our companies either extend health insurance cover (including some in the European private banking network) or provide it on an optional basis for employee spouses and dependents (for example, in the UK and Ireland), in accordance with the local regulations in force.

In addition, employees may also opt to enrol in a KBC pension plan, if available. In Belgium, this may be either one funded by the employer, which ensures that employees receive a substantial amount on retirement based on their length of service and their income during the preceding five years (defined benefit plan), or one funded by the employee, involving tax-friendly investment with a guaranteed minimum return (defined contribution plan). In Central and Eastern Europe, the Czech and Slovak units have also implemented a pension scheme in some of their entities, while in the rest of the world, pension plans have been implemented in several of the entities belonging to the European private banking network, as well as other areas of operations, where some are based on the defined benefit scheme (such as in Ireland and the US).

RESPONSIBILITY TOWARDS OUR CUSTOMERS

SOCIALLY RESPONSIBLE BANCASSURANCE AT KBC

Another key stakeholder group for KBC is our customers. Indeed, one of our core values at KBC is 'customer-friendliness', as stipulated in our mission statement. Our first aim is to be a 'warm and friendly bancassurer' towards all of our customers, both current and potential, by providing as much access as possible to our network, physically and virtually. We also place much value on our expertise and professionalism by providing the best solutions to our customers. Our second aim is to be a 'responsible bancassurer': we care about our customers' privacy and will handle their personal information with strict confidentiality and discretion. Moreover, to serve our customers correctly, we provide as clear and accurate information as possible, without consciously misleading our customers in any way. And, we continually attune our products and services to our customers' needs and desires and ensure their satisfaction with what we offer.

Two ways in which we pro-actively cater for our customers are via our customer service departments and via periodic customer satisfaction surveys.

Our customer service departments

These departments have been set up at almost all of our group entities to handle customer-specific matters, except at those entities that deal exclusively with corporate customers and institutional counterparties. Customers may contact any of the KBC group companies by ringing the company's call centre or via another channel, including by means of e-mail or on-line form available on group company Web sites with any questions, complaints and/or suggestions they may have.

Specific complaint-handling procedures are in place at our main group companies operating in our home markets, at our retail and commercial banking subsidiary in Ireland and throughout most of the European private banking network. This entails electronic databases for employees to register and manage complaints. For complaints received in writing, the routing system stipulates that customers should be sent a letter acknowledging receipt of the complaint in good time, and that the complaint should be handled, on average, within 15 business days, unless it is a complicated one and requires more time for investigation. In Belgium, approximately 6 000 complaints are received per year, of which approximately 40% are justified.

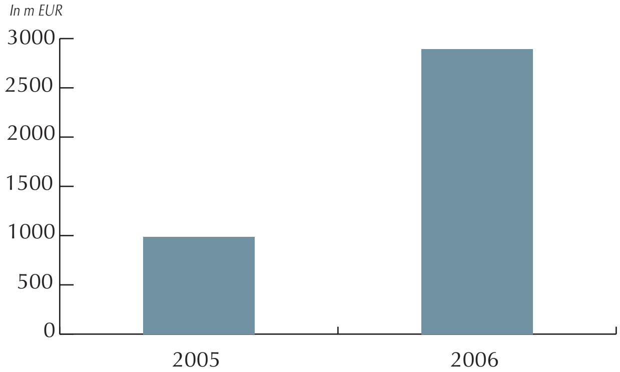
Customer satisfaction surveys

In Belgium, large-scale satisfaction surveys are conducted in June every year by KBC for its local retail customers. The latest survey in 2006 reinforced the results of 2005, showing that customers are generally very happy with their KBC branch. The number of highly satisfied customers went up from 66% in 2005 to 69% in 2006. Moreover, 54% of the customers felt that KBC was better than its peers in Belgium and no less than 80% said they would refer KBC to friends and acquaintances, once again a very good result and an increase on the 2005 figure (77%).

In the Central and Eastern European group companies, customer satisfaction surveys have been conducted less frequently or regularly to date, but the findings of recent surveys have generally been positive. For example, in Poland, our banking subsidiary's latest periodic survey in January 2007 showed that the majority of individual customers gave an average satisfaction score of 5.9 on a scale from 1 to 7 (unchanged from the previous survey in November 2006), for SME and corporate customers, the average score was 5.5 on the same scale (from surveys conducted respectively in November 2006 and in February 2007). With respect to the loyalty index for the same company, individual customers scored 79%, while SME and corporate customers each scored 76%. As for our Czech and Slovak banking entities, a new methodology was introduced in 2006 to collect satisfaction data, but the results of the most recent survey was not available yet at the time of this writing.

As for our operations in the rest of the world, our Irish banking subsidiary conducts regular surveys for its home

TOTAL ASSETS UNDER MANAGEMENT IN KBC'S SRI FUNDS AT YEAR-END



loan customers. In the latest survey from 2006, the majority of customers in various segments (new customers, customers for one year, existing customers) were shown to be satisfied with the service provided by the home loans entity[85]. Within our European private banking network, some of the entities have also conducted surveys, but not systematically – several have indicated plans to do so in 2007.

Our range of socially responsible products and services includes:

- Banking and insurance products and services for senior citizens:
  - Banking:
    Special exemptions from electronic payment charges for older customers and customers with serious handicaps (Belgium), special bank accounts for senior citizens/retired persons (Czech Republic, Hungary)
  - Insurance:
    Motor insurance policy for senior citizens – in Belgium, senior drivers get a lifelong guarantee that KBC will continue to insure them, provided they have a good track record as prudent drivers; in Poland, senior drivers can receive a special discount of up to 20% in motor third party liability and for property insurance policies.
- Banking and insurance products and services for young people:
  - Special bank accounts, credit cards, mortgages and insurance policies (including motor insurance) are available in both home markets (Belgium and Central and Eastern Europe)
- Banking services for low-income citizens are provided in both Belgium[86] and Central and Eastern Europe.
- Socially responsible investment (SRI) funds, including ones with a specific ecological focus (in Belgium: see boxed text and Appendix III). In 2007, we plan to launch our SRI funds in Central and Eastern Europe (starting with the Czech Republic – under both the KBC and ČSOB brands). Some of our SRI funds are also marketed in our Luxembourg private banking unit.
- Initiatives aimed at senior customers: PC training courses to introduce senior customers to the Internet (Belgium, Czech Republic), Senior Road Shows to introduce senior customers to various payment techniques, from bank cards to electronic bancassurance (in Belgium).
- Other:
  - an environmental insurance policy in Belgium aiming to cover the customer and to protect the environment,
  - in early 2007, we acted as lead manager for bearer bonds issued by the Belgian parastatal *Fonds ter*

Socially responsible investment (SRI) funds at KBC

In 1992, we launched the first SRI fund in Belgium, the KBC Eco Fund, with a focus on ecological values. This fund, renamed KBC Eco Fund World, is the oldest SRI fund in Belgium still in existence. As at year-end 2006, we offered 31 SRI funds investing in equities, bonds or mixed asset classes, of which 22 received the Belgian Socially Responsible and Sustainable Investment label by the Belgian Asset Managers Association (BEAMA, cf. www.beama.be). In 2006, 17 new SRI funds were introduced on the Belgian market, including eight bond funds and five closed-end funds approved by BEAMA (see Appendix III). At the start of 2007, we introduced the first SRI fund with a focus on the hot issue of global warming (KBC Eco Fund Climate Change), which invests in shares of companies actively fighting against climate change or are making efforts to reduce greenhouse gas emissions.
As at the end of 2006, the amount of capital in KBC's officially approved SRI funds came to 2.8 billion euros, up from around 1 billion euros a year earlier. This represents about 3% of total group assets under management at KBC's asset management division. Moreover, KBC's share of the SRI fund business was approximately 51% at the end of 2006, as opposed to 29% at the start of the same year (according to BEAMA, the total Belgian SRI fund business at year-end 2006 amounted to almost 5.5 billion euros), with a 100% market share in the SRI funds with capital protection. (The bar chart covers BEAMA-approved funds only.)

1 For example, 73% of new customers who had contracted a mortgage were satisfied with the service provided.
2 This is offered free of charge to senior citizens and disabled persons.

Reductie van de Globale Energiekost (Fund for the reduction of overall energy costs) and backed by the Belgian State[3]. The funds collected will be used to extend cheap loans to private consumers wishing to install energy-saving structures in their homes.

SRI RESEARCH

Socially responsible investment (SRI) at KBC combines traditional financial values with social, ethical, governance and environmental criteria by including them in investment management (saving and investing) in a structural, voluntary and transparent manner. Consultation with the stakeholders is an important part of this process.

In Belgium, we were the first financial institution to set up our own in-house Sustainable and Socially Responsible Research Department (SRI research team) to screen countries and companies for its customers in the field of socially responsible investment (SRI). Since April 2006, the SRI research team has incorporated the investment universe of EIRiS[4] (which forms the basis of the FTSE4Good indices) into its own SRI universe, expanding it over tenfold to around 2 700 companies. The screening methods for companies used by the SRI research team include the best-in-class approach, the worst-in-class elimination and on the basis of a blacklist (cf. 'Investment policy', p. 25). Countries are also screened for eligibility in our SRI universe using the best-in-class method - bonds issued by the 50% of countries with the highest scores are eligible for inclusion in SRI funds.

The SRI universe is updated annually, based on the SRI research team's findings, which are discussed with and approved by an independent external advisory board (the External Advisory Board for Sustainability Analysis), comprised of academics and other experts in the field from various Belgian and Dutch universities. The independence of the Advisory Board is intended to guarantee an objective assessment of the company and country profiles used by our SRI research team and therefore lends credibility to its sustainability screening process. The Advisory Board safeguards the quality of the methodology and research carried out by our SRI research team and carries out a periodic evaluation of the completeness, thoroughness and accuracy of the screening process, as provided by the presentation of the screened companies and countries by the analysts. The results of all the sectors screened are submitted to the Advisory Board for discussion. In keeping with its active and transparent communications policy, we make the results of this sustainability screening available to the public at no charge on our asset management Web site (cf. http://www.kbcam.be/sustainableinvestment/).

We endorse the European Social Investment Forum's (EUROSIF) internationally recognized Transparency Guidelines for the retail SRI fund sector and, in 2004, played an active role in setting up BELSIF (the Belgian Sustainable and Socially Responsible Investment Forum). BELSIF is a unique, multi-disciplinary organization composed of representatives from the Belgian financial world, research institutes and NGOs concerned with sustainable development and social responsibility. BELSIF's mission is to persuade private, institutional and public bodies to support and pro-actively encourage the sustainable and socially responsible policy of institutional issuers in their investments and investment activities and plans to establish a knowledge centre for sustainable and socially responsible business. (cf. www.belsif.be)

Some of the activities undertaken by our SRI research team in 2006 included open engagement with two of the 19 blacklisted companies (on-site visits), the organisation of four 'Shareholder Days' specifically on SRI research and SRI funds in various locations in Belgium, and a well-attended seminar at our Brussels head office in November 2006 on global CSR trends and the link between CSR and financial performance.

3 Gross rate of 3.92% and maturing in 2012 (cf. www.kbc.be/obligaties/prospectus/ and www.frge.be)
4 A UK-based organisation which is a global provider of independent research into the social, environmental and ethical performance of companies. It covers more than 2 800 companies in Europe, North America and Asia Pacific. (www.eiris.org)

RESPONSIBILITY TOWARDS OUR SUPPLIERS

Supplier and supply-chain management have received much attention in recent times with regard to CSR. At KBC, we are becoming increasingly conscious of the need to uphold our CSR values in our relationships with our suppliers and contractors. Indeed, in Belgium, we have already introduced a sustainability clause in procurement contracts with third-party suppliers and in real estate contract work to ensure that environmentally-friendly products are used[1]. Other group entities are also aware of the need to implement environmentally responsible building practices. However, to date, we did not have a group-wide policy framework regarding our responsibility towards our suppliers and contractors, and we expect to implement such a policy during the course of 2007.

As a rule, our objectives regarding the supply chain and contractual work are to secure products and services which generate as low an environmental impact as is reasonably achievable and to work with suppliers/contractors to create products and services that further our progress towards sustainable development, whilst meeting our economic targets. In this regard, ethical, labour and environmental considerations, supply security, future costs and efficiency savings and various legislation and regulations are all to be taken into account.

The new policy will focus particularly on key suppliers/contractors in the main cost areas of each KBC entity and to suppliers/contractors operating in cost areas that are affected by CSR concerns (e.g., toxic waste disposal), who will be actively monitored vis-à-vis this policy. In addition, the policy will be in line with the Ten Universal Principles of the UN Global Compact, and intends to incorporate certain minimum CSR requirements such as prevention of child labour, ban on the use of manifestly non-sustainable products or production methods and endorsement of a stringent anti-corruption code. We also intend to oblige our key suppliers/contractors to contribute actively towards providing an enhanced economic and ecological solution to our sourcing needs and induce their subcontractors to comply with the same CSR principles.

1 In Belgium alone, we had approximately 2 000 suppliers as at year-end 2006. To date, however, we did not enter all information concerning our suppliers in a centralised management system. Nevertheless, the aim is to move to such a system in order to manage and monitor our supply chain more efficiently.

RESPONSIBILITY TOWARDS OUR SHAREHOLDERS & INVEST

Transparency and sound information are the lifeblood of financial markets. At KBC, we maintain a pro-active working relationship with international stock brokers, investment banks and credit-rating agencies - independently of their current views or recommendations on the company - to enhance the quantity and quality of analyst research. The investor relations (IR) function at group head office is expected to behave with integrity towards both our shareholders and debt holders and act responsibly on the capital markets. The IR function has sufficient knowledge about the company's strategy, budgets and business developments and is empowered to act as a spokesperson vis-à-vis security holders and securities market professionals. The policy applies to publicly-traded securities issued or guaranteed by:

- the legal entity, KBC Group NV (as an issuer and/or guarantor of publicly-traded equity and debt capital instruments),
- its direct subsidiaries KBC Bank NV, KBC Insurance NV and Kredietbank S.A. Luxembourgeoise (as issuers and/or guarantors of publicly-traded debt instruments).

Among other things, we are committed to providing timely, transparent, consistent and credible information on our corporate strategies, trends and financial data to the investor public. The information is disseminated over a broad area and all parties in the investment community have fair access to information. This is undertaken via our Web site (www.kbc.com), various newswires and other media sources, and via active participation in investor roadshows and relevant sector conferences, as well as by organising meetings or conference calls with our senior management. Based on our strict dealing code on insider trading, inside information is treated as highly confidential by authorised employees. Access to (material) inside information by employees is therefore subject to strict internal guidelines.

Selective information disclosure will be avoided at all times. In line with market practice, more detailed information may be provided to analysts or professional investors, as long as this information is not material and not withheld from other parties, if requested. Moreover, under no circumstances will we deny any analyst or investor access to information or officials on the basis of their negative recommendation or decision no longer to hold the company's securities. Nor will we attempt to influence an analyst to change his or her analysis or recommendation on KBC by exerting pressure.

To preclude the perception of selective disclosures prior to the date of an earnings publication, we observe a pre-earnings blackout period which is clearly announced in advance (i.e. published in the financial calendar on our Web site). During this period, we do not take part in any communications with analysts or investors, even if the object of these is not to discuss current operations or results.

Finally, our approach to our shareholders and investors also applies to the CSR and SRI community as a whole, including the CSR rating agencies and SRI analysts and investors.

TORS

INDEPENDENT ASSURANCE REPORT

TO THE STAKEHOLDERS OF KBC GROUP

Engagement and responsibilities

We have been engaged by KBC Group NV ("KBC") to perform a limited assurance engagement on the KBC Corporate Social Responsibility Report 2006 ("the Report"). The scope of the Report, including any inherent limitations that could affect the reliability of the information contained therein, is set out in § 1.3 and § 1.4 of the Report. The Report is the responsibility of the management of KBC. Our responsibility as independent auditor is to provide limited assurance about the reliability of the quantitative information contained in the Report and about whether the description of policies and measures in the Report, properly reflects the efforts made in 2006. A limited assurance engagement provides less assurance than an audit.

Criteria and reporting principles

There are currently no generally accepted criteria for reporting sustainability performance in Belgium. KBC applies its own internal sustainability performance reporting criteria, which are primarily derived from the Sustainability Reporting Guidelines of the Global Reporting Initiative ("GRI") level C+. This is detailed in §1.3 and § 1.4 of the Report.

Scope of work performed

We conducted our procedures in accordance with the International Standard for Assurance Engagements 3000 ("ISAE 3000"): *"Assurance Engagements other than Audits or Reviews of Historical Financial Information"* and the Code of Ethics, issued by the International Federation of Accountants ("IFAC").

The comparative figures in the Report have been changed compared to the prior year report to reflect the scope change in 2006. This comparative information has not been subject to any procedures.

We have performed the procedures deemed necessary to provide a reasonable basis for our conclusions. Our principal procedures can be summarised as follows:

- Obtaining an understanding of the sector and its relevant social responsibility matters specific for KBC;
- Assessing the acceptability of the criteria, for reporting sustainability performance and reporting principles used and significant estimates and calculations made in preparing the Report;
- Performing analytical procedures at both Group and identified Business Unit level to assess the quantitative data;
- Examining, on a test basis, relevant company documents and evidence supporting the descriptive;
- Conducting interviews with responsible company officers in Belgium, Czech Republic, Slovakia, Poland and Hungary, London, Luxembourg and Dublin
- Evaluating the overall view presented in the Report, in part by testing its contents against the guidelines as issued by the GRI.

Editor's note: Sections 1.3 and 1.4 refer to 'Reporting policy and disclaimer' and 'Scope of this report', respectively.

Conclusions

Based on the procedures performed, and considering the scope restrictions as specified in § 1.3 and § 1.4 of the Report, nothing came to our attention that causes us to believe that:

- The description of policies and measures in the KBC Group Corporate Social Responsibility Report 2006 do not properly reflect the efforts made in 2006; and
- The quantitative data included in the KBC Group Corporate Social Responsibility Report 2006 are not free of material misstatement.

Brussels, 21 May 2007

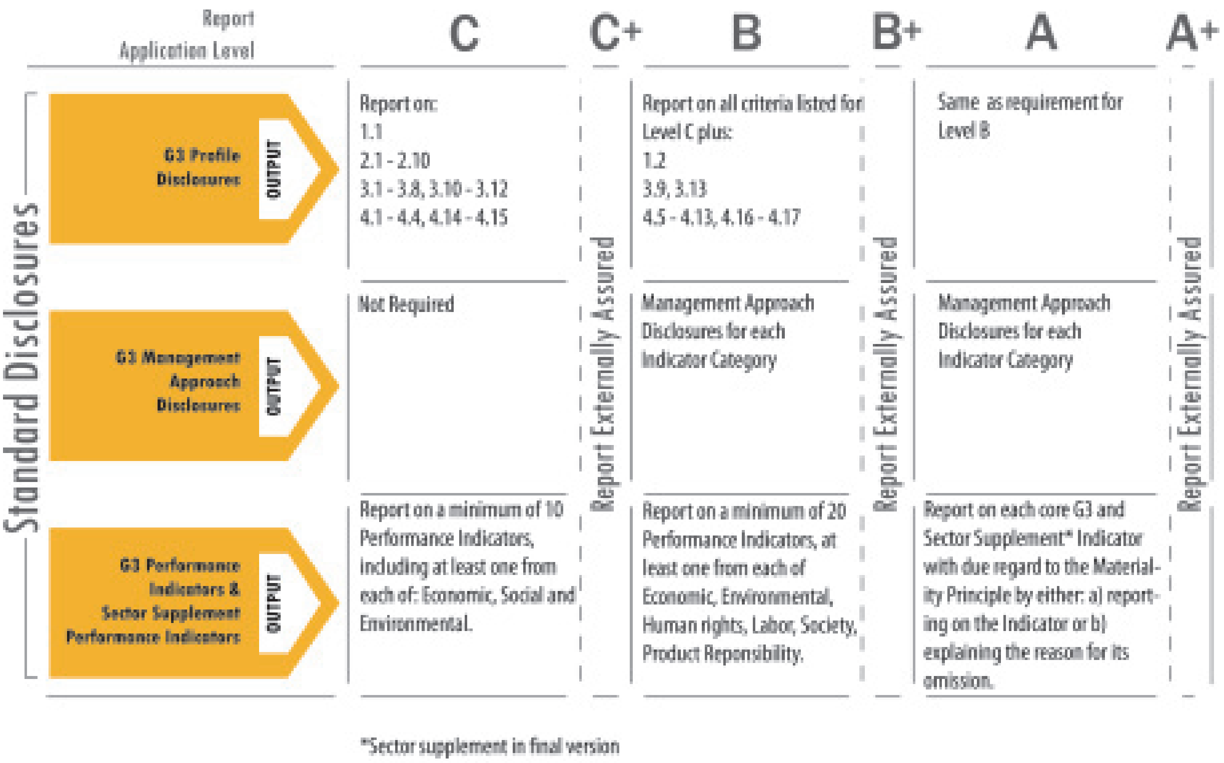
Ernst & Young Bedrijfsrevisoren BCVBA (B 160)
Represented by

Harry Everaerts
Partner

Editor's note: Sections 1.3 and 1.4 refer to 'Reporting policy and disclaimer' and 'Scope of this report', respectively.

GRI – G3 INDEX

We are applying the C+ level to our report and have covered the minimum required disclosures associated with this level, as well as the inclusion of the Financial Sector Supplements (social and environmental indicators).



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GLOBAL COMPACT – GRI CROSS-REFERENCE TABLE

Global Compact Issue Areas	Global Compact Principles	Directly Relevant GRI Indicators	Indirectly Relevant GRI Indicators
Human Rights	Principle 1 – Businesses should support and respect the protection of internationally proclaimed human rights.	HR1-9	LA4, LA13, LA14 ; SO1
	Principle 2 – Businesses should ensure that they are not complicit in human rights abuses.	HR1-2, HR8	
Labour Standards	Principle 3 – Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.	HR5; LA4, LA5	
	Principle 4 – Businesses should uphold the elimination of all forms of forced and compulsory labour.	HR7	HR1-3
	Principle 5 – Businesses should uphold the effective abolition of child labour.	HR6	HR1-3
	Principle 6 – Businesses should uphold the elimination of discrimination in respect of employment and occupation.	HR4; LA2, LA13, LA14	HR1, 2; EC5, EC7; LA3
Environment	Principle 7 – Businesses should support a precautionary approach to environmental challenges.	Profile Disclosure 4.11	EC2
	Principle 8 – Businesses should undertake initiatives to promote greater environmental responsibility.	EN2, EN 5-7, EN10, EN13-14, EN18, EN21-22, EN26-27, EN30	EC2; EN1, EN3-4, EN8-9, EN11-12, EN15-17, EN19-20, EN23-25, EN28-29; PR3-4
	Principle 9 – Businesses should encourage the development and diffusion of environmentally friendly technologies.	EN2, EN5-7, EN10, EN18, EN26-27	
Anti-Corruption	Principle 10 – Businesses should work against all forms of corruption, including extortion and bribery.	SO2-4	SO5-6

APPENDICES

Appendix I: KBC's group-wide financial results

Group-wide financial results – full-year 2005 and 2006
The information below is provided in more detail in KBC Group's 2006 Annual Report (available on www.kbc.com).

Consolidated income statement

In millions of EUR	2005	2006
Net interest income	4 219	4 158
Gross earned premiums, insurance	3 550	3 321
Dividend income	235	211
Net gains from financial instruments at fair value through profit or loss	642	1 370
Net realised gains from available-for-sale assets	458	513
Net fee and commission income	1 819	1 865
Net post-tax income from discontinued operations	0	0
Other income	574	1 119
GROSS INCOME	**11 498**	**12 556**
Operating expenses	-4 914	-4 925
Impairment	-103	-175
○ on loans and receivables	-35	-177
○ on available-for-sale assets	6	-6
○ on goodwill	-20	-1
○ on other	-54	9
Gross technical charges, insurance	-3 059	-2 843
Ceded reinsurance result	-69	-63
Share in results of associated companies	16	45
PROFIT BEFORE TAX	**3 369**	**4 595**
Income tax expense	-925	-1 002
PROFIT AFTER TAX	**2 443**	**3 593**
Minority interests	-194	-163
NET PROFIT, GROUP SHARE	**2 249**	**3 430**
Earnings per share (in EUR)		
Basic	6.26	9.68
Diluted	6.15	9.59

Consolidated balance sheet

ASSETS In millions of EUR	31-12-2005	31-12-2006
Cash and balances with central banks	2 061	2 787
Treasury bills and other bills eligible for rediscounting with central banks	2 649	1 727
Loans and advances to banks	45 312	39 881
Loans and advances to customers	119 475	132 400
Securities	125 810	121 414
Derivative financial instruments	18 832	16 774
Portfolio hedge of interest rate risk	59	-175
Investment property	313	413
Reinsurers' share in technical provisions, insurance	282	290
Accrued income	2 992	2 274
Other assets	2 825	2 346
Tax assets	545	761
○ Current tax assets	70	154
○ Deferred tax assets	475	608
Non-current assets held for sale and disposal groups	0	92
Investments in associated companies	989	522
Goodwill and other intangible assets	1 537	1 988
Property and equipment	2 120	1 906
TOTAL ASSETS	**325 801**	**325 400**

LIABILITIES AND EQUITY In millions of EUR	31-12-2005	31-12-2006
Deposits from banks	60 821	59 108
Deposits from customers and debt securities	171 572	180 031
Derivative financial instruments	24 783	23 488
Portfolio hedge of interest rate risk	0	0
Gross technical provisions, insurance	14 779	15 965
Liabilities under investment contracts, insurance	7 615	9 156
Accrued expense	2 326	1 747
Other liabilities	18 674	9 818
Tax liabilities	928	846
○ Current tax liabilities	578	534
○ Deferred tax liabilities	350	312
Non-current liabilities held for sale and liabilities associated with disposal groups	0	43
Provisions for risks and charges	522	493
Subordinated liabilities	6 314	6 253
TOTAL LIABILITIES	**308 335**	**306 947**
Total equity	17 466	18 453
○ Parent shareholders' equity	15 751	17 219
○ Minority interests	1 715	1 234
TOTAL LIABILITIES AND EQUITY	**325 801**	**325 400**

Appendix II: KBC's Principles for socially responsible business

KBC aims through its activities to contribute to the economic, social and ecological advancement of the communities it serves. Accordingly, it conducts its activities in compliance with both the letter and the spirit of prevailing laws and regulations. It also takes account of changing societal norms, norms which generally foreshadow subsequent legislation.
For KBC, a primary concern is to meet the needs and safeguard the interests of its customers, its shareholders, its employees and the communities in which it operates. In its dealings with these stakeholders, KBC observes principles of fairness, reasonableness, openness, transparency and discretion, whilst ensuring privacy. These principles are incorporated into a specific code of conduct which governs all KBC's activities, but especially its lending and asset management businesses, as well as its human resources and facility management projects.
KBC Bank has a social responsibility to meet its customers' borrowing requirements at reasonable, market-conform rates of interest which compensate it for the credit risk it takes and other lending-related expenses. Before granting any credit, KBC will conduct a preliminary analysis not only of the associated, purely financial and economic aspects of the credit, but also of the relevant social and ecological aspects. This analysis makes it possible, among other things, to offer customers the credits and credit products that are best suited to their needs and financial resources.
Recommendations and decisions for asset management purposes are always formulated solely with the customer in mind and in keeping with a general investment strategy that is based on a thorough analysis of all available macro-economic, sectoral and company information, as well as the risk profile of the customer concerned and/or of the relevant investment products. The customer's risk profile is determined with all due care in consultation with the customer and is adjusted where necessary to take account of his or her changing financial, social and philosophical position. To ensure it can satisfy the broadest possible range of investment preferences, the bank develops investment products with diverse risk profiles and features, including those that reflect sustainable and ethical investment principles. To support its investment policy in this regard, KBC Asset Management has set up its own research team to screen the sustainability of the policies pursued by various companies and countries (with a view to investing in government bonds). KBC Asset Management is assisted in this endeavour by an External Advisory Board. The results of this 'ethical screening' are used by KBC Asset Management not only in the management of its ethical funds, but are to produce a semi-annual publication (available at: http://www.kbcam.be/sustainableinvestment/).

Where insurance is concerned, KBC will, wherever the competitive room to manoeuvre allows, apply appropriate techniques to counter the 'moral hazard' dilemma (i.e., a tendency of persons to exhibit riskier behaviour once insurance is taken out). KBC will ensure that its products encourage socially desirable or acceptable behaviour where risk-taking is concerned.

KBC is aware that in many cases, particularly in the event of sickness, disability or death, money cannot compensate for pain and suffering. Consequently, it feels that it has a social duty to try and preclude such pain and suffering where possible by means of an accident-prevention policy. In addition, where needed, KBC furnishes personal and professional assistance to accident victims, guiding them in their search for the best way to return to mental and/or physical health.

KBC will make an effort to include in certain products an explicit element of solidarity, which should make it possible to provide some measure of insurance for risks which would not normally be insurable.

KBC is a firm believer in the principle that segmentation should not lead to discrimination; i.e. it should never lead to large groups of prospective policy-holders being shut out on the basis of criteria they have no control over.

In its dealings with personnel, KBC pursues an equal opportunity policy and resolutely avoids any form of discrimination. The recruitment, selection, promotion and remuneration of its employees occurs on the basis of each individual's merits, such as his or her knowledge and skill, development potential, added value and the responsibilities he or she shoulders. KBC aims to forge a lasting working relationship with its employees, one characterised by balance between the individual's professional commitment which contributes to the company's capabilities and his or her personal development in the broadest sense of the word.

To achieve this aim:
KBC offers a competitive pay package, providing employees with a fair pay for their work and their contribution to the company's results;
KBC seeks to be a caring employer, even when problems arise;
KBC endeavours to enable employees to balance their professional and private lives and consequently takes the requisite initiatives with regard to flexible working arrangements, employee mobility and social schemes;
KBC provides sound career guidance and top-quality training, so that employees are given adequate opportunities to further their careers and develop their skills;
KBC provides its employees with an attractive working environment and the necessary resources to be able to perform their job efficiently;
KBC seeks to employ people in its personnel department who provide prompt, customer-friendly and professional service.

KBC also aims to provide clear, transparent information and considers good social dialogue as a basic building block in its corporate culture. For this reason, KBC promotes the efficient and direct flow of information throughout the organization via such tools as an intranet. All this is intended to nurture and put into practice the values that KBC and its employees find important. These values are primarily: openness and honesty in dealings with one another, a mutual respect and collaboration on projects, which is characterized by a spirit of helpfulness and professionalism.

KBC is aware that the rational use of natural resources – even for a service-providing, information-processing enterprise – can help to alleviate the burden on the environment.
It will therefore ensure that its resources are as ecologically sound and used as rationally as possible, whether this concerns water and energy use, the consumption of products, waste-prevention and –processing or transportation.
KBC endorses sustainable building principles and in providing accommodation for its workforce takes account of any possible environmental impact this may have, as well as of employee comfort and efficiency.
It will require its suppliers of products and services to adopt a similar approach, based on full compliance with the relevant laws and the implementation of environmental conservation systems in keeping with the ISO 14000 family of standards. Fairness will be a feature of all of KBC's dealings with its suppliers.

KBC makes a commitment to the communities in which it operates, not only by funding social, cultural or scientific initiatives, but also by making competencies or facilities, for instance, available where needed. In this way, KBC aims not only to help enhance the prosperity of the communities it serves, but also to improve their well-being. KBC encourages its employees to become socially involved.

Appendix III: SRI funds managed by KBC Asset Management

The table below lists all of KBC's SRI funds officially approved by the Belgian Asset Managers' Association (BEAMA) as at year-end 2006.

Open-ended bond, cash or mixed funds		
Fund	**Description**	**AUM as at 31/12/2006**
KBC Institutional Fund Ethical Euro Bonds (2002)	Invests in European government bonds issued by sustainable and socially responsible countries and companies. The sustainability screening is carried out by KBC AM's SRI team, with advice and checks by an independent advisory body of experts. For both institutional and private investors.	735.6 m EUR
KBC Institutional Fund Global Ethical Defensive 1 (2002)	Invests in international bonds and shares issued by sustainable and socially responsible entities. The screening is carried out by KBC AM's SRI team, with advice and checks by an independent advisory body of experts. For both institutional and private investors.	167.4 m EUR
KBC Obli Euro (2000)*	A sub-fund of the Belgian bevek KBC Obli, it only invests in countries and companies from the SRI universe of KBC AM. This sub-fund is open to private investors.	284.5 m EUR
KBC RENTA AUD RENTA*	The seven sub-funds of KBC Renta, a bevek under Luxemburg law, preferably invest in bonds issued by governments in the currency in which the sub-fund invests. Since December 2006, the sub-funds where the currency belongs to a country included in the SRI universe are managed according to the SRI methodology.	233.4 m EUR
KBC RENTA CANARENTA*		72.6 m EUR
KBC RENTA DECARENTA*		78.2 m EUR
KBC RENTA NOKRENTA*		130.1 m EUR
KBC RENTA NZD RENTA*		45.4 m EUR
KBC RENTA SEKARENTA*		36.6 m EUR
KBC RENTA STERLINGRENTA*		411.2 m EUR
**Approved by the Belgian Asset Management Association (BEAMA) in November and December 2006.*		

Open-ended equity funds		
Fund	**Description**	
KBC Eco Fund World (1992)	Invests in an international selection companies that make a real effort to protect the environment. Audit and monitoring are carried out by an independent expert 'environmental advisory council'. The oldest investment fund in Belgium based on ecological criteria.	36.5 m EUR
KBC Eco Fund Water (2000)	Invests in companies active in water distribution and treatment.	161.7 m EUR
KBC Eco Fund Alternative Energy (2000)	Invests in companies active in the field of alternative (and therefore 'clean') energy.	123.0 m EUR
KBC Eco Fund Ethical Equity Euroland (2001)	Invests in sustainable companies in the euro zone. The sustainability screening is carried out by KBC AM's SRI team, with advice and checks by an independent advisory body of experts.	11.1 m EUR
KBC Institutional Fund Ethical Euro Equities (2000)	Invests in European shares of sustainable companies. The sustainability screening is carried out by KBC AM's SRI team, with advice and checks by an independent advisory body of experts.	44.7 m EUR

Closed-end funds (with capital protection)		
Fund	**Description**	
KBC Click Solidarity 1 Kom op tegen kanker (2001)*	Invests in a basket of 16 shares of sustainable and socially responsible companies. 3% of any increase in the return is transferred to the Kom op tegen kanker campaign supporting the research and prevention of cancer. The first ethical fund to be launched in Belgium with a solidarity aspect.	8.7 m EUR
KBC Click Solidarity 3 Kom op tegen kanker (2003)	Same as KBC Click Solidarity 1 Kom op tegen kanker.	2.4 m EUR
KBC EquiMax CRC Protection Fund 1 (2005)	Invests in a basket of 30 shares of sustainable and socially responsible companies. The sustainability screening is carried out by KBC AM's SRI team, with advice and checks by an independent advisory body of experts.	6.9 m EUR

KBC Equisafe Sustainables World 1	These sub-funds of the Belgian bevek KBC Equisafe Sustainables World invest in a basket of companies around the world that meet the SRI criteria of KBC AM.	67.7 m EUR
KBC Equisafe Sustainables World 2		77.7 m EUR
KBC Equisafe Sustainables World 3		126.3 m EUR
KBC Equisafe Sustainables World 4		33.5 m EUR
Total AUM in funds approved by BEAMA as at year-end 2006		2.895 bn EUR

(for more information, see http://www.kbcam.be/sustainableinvestment/)

* *The KBC Click Solidarity 1 Kom op tegen kanker fund bears the Ethibel Excellence Label. The Ethibel Excellence Label is registered in 15 countries of the European Union and is a guarantee that investments are being made in sustainable companies. The Label indicates that the investment fund is exclusively composed of companies selected on the basis of Ethibel's comprehensive research and evaluation model.*

For more information on Ethibel and the Ethibel Excellence Label, surf to www.ethibel.org.

Appendix IV: Glossary of commonly used CSR terms

Assurance
Entails an evaluation of the quality of a CSR report or processes, including the underlying systems that produce the quantitative and qualitative information in the report, in relation to a standard or suitable set of criteria (e.g., ISAE 3000). The assurance provider's role is not to judge the organisation's performance, but simply to ensure that the report provides a fair and reliable basis for readers to make up their own minds. Independent assurance can add credibility to a CSR report.

Carbon emissions
Carbon dioxide (CO2) is the most abundant greenhouse gas and the term carbon emissions refers mainly to the manmade production of this gas, generated through the burning of fossil fuels, and from both small and large scale energy-consuming activities.

Code of conduct
A formal statement of the values and business practices of a company and its employees and sometimes its suppliers. It sets out minimum standards of integrity and professional behaviour, which the company and its employees are required to observe.

Corporate social responsibility (CSR)
CSR can be defined in various ways. One is 'the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large' (World Business Council for Sustainable Development). Based on this, CSR can be defined to cover a company's business ethics, corporate governance, labour relations and its role in society, while managing its impacts on the environment. CSR may also be defined on the basis of a company's relationships with its stakeholders.

Equator Principles
Launched by the International Finance Corporation (IFC) in co-operation with a group of leading global banks, the principles set out rules to determine, assess and manage environmental and social risks associated with project financing operations. (www.equator-principles.com)

Fair trade
Trade undertaken between small, community-based producers in developing countries and buyers on terms superior to the open market for producers.

Forest Stewardship Council (FSC)
An international association comprised of representatives from environmental and social groups, the timber trade and the forestry profession, indigenous people's organisations, responsible corporations, community forestry groups and forest product certification organisations from around the world. It aims to promote responsible, environmentally appropriate, socially beneficial, and economically viable management of the world's forests. It issues a recognisable product label on goods that support the growth of responsible forest management worldwide. (www.fsc.org/en/)

Global Reporting Initiative (GRI)
The GRI is a multi-stakeholder process and independent institution whose vision is 'that reporting on economic, environmental, and social performance by all organisations is as routine and comparable as financial reporting'. It develops and continuously improves the Sustainability Reporting Guidelines, which are provided as a guide for voluntary use by organisations for reporting on the economic, environmental and social dimensions of their activities, products and services. (www.globalreporting.org)

Global warming
The increase in the average temperature of the Earth's near-surface air and oceans in recent decades and its projected continuation, caused most probably by growing concentration of greenhouse gases (particularly carbon dioxide) in the atmosphere. Also referred to as 'climate change'.

Greenhouse gases (GHG)
Gases in the earth's atmosphere that absorb and re-emit infrared radiation. These gases occur through both natural and human-influenced processes. The major GHG is water vapour. Those GHGs covered by the Kyoto Protocol include carbon dioxide, nitrous oxide, methane, ozone, and chlorofluorocarbons (CFCs). CFCs in particular have been proven to be ozone-depleting.

International Labour Organisation (ILO)
UN specialised agency which seeks the promotion of social justice and internationally recognised human and labour rights. The ILO formulates international labour standards in the form of Conventions and Recommendations setting minimum standards of basic labour rights: freedom of association, the right to organise, collective bargaining, abolition of forced labour, equality of opportunity and treatment, and other standards regulating conditions across the entire spectrum of work-related issues. (www.ilo.org)

ISAE 3000 (International Standards on Assurance Engagement)
Developed by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC), the ISAE3000 lays down basic principles and essential procedures for undertaking assurance engagements other than audits or reviews of historical financial information. All professional accounting services are obliged to comply with the ISAE 3000.

ISO 14001
An international environmental management standard developed by the International Organization for Standardization (ISO). (www.iso.org)

Key performance indicator (KPI)
Financial and non-financial metrics used to quantify objectives to reflect strategic performance of a company.

Kyoto Protocol
An international agreement under the United Nations Framework Convention on Climate Change (UNFCCC) that establishes binding targets for reducing emissions of greenhouse gases. Coming into force on 16 February 2005, 141 countries have ratified the pact. (http://unfccc.int/2860.php)

Microfinance
The provision of a broad range of financial services such as deposits, loans, payment services, money transfers and insurance to poor and low-income households and their microenterprises.

Principles for Responsible Investment
A voluntary set of guidelines for institutional investors, established under the auspices of the UN Environment Programme Finance Initiative (UNEP FI) and the UN Global Compact and launched in April 2005. It provides a framework for institutional investors to include environmental, social and corporate governance (ESG) issues which can affect the performance of investment portfolios. (www.unpri.org)

Socially responsible investment (SRI)
An investment strategy that takes into account a company's ethical, social and environment performance as well as its financial performance. It involves the use of positive (based on performance) or negative (based on blacklists) screening of companies.

Stakeholders
Broadly defined, anyone who affects or is affected by a company's operations. They include both people/groups inside and outside the company, i.e. customers, shareholders, management and employees, suppliers, local communities and pressure groups.

Stakeholder engagement
Pro-active relationship over the longer term of a company with its stakeholders.

Supply chain
The linked set of resources and processes that begins with the sourcing of raw material and extends through the delivery of end items to the final customer. It includes vendors, manufacturing facilities, logistics providers, internal distribution centres, distributors, wholesalers and all other entities that lead up to final customer acceptance.

Sustainable development
Sustainable development and sustainability are often used interchangeably. Perhaps the most well-known definition can be found in the Brundtland Report of 1987 (the product of the World Commission on Environment and Development): sustainable development is development that 'meets the needs of the present without compromising the ability of future generations to meet their own needs.'

Triple bottom line
Sustainable development involves the simultaneous pursuit of economic prosperity, environmental quality and social equity. Companies aiming for sustainability need to perform not against a single, financial bottom line but against the triple bottom line. Also known as 'Three P: People, Planet, Profit'.

UN Global Compact
An international multi-stakeholder network of companies, UN agencies, labour and civil society organisations, all endorsing the Ten Universal Principles of the Global Compact in the areas of human rights, labour, the environment and anti-corruption. It seeks to advance responsible corporate citizenship so that businesses can be part of the solution to the challenges of globalisation. (www.unglobalcompact.org)

Verification
Certification by an external auditor of the validity, meaningfulness and completeness of an organisation's records, reports or statements.

We want to hear from you!

Please send us your feedback regarding this report and any suggestions for improvement to:

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