KBC Annual Report 2005

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, KBC focuses on Belgium and Central Europe for its retail bancassurance and asset management businesses, as well as for the provision of services to business customers, and occupies significant, even leading positions in these two home markets. The group is 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 presence in selected countries and regions.

Shareholders*

	31-12-2005
Almancora	20.7%
Cera	6.4%
MRBB	11.6%
Other core shareholders	11.7%
KBC group companies	2.4%
Free float	47.2%
Total	100.0%

Network and personnel*

	31-12-2005
Bank branches	
Belgium (KBC Bank and CBC Banque)	946
Central Europe (ČSOB, K&H Bank, Kredyt Bank, NLB)	1 203
Number of staff (in FTEs)	
Belgium	19 179
Central Europe	25 271
Rest of the world	6 029
Total	50 479

Long-term ratings

	31-12-2005
KBC Bank	
Fitch	AA-
Moody's	Aa3
Standard & Poor's	A+
KBC Insurance (claims-paying ability)	
Fitch	AA
Standard & Poor's	A+

Key figures, balance sheet

In millions of EUR	**31-12-2004 *pro forma***	**31-12-2005**
Total assets	285 163	325 801
Loans and advances to customers	111 177	119 475
Securities	98 862	125 810
Deposits from customers and debt securities	157 712	171 572
Gross technical provisions, insurance	13 259	14 779
Liabilities under investment contracts, insurance	3 931	7 615
Parent shareholders' equity	12 328	15 751

Pro forma means: 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 figures.

Key figures, income statement

In millions of EUR	2004 *pro forma*	2005
Gross income	12 333	11 498
Operating expenses	-4 944	-4 914
Impairment	-365	-103
Net profit, group share	1 615	2 249
Banking	1 263	1 459
Insurance	122	462
Asset management	228	286
European private banking	74	184
Gevaert	-12	-32
Holding-company activities	-59	-109

Pro forma means: 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 figures.

Key figures per share and ratios*

	2004 *pro forma*	2005
Number of shares outstanding ('000)	310 849 (pre-merger)	366 567
Basic earnings per share (in EUR)	4.48	6.26
Diluted earnings per share (in EUR)	4.39	6.15
Equity per share (in EUR)	33.6	43.8
Highest share price for the financial year (in EUR)	59.8	79.0
Lowest share price for the financial year (in EUR)	37.3	56.0
Average share price for the financial year (in EUR)	49.2	66.4
Share price at year-end (in EUR)	56.5	78.7
Return on equity (ROE)	13.7%	17.6%
Return on total assets (ROA)	0.57%	0.74%
Cost/income ratio, banking	65%	60%
Combined ratio, non-life insurance	95%	96%
Tier-1 ratio, KBC Bank and KBL EPB	10.1%	9.4%
Solvency ratio, KBC Insurance	347%	385%

Pro forma means: based on a combined KBC-Almanij entity (unless otherwise indicated). 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 figures.

* For definitions and comments, please see the detailed tables and analyses elsewhere in this annual report.

Main

February

- Central European equity businesses and corporate finance activities are grouped together under the umbrella of KBC Securities.
- The private banking activities in France are strengthened through the acquisition of Aurel Leven Gestion.

March

- The former KBC Bank and Insurance Holding Company merges with Almanij to form the KBC Group NV. Synergy projects are launched to boost cross-selling and cut costs in the group's European private banking business, while Gevaert's activities are phased out through disinvestment or transfers to other KBC business units.
- The 22% interest in Irish insurer FBD is sold for strategic reasons.
- An agreement governing operational co-operation in cross-border payments processing is signed between KBC subsidiary Fin-Force and German DZ BANK.

April

- The asset management businesses of WARTA and Kredyt Bank are merged to form a single Polish asset management company. KBC now has a single specialised asset manager in each of its Central European home markets.
- Effectenbank Stroeve is acquired, allowing the group to expand its private banking business in the Netherlands substantially.
- Euromarket banka in Montenegro is acquired by NLB, the Slovenian bank in which KBC has a 34% stake. During the course of the year, NLB also acquired Continental banka in Serbia and Razvojna Banka and Tuzlanska banka in Bosnia.

June

- The KBC logo is introduced at all Hungarian banking and insurance subsidiaries.

July

- The private banking presence in Belgium is strengthened with the signing of an agreement under which KBL European Private Bankers (KBL EPB) acquires HSBC Dewaay.
- Gevaert's private equity business and KBC Investco join forces to form KBC Private Equity, now the group's sole private equity capital provider.

events in 2005

September

- The private banking business in Germany and the Netherlands is reinforced through the acquisition of a private banking portfolio from Westfalenbank and Deutsche Bank Nederland, respectively.
- *The Banker* names KBC and NLB 'Bank of the Year 2005' in Belgium and Slovenia, respectively.
- The process of adopting uniform logos is completed by all the companies in the group's Central European network. Now all the group's Central European bank and insurance subsidiaries sport the same logo. They have however kept their local brand names.

October

- KBC publishes its first sustainability report, which bears witness to the pioneering work it has carried out in Belgium for years in the field of sustainable and socially responsible business. It describes how KBC has put its principles on sustainability and social responsibility into practice.
- Bank Dewaay is integrated into the KBL EPB group. In Belgium, Puilaetco and Dewaay join forces under the name Puilaetco Dewaay Private Bankers.

November

- Fin-Force signs an agreement with the Dutch Rabobank to have Fin-Force process Rabobank's international payments from 2007.

December

- KBC is awarded the prize for Best Annual Report (2004) by the Belgian Association of Financial Analysts.
- Agreement is announced regarding the acquisition by KBC of ABN-AMRO's 40% stake in Hungarian K&H Bank, which is now nearly wholly owned by KBC.
- The strategy for the coming years is confirmed and a new management structure announced for the group.
- A share buyback programme worth 1 billion euros is announced for 2006.

Report

To the reader

Company name
'KBC', 'the group' or the 'KBC group' as used in this annual report refer to the consolidated entity, i.e. KBC Group NV including its subsidiaries and sub-subsidiaries. 'KBC Group NV' refers solely to the parent company. 'KBC Bank and Insurance Holding Company' refers to KBC before the merger with Almanij.

Reference figures for 2004
The 2004 reference figures shown in this report are *pro forma* figures, 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 figures.

Translation
This annual report is available in Dutch, French and English. The Dutch version is the original; the other language versions are unofficial translations. KBC warrants that every reasonable effort has been made to avoid any discrepancies between the different language versions. However, should such discrepancies exist, the Dutch version will take precedence.

of the Board of Directors to the General Meeting of Shareholders

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Statement by the Chairman of the Board of Directors and the President of the Executive Committee


Willy Duron

This annual report is an historic one for us. Not only is it the first to be drawn up in accordance with the International Financial Reporting Standards (IFRS), it is, above all, the first annual report of our new group, created at the beginning of March 2005 through the merger between the 'former' KBC and its parent company, Almanij. This simplification of our structure entailed combining all our operating entities (which, besides the former KBC Bank, KBC Insurance and KBC Asset Management, now also include Kredietbank SA Luxembourgeoise and Gevaert) under the umbrella of a single listed company, which has increased the free float of our share from around 30% to 47% and significantly enhanced the visibility of our new group on the equity markets. The welcome extended to us has been a warm one. The price of our share ended 2005 at nearly 79 euros, an increase of almost 40% compared with the previous year and significantly higher than the increase in the DJ EUROSTOXX Index (27%) over the same period. Consequently, at the end of 2005, we had a market capitalisation of nearly 29 billion euros, compared with less than 18 billion euros a year previously.

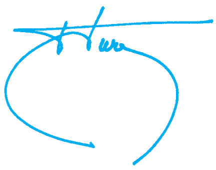
Already in its first year of existence, our new group has put in an excellent performance. With a net profit of 2.25 billion euros, we improved upon the excellent *pro forma* profit figure recorded for 2004 by a good 39%. Return on equity came to a handsome 18%, the cost/income ratio in the banking business fell to 60% and the combined ratio for our non-life insurance activities came to 96%. Besides these outstanding financial results, we managed to maintain a sound capital base, with a tier-1 ratio of 9.4% in the banking business and a solvency ratio of 385% in insurance.

This sound capital base has enabled us to make a few additional acquisitions. We stepped up our stake in the Hungarian K&H Bank, for instance, from 59% to nearly 100% as part of our strategy to buy out minority shareholders in the region wherever possible. On top of this, we continued to develop our European private banking network by making acquisitions in France, the Netherlands and Germany and, last but not least, in Belgium, where we acquired HSBC Dewaay in 2005 and are in the process of merging it with Puilaetco to create a new company, Puilaetco Dewaay Private Bankers.

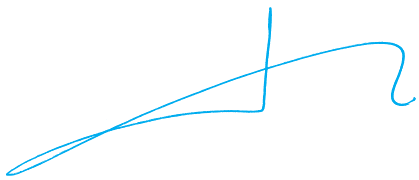
Our strong presence in the banking and insurance markets of Central Europe, where we are among the region's largest financial institutions, forms the perfect complement to the strong position we hold on our first home market, Belgium. This home market, and more specifically Flanders, is one of the wealthiest regions in Europe and still offers considerable potential for growth, partly because of its high savings ratio. The combination of a leading position on the Belgian market, our successful expansion in Central Europe and – thanks to the group's growth – our stronger position in private banking bears testimony to the attractiveness of our business portfolio.

The realisation that we have developed into an international player over the past few years prompted us to adopt the new management structure announced in December. At that time, we also decided what strategic aspects we would focus on in the years ahead, and drew up our capital plan. A major feature of that plan is of course our one-billion-euro share buyback scheme. Our strategy and the new management structure will be covered in detail later on in this annual report. We would like to say here that we are convinced that this strategy will allow our group to continue under its own strength to generate top-quality shareholder value and lasting profit growth over the long term.

When André Bergen takes over as CEO in September, he will be taking charge of a group that is in better shape than it has ever been. We would therefore like to direct our thanks specifically to our employees for their untiring efforts over the past few years to make our company a success. Our sincere thanks also goes to our shareholders and our customers for the confidence they have placed and continue to place in KBC. On behalf of the Board of Directors and the Executive Committee, we assure them that we will do our utmost to be worthy of their confidence in the future.

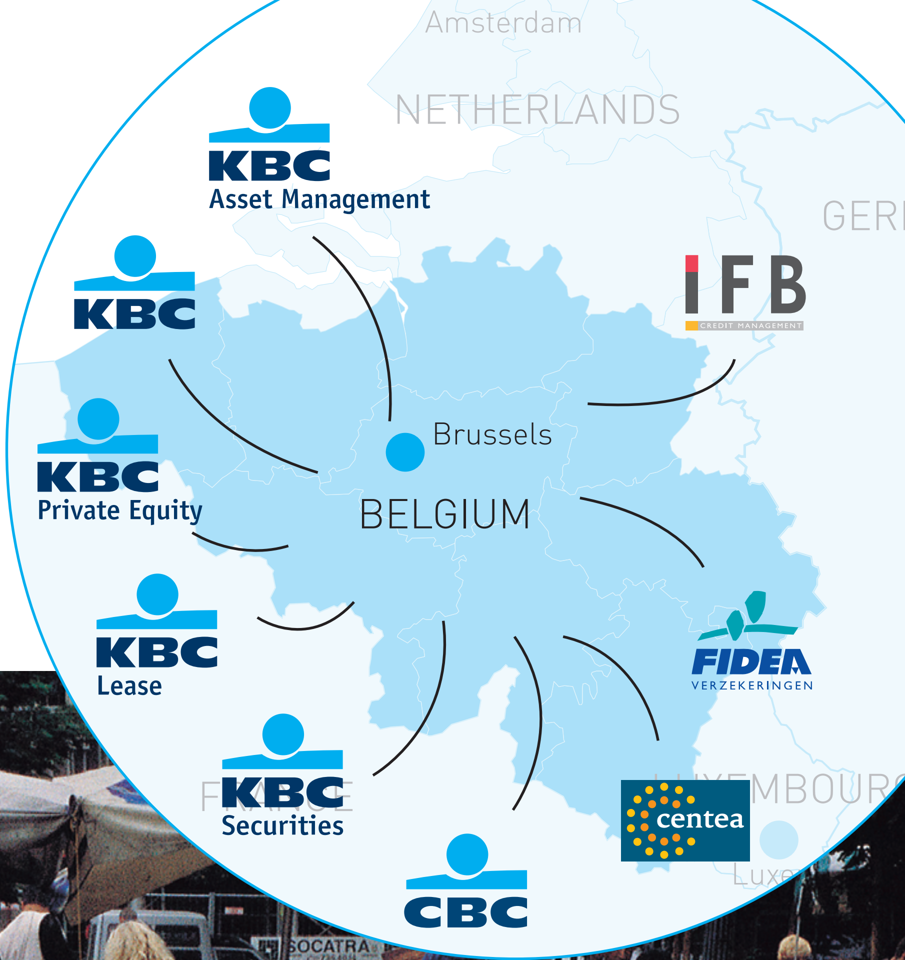


Willy Duron
President of the Executive Committee
of the KBC group

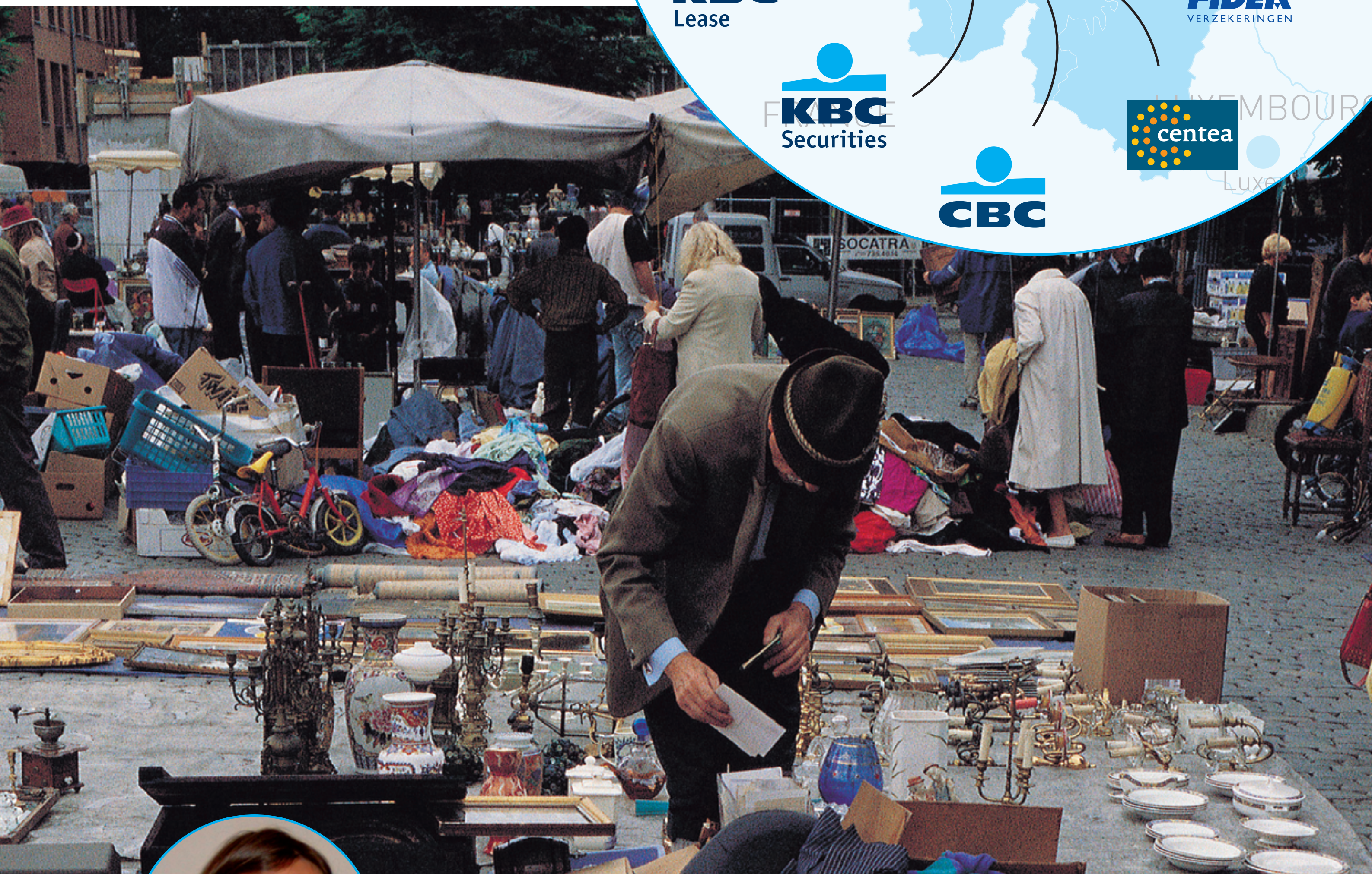


Jan Huyghebaert
Chairman of the Board of Directors
of the KBC group

Jan Huyghebaert



FLEA MARKET, VOSSENPLEIN, BRUSSELS, BELGIUM



Eva Wirtz, CBC Banque, Belgium: 'After fifteen years in banking, I'm pleased to see that it is still the quality of the person-to-person contact that is the key factor in commercial relationships. The world is becoming ever more technical and globalisation is rampant. But despite everything being centred around business, being a 'good listener' is still the best quality a banker can have.'

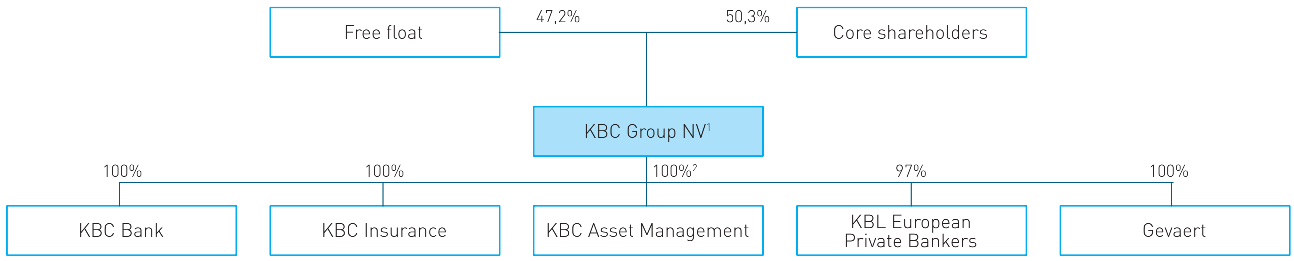
Group structure and strategy

For the other KBC group companies in Belgium, see the 'Asset Management' section.

A new group is created

On 2 March 2005, the Extraordinary General Meetings of Shareholders of the KBC Bank and Insurance Holding Company and of Almanij approved the restructuring of the Almanij-KBC group through the merger by acquisition of Almanij by the KBC Bank and Insurance Holding Company. The new entity is called KBC Group NV.

This operation resulted in a more streamlined group structure with one single entity controlling the underlying companies, viz. KBC Bank, KBC Insurance, KBC Asset Management, Kredietbank SA Luxembourgeoise (KBL European Private Bankers, i.e. KBL EPB) and Gevaert (see diagram).



1 KBC Group NV shares held by KBC group companies account for approximately 2.4% of the share capital.
2 Direct and indirect.

Following the merger, Almanij shareholders received new KBC Group NV shares (KBC shares) based on an exchange ratio of 1.35 KBC shares for each Almanij share. The legal status of the new KBC shares is the same as that of the KBC Bank and Insurance Holding Company shares prior to the merger. The existing core shareholders in Almanij, together with the MRBB, are the core shareholders of the new KBC group. At year-end 2005, together they owned 50.3% of the new group (2.4% is in the hands of KBC group companies).

This merger has made KBC an even bigger financial group in the euro area, with a market capitalisation at the close of the year of around 29 billion euros. In Belgium, KBC is a top-three player, and in Central Europe it figures among the leading financial service-providers. Through KBL EPB, the group also has an extensive private banking network in Western Europe.

In 2006, other possibilities will be explored for further simplifying the group's legal structure, such as integrating Gevaert into KBC Group NV.

New management structure in 2006

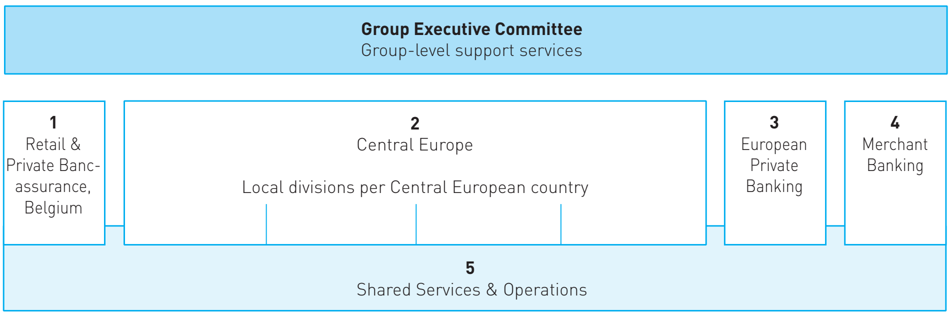
The continuous expansion of the group in Central Europe and other regions has over the past few years turned KBC from a predominantly Belgian company into an international concern, one with different *metiers* and distribution channels.

At the end of 2005, the group therefore decided to put in place a new, more internationally oriented management structure, without making any changes to the legal structure (see above). This new structure should enable the group to achieve its strategic objectives, even if there is further consolidation within the European financial landscape in future. The strategic objectives are discussed separately later on in this annual report.

The new management structure is shown in the diagram and will take effect in mid-2006. As already stated above, it reflects the group's more international dimension. The most striking change is that the head office function and the Belgian level of the business will no longer be one and the same. Each home market (i.e. Belgium and each individual Central European country) will be managed by its own management committee, which will operate under the group executive committee and oversee both the banking and the insurance activities. A new headquarters function will be put in place at the level above the business units, which will have the capability to steer and take interventive action throughout the group. Various group-wide product factories and support services will provide services to the five business units (see below). Each of these units will be headed by a Chief Executive Officer (CEO), and these CEOs, together with group CEO André Bergen (as of mid-2006) and group CFRO Herman Agneessens, will together constitute the group executive committee (see below). Each business unit will have direct responsibility for achieving the objectives set.

The five business units are as follows:

- Retail & Private Bancassurance, Belgium;
- Central Europe (this includes all banking and insurance activities in Central Europe; the division is made up of local divisions per Central European country);
- European Private Banking (this includes the activities of the KBL EPB group);
- Merchant Banking (this includes the services provided to large corporate customers and all market activities, but not those of the Central European activities);
- Shared Services (such as ICT and logistics) and Operations ('product factories' such as payment systems, asset management, leasing and trade finance).

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Executive Committee

When the group was created in March 2005, an executive committee was set up that initially comprised the presidents of the executive committees of the three largest group entities: KBC Bank (André Bergen), KBC Insurance (Willy Duron, President) and KBL EPB (Etienne Verwilghen).

At that stage, it was announced that this would be a temporary situation and that the executive committee would be reorganised subsequently around the main areas of activity. At the end of 2005, this reorganisation was finalised, along with the new management structure. Consequently, from 1 May 2006 (following the General Meeting of Shareholders), the Executive Committee of the group will include seven members: the group CEO, the CFRO and the CEOs of the five divisions (see below).

At the end of August 2006, the current CEO, Willy Duron, will retire from KBC. The Board of Directors and Executive Committee would like to express their gratitude to Willy Duron for the role he played in the development and further integration of the group. On 1 September 2006, André Bergen will succeed Willy Duron.

Emile Celis, Managing Director of KBC Insurance, also took his leave of KBC for personal reasons in November. The Board of Directors and the Executive Committee wish to express their gratitude for all Mr Celis's efforts on behalf of the company, especially in developing the group's insurance business.

Group Executive Committee from 1 May 2006

1 Group CEO ● Willy Duron
2 Group CEO ● André Bergen*
3 CEO for Belgium ● Frans Florquin
4 CEO for Central Europe ● Jan Vanhevel
5 European Private Banking CEO ● Etienne Verwilghen
6 Merchant Banking CEO ● Guido Segers
7 Group COO ● Christian Defrancq
8 Group CFRO ● Herman Agneessens

Abbreviations: CEO: Chief Executive Officer; COO: Chief Operations Officer; CFRO: Chief Financial Officer and Chief Risk Officer.
* André Bergen will succeed Willy Duron on 1 September 2006.


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Long-term strategy confirmed

In addition to the new management structure, the long-term strategy was also defined at the end of 2005. Essentially, the existing focus with regard to activities, customers and the geographic target area will remain in place.

- Where its activities are concerned, the KBC group will thus continue to focus on providing bancassurance and asset management services to retail customers, private banking customers and SMEs/mid-caps, while continuing to provide a variety of services to larger corporate customers and to engage in market activities.
- Geographically, the group will concentrate on Belgium and Central Europe for retail bancassurance activities and services to business customers (it will also maintain a selective presence in a number of other European countries), and on Europe as a whole for its private banking activities.

The group also explored various measures that would enable it to continue to adhere to its strong stand-alone strategy and achieve its financial objectives (see below). When examining the alternatives, KBC was basically looking to exploit its core competencies – extensive know-how in multi-channel distribution and lean operations – to the fullest extent possible.

Building on these strengths, KBC has elected to embark on various projects aimed at assuring its future growth. For instance:

- 'Deepening' the existing businesses. In Central Europe, for example, KBC will continue to develop its bancassurance model, encourage organic growth (this will include increasing the number of branches where necessary), expand its consumer lending activities and step up its services to businesses and top-drawer clientele. In the Belgian market, the group will seek to reinforce non-life insurance distribution via brokers and develop new 'longevity' insurance products, among other things. KBC will also continue to seek out opportunities for alliances in certain specialised lines of business (e.g., the existing co-operation with other banks in cross-border payments), with the object of generating economies of scale.
- Strengthening the presence in the home markets. In Central Europe, the group intends to strengthen its position by buying out minority shareholders where possible, and will consider new acquisitions as and when opportunities arise. Among other things, it is contemplating acquiring a second bank in Poland or another non-life insurance company in Hungary. KBC will also venture into new markets in Central Europe – Romania and the Balkans are the prime candidates – either by means of acquisitions or greenfield operations. In Western Europe, lastly, the group will continue to seek out opportunities for strengthening its private banking business by making acquisitions in certain countries.

Since KBC has more than enough resources to fund its new strategy, it has decided to launch a share buyback programme to the tune of 1 billion euros (more details are provided below).

Financial targets up to 2008

In mid-2005, the group announced its targets for the medium to long term. Although they do not appear at first sight to be any different from those of the 'former' KBC, in actual fact, they are more ambitious, given that the group's expansion and the introduction of IFRS have both had an adverse impact on the relevant ratios.

Where profitability is concerned, the group's targets for the period up to 2008 are to achieve an average ROE of at least 16% and average annual net profit growth of minimum 10% per share. The efficiency target is a cost/income ratio of 58% for the banking businesses (which include banking, asset management and European private banking) and a combined ratio of 95% for non-life insurance.
These objectives must be achieved without compromising the strong capital base, which is reflected in a minimum tier-1 ratio of 8% (twice the statutory minimum) for the banking business (KBC Bank and KBL EPB, combined) and 200% (again, twice the statutory minimum) for KBC Insurance.

Financial targets for 2006-2008, at group level

	Target	Period
Return on equity	16%	Average in 2006-2008
Growth in earnings per share	10%	CAGR* in 2006-2008
Cost/income ratio	58%	By 2008
Combined ratio, non-life insurance	95%	By 2008
Tier-1 ratio, banking	8%	In 2006-2008
Solvency ratio, insurance	200%	In 2006-2008

For a definition of the above ratios, please see the 'Additional information' section.
* CAGR: compound annual growth rate.

Share buyback programme in 2006

According to KBC's calculations, it will be able to fund all the projects required by the new long-term strategy using its own resources. This means that, based on the situation at year-end 2005 and taking into account the impact of IFRS, its current dividend policy and the planned reduction in the holding company's level of indebtedness, it has substantial excess capital.

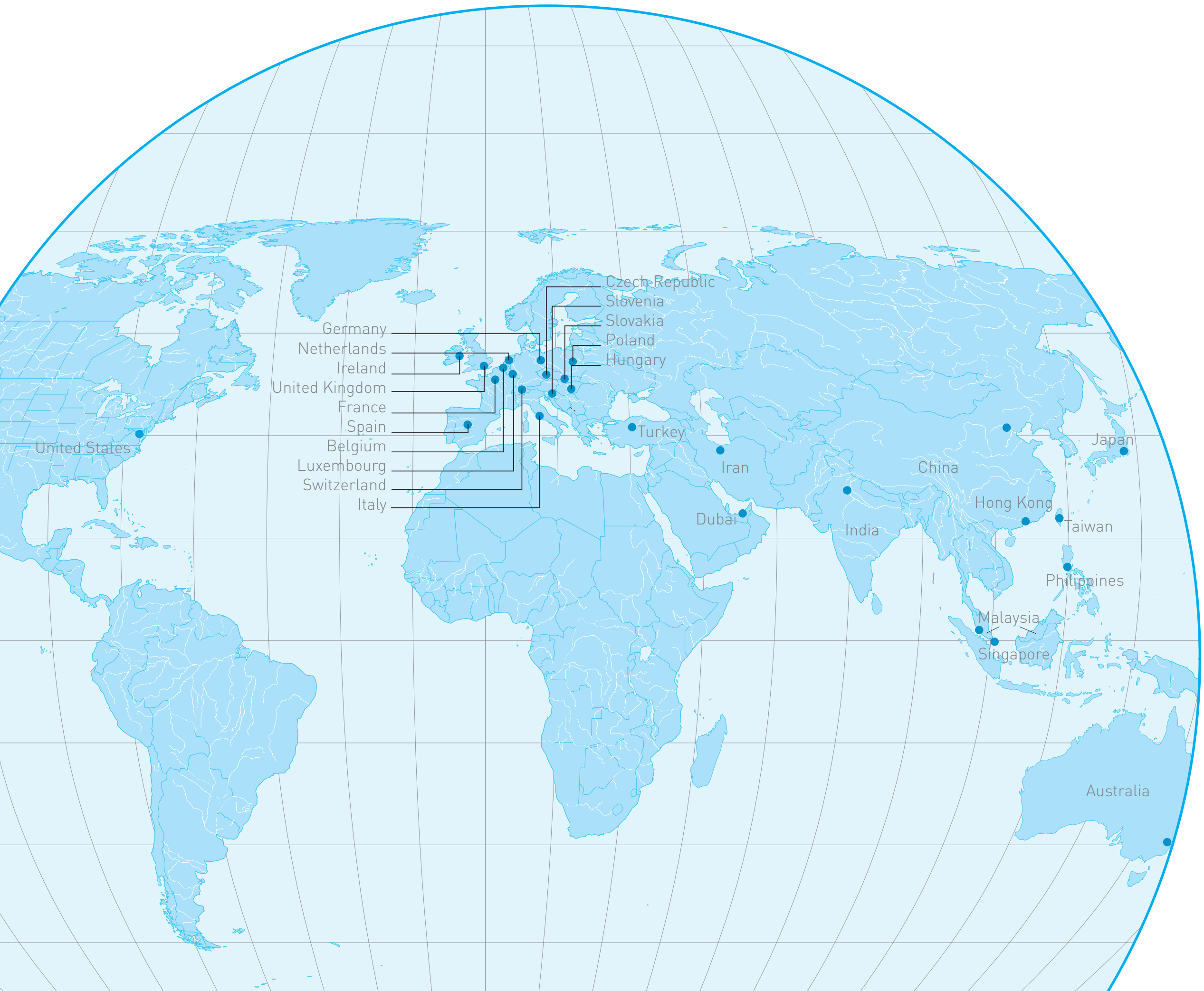
Based on KBC's internal solvency targets (in other words: a tier-1 ratio of 8% for the banking activities and a solvency ratio in the insurance business of 200%), its excess capital at year-end 2005 came to some 2.5 billion euros (or 1.2 billion euros after adjustment for the holding company's debt).

The Board of Directors consequently decided that KBC is in a position in 2006 to pay back a substantial sum of money to its shareholders by means of a share buyback programme. In total, this programme will see 1 billion euros being spent to buy back shares on the open market. The shares that are repurchased will be cancelled.

KBC estimates (see table) that around 12 million shares (3.2% of the total number) will be cancelled in this way, based on a hypothetical price of 85 euros per share, and that this will increase earnings per share by 3.4% (in view of the fact that buybacks will be spread out, the full effect of this programme will only be felt from 2007).

Estimated impact of the share buyback programme

	Price per share: 85 EUR
Total amount, buyback programme	1 billion EUR
Number of shares to be repurchased	11.8 million
Shares to be repurchased as a % of the total number of shares	3.2%
Impact on earnings per share (%, from 2007)	3.4%



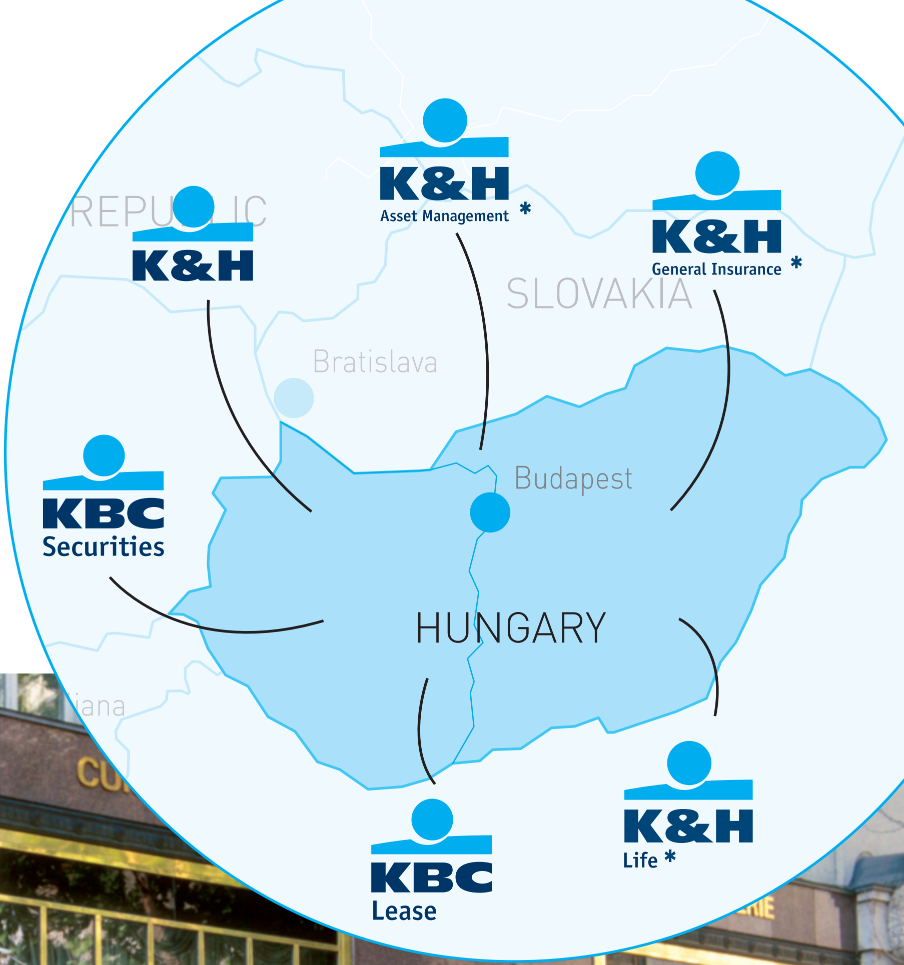
International presence of the group

The diagram on the opposite page provides an overview of the international network of the group at the end of 2005. More information in this regard is available in the 'Consolidated annual accounts' section, note 46.

Main group companies, 31-12-2005

Belgium	Central Europe	Rest of the world
	Banking[1]	
Antwerp Diamond Bank	ČSOB (Czech Republic & Slovakia)	Antwerp Diamond Bank (India, US, Hong Kong, Switzerland, Dubai)
CBC Banque	K&H Bank (Hungary)	KBC Asset Management (Ireland, United Kingdom, Luxembourg, Germany, China)
Centea	KBC Lease (Hungary, Poland)	IIB Bank (Ireland)
Fin-Force	Kredyt Bank (Poland)	KBC Bank (France, United Kingdom, Ireland, Turkey, Italy, Spain, China, Hong Kong, Malaysia, Philippines, Singapore, Taiwan, US, India, Iran, Australia)
Gevaert	Nova Ljubljanska banka (Slovenia)[2]	KBC Bank Deutschland (Germany)
International Factors[2]	KBC Securities[4]	KBC Bank Nederland (Netherlands)
KBC Asset Management	KBC Asset Management[4]	KBC Clearing (Netherlands)
KBC Bank		KBC Finance Ireland (Ireland)
KBC Lease		KBC Financial Products (United Kingdom, US, Japan, Hong Kong)
KBC Private Equity		KBC Internationale Financieringsmaatschappij (Netherlands)
KBC Securities		KBC Lease (United Kingdom, Netherlands, France, Luxembourg, Germany, Switzerland)
		KBC Peel Hunt (United Kingdom)
		KBC Securities (France)
	Insurance	
ADD	ČSOB Pojišťovna (Czech Republic)	Assurisk (Luxembourg)
Fidea	ČSOB Poisťovňa (Slovakia)	VITIS Life (Luxembourg)
KBC Insurance	K&H General Insurance (Hungary)	
Secura	K&H Life (Hungary)	
VTB-VAB[3]	NLB Vita (Slovenia)	
	WARTA and WARTA Life (Poland)	
	Private banking	
Puilaetco Dewaay Private Bankers		Banca KBL Fumagalli Soldan (Italy)
		Banco Urquijo (Spain)
		Brown, Shipley & Co (United Kingdom)
		Kredietbank SA Luxembourgeoise (Luxembourg)
		KBL France (France)
		KBL Monaco (Monaco)
		Kredietbank (Suisse) (Switzerland)
		Merck Finck & Co (Germany)
		Theodoor Gilissen Bankiers (Netherlands)

1 Including asset management, Gevaert and other financial services that do not come under private banking and insurance activities.
2 Joint venture or minority interest.
3 Roadside automobile assistance and travel assistance.
4 Present in all the key countries in Central Europe either through direct subsidiaries or indirectly through subsidiaries of KBC Bank.



Café Gerbeaud, Vörösmarty tér, Budapest, Hungary

Réka Csáti, K&H General Insurance, Hungary: 'A road show held in the sales networks by the two companies' top managers really boosted bancassurance cooperation in 2005. It was mainly a question of making staff aware of the fact that the bancassurance concept is crucial for our group, because it has so much commercial potential.'

Shareholder information

* This company's logo is not used; instead, it uses the K&H logo in its communications .

Shareholders, 31-12-2005[1]

	Number	%
Ordinary shares		
Almancora	75 892 338	20.7%
Cera	23 345 499	6.4%
MRBB	42 562 675	11.6%
Other core shareholders	42 715 837	11.7%
Subtotal	184 516 349	50.3%
KBC group companies[2]	8 898 689	2.4%
Free float	173 151 599	47.2%
Total	366 566 637	100.0%
of which entitled to dividend	366 432 177	
Mandatorily convertible bonds (MCBs)[3]	2 639 838	

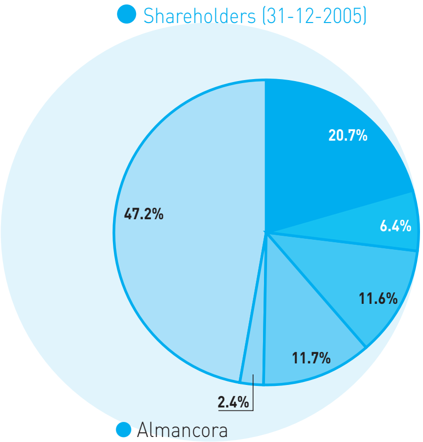
1 Based on value date. Taking account of existing shares, mandatorily and non-mandatorily convertible bonds, the maximum number of shares comes to 369 206 475.
2 Includes shares held for employee stock option plans, but not the shares in the trading books of KBC Securities and KBC Financial Products (included in the free float).
3 Number of shares on conversion. More information in this regard is available in the 'Company annual accounts' section.

Financial calendar

2005 financial year	Earnings Release	2 March 2006
	Annual report published	12 April 2006
	Annual General Meeting	27 April 2006
	Dividend payment	2 May 2006
1Q 2006	Earnings Release	30 May 2006
1H 2006	Earnings Release	31 August 2006
3Q 2006	Earnings Release	23 November 2006

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

Shareholders (31-12-2005)



- Almancora
- Cera
- MRBB
- Other core shareholders
- KBC group companies
- Free float

Ratings, 31-12-2005

	Long-term rating	(+ outlook)	Short-term rating
Fitch			
KBC Bank	AA-	(Stable)	F1+
KBC Insurance (claims-paying ability)	AA	(Stable)	F1+
KBC Group NV	A+	(Stable)	F1
Moody's			
KBC Bank	Aa3	(Stable)	P-1
KBC Group NV	A1	(Stable)	P-1
Standard and Poor's			
KBC Bank	A+	(Positive)	A-1
KBC Insurance (claims-paying ability)	A+	(Positive)	-
KBC Group NV	A	(Positive)	A-1

Changes in 2005: on 22 November 2005, Standard and Poor's upgraded the outlook for the long-term ratings of KBC Bank, KBC Insurance and KBC Group NV from 'stable' to 'positive'.

KBC share

Ticker codes	Codes
Bloomberg	KBC BB
Datastream	B:KB
Reuters	KBKBt.BR

Number of shares (in thousands, at year-end)	2003 (pre-merger)	2004 (pre-merger)	2005 (post-merger)
Number of shares outstanding	310 710	310 849	366 567
Number of shares entitled to dividend	303 707	310 711	366 432

On 2 March 2005, the Extraordinary General Meeting of Shareholders of the KBC Bank and Insurance Holding Company and of Almanij approved the merger through acquisition of Almanij by the KBC Bank and Insurance Holding Company. The new entity is called KBC Group NV. On the merger, Almanij shareholders received new KBC Group NV shares (KBC shares) based on an exchange ratio of 1.35 KBC shares for each Almanij share. The legal status of the new KBC shares is the same as that of the KBC Bank and Insurance Holding Company shares prior to the merger. The number of KBC shares in circulation immediately after the merger came to 366 423 447.

Share price (in EUR)	2003 (pre-merger)	2004 (pre-merger)	2005 (post-merger)
Year high	37.5	59.8	79.0
Year low	24.4	37.3	56.0
Year average	33.2	49.2	66.4
At year-end	37.0	56.5	78.7

Equity market capitalisation and volume traded	2003 (pre-merger)	2004 (pre-merger)	2005 (post-merger)
Equity market capitalisation (in billions of EUR, at year-end)	11.5	17.6	28.8
Average daily volume traded (number of shares)	207 693	382 174	667 299
Average daily volume traded (in millions of EUR)	6.9	19.0	43.8

Annual return (including dividends)	KBC	BEL 20	DJ EURO STOXX Banks
1 year (2004-2005)	42.6%	24.8%	30.1%
3 years (2002-2005)	40.2%	23.7%	25.7%
5 years (2000-2005)	13.4%	5.9%	4.3%

Dividend

At the General Meeting of Shareholders on 27 April 2006, the Board of Directors will propose that a gross dividend of 2.51 euros be paid out per share entitled to dividend. KBC Group NV aims to pay an increasing dividend over time. This means that, save in exceptional circumstances, 40% to 45% of consolidated net profit (group share) will be paid out in the form of dividends.

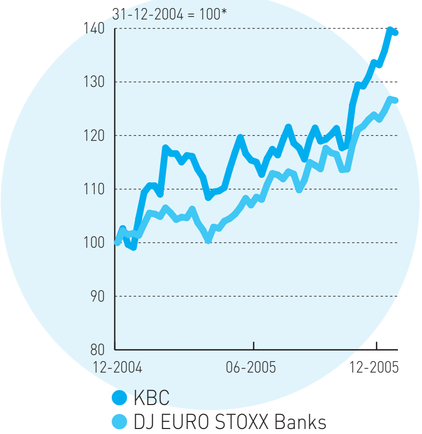
Share buyback plan and changes in the number of KBC Group NV treasury shares

An overview of changes in the number of treasury shares is given below. Sales of treasury shares in 2005 were due to options on KBC shares being exercised by employees, which led to the sale of an equal number of treasury shares by KBC Group NV.

Under the buyback programme announced at the end of 2005, KBC Group NV will buy back 1 billion euros' worth of treasury shares in 2006 and subsequently cancel them (see 'Share buyback plan' in the 'Group structure and strategy' section).

Total number of treasury shares held by KBC Group NV on 31 December 2004	4 787 674
Treasury shares sold in 2005	-946 090
Total number of treasury shares held by KBC Group NV on 31 December 2005	3 841 584

Share price performance in 2005



* The graph is based on end-of-week prices.

Key figures per share and ratios

Profitability	2004 *pro forma*	2005
Return on equity (group)	13.7%	17.6%
Cost/income ratio (banking, asset management and European private banking)	65%	60%
Combined ratio (non-life insurance)	95%	96%
Gross dividend per share (group, in EUR)	1.84	2.51
Basic earnings per share (group, in EUR)	4.48	6.26
Diluted earnings per share (group, in EUR)	4.39	6.15
P/E ratio (closing price/basic earnings per share)	12.6	12.6
Balance sheet and solvency	**31-12-2004 *pro forma***	**31-12-2005**
Equity per share, in EUR	33.6*	43.8
Tier-1 ratio (KBC Bank and KBL EPB)	10.1%	9.4%
Solvency, KBC Insurance	347%	385%

Pro forma means: 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 figures.
For a definition of the ratios, please see the 'Additional information' section.
* This would be 37 euros if IAS 32, IAS 39 and IFRS 4 were applied.

Contact details

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Website	www.kbc.com
Address	KBC Group NV, Investor Relations – IRO, 2 Havenlaan, BE-1080 Brussels

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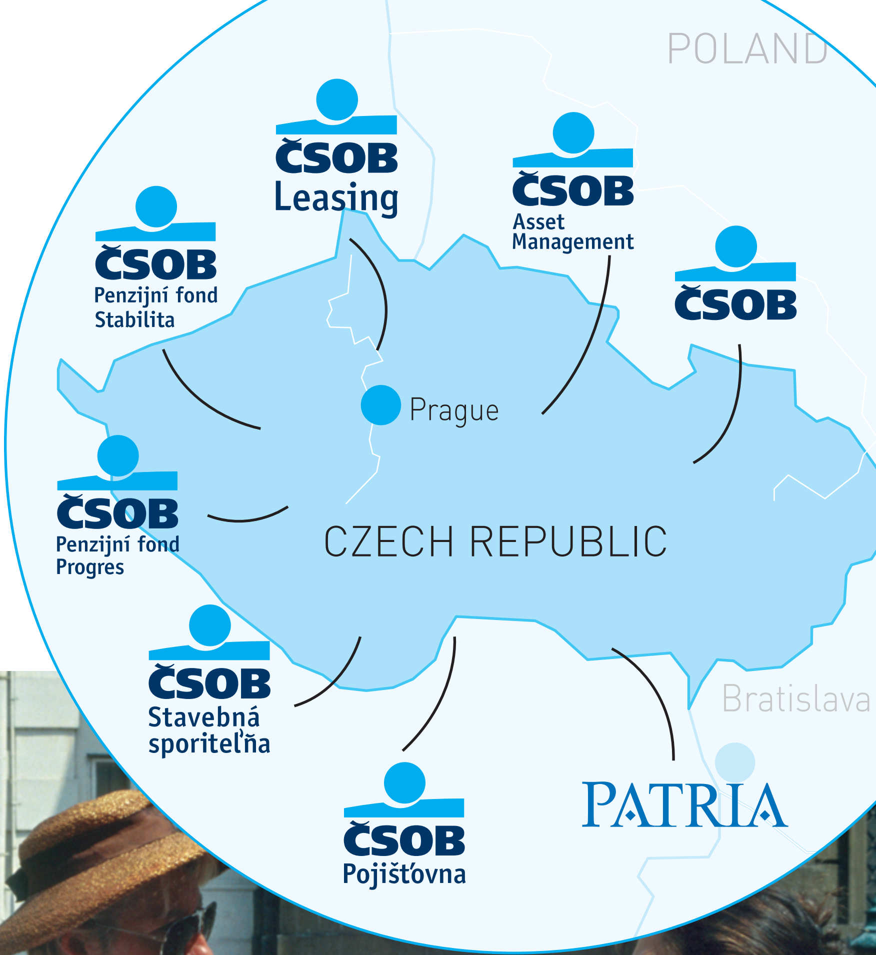
Tel.	+ 32 2 429 85 45
Fax	+ 32 2 429 81 60
E-mail	pressofficekbc@kbc.be
Website	www.kbc.com
Address	KBC Group NV, Press Office – CPR, 2 Havenlaan, BE-1080 Brussels

Lajos Beke, K&H Bank, Hungary: 'I get along with my colleagues from KBC just as well as if they worked here. And I don't just mean my colleagues at the parent company in Belgium, but those in all the other establishments and companies of the group throughout the world. We can develop joint projects that bring together a good deal of know-how and experience, so they yield more benefits than just lower costs.'



PUPPET STALL, PRAGUE, CZECH REPUBLIC

Ilona Hlavešová, ČSOB, Czech Republic: 'In order to fulfill our vision, to become the number one financial-services provider in the Czech Republic, ČSOB is undergoing a huge, overall transformation that will affect everyone. KBC has arrived on the scene as our parent company and has implemented a new governance model. The most important thing now – whether in the Czech Republic, Belgium or elsewhere – remains our commitment to serve our clients in the best possible way. The financial services industry is about people-to-people service. We should not forget that!'

Group results for 2005

Consolidated income statement, KBC group

In millions of EUR	2004 *pro forma*	2005
Net interest income	3 833	4 348
Gross earned premiums, insurance	5 158	3 550
Dividend income	231	235
Net gains from financial instruments at fair value	725	513
Net realised gains from available-for-sale assets	503	458
Net fee and commission income	1 404	1 819
Other income	479	574
Gross income	12 333	11 498
Operating expenses	-4 944	-4 914
Impairment	-365	-103
on loans and receivables	-198	-35
on available-for-sale assets	-150	6
on goodwill	0	-20
on other	-17	-54
Gross technical charges, insurance	-4 633	-3 059
Ceded reinsurance result	-68	-69
Share in results of associated companies	22	16
Profit before tax	2 345	3 369
Income tax expense	-537	-925
Profit after tax	1 808	2 443
Minority interests	-193	-194
Net profit, group share	1 615	2 249

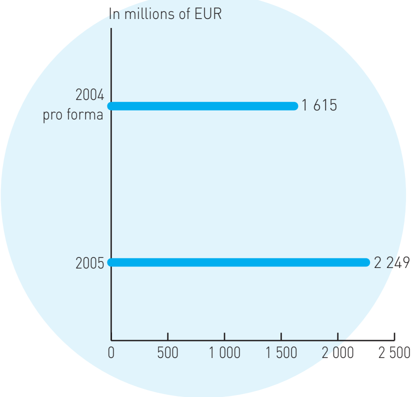
Selected balance-sheet items, KBC group

In millions of EUR	31-12-2004 *pro forma*	31-12-2005
Total assets	285 163	325 801
Loans and advances to customers	111 177	119 475
Securities	98 862	125 810
Deposits from customers and debt securities	157 712	171 572
Gross technical provisions, insurance	13 259	14 779
Liabilities under investment contracts, insurance	3 931	7 615
Parent shareholders' equity	12 328	15 751

Pro forma means: 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 figures.

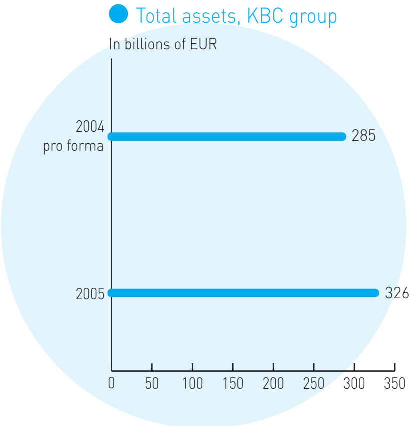
Net profit, group share

In millions of EUR

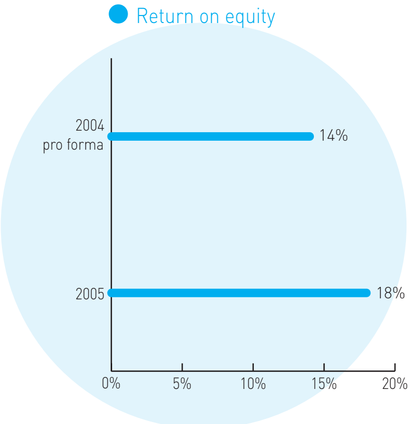


Total assets, KBC group

In billions of EUR



Return on equity



Scope of consolidation, valuation rules and currency translation

The results (including the 2004 *pro forma* results) are for the new KBC group created at the beginning of 2005 through the merger between the KBC Bank and Insurance Holding Company and Almanij.

They have been prepared in accordance with the *International Financial Reporting Standards* as adopted for use in the European Union. This means that the *pro forma* figures for 2004 do not reflect IAS 32, IAS 39 (for financial instruments) or IFRS 4 (for insurance contracts).

The main changes in the scope of consolidation compared with 2004 were the stepping up to 97% of the shareholding in private banking group Kredietbank SA Luxembourgeoise (KBL EPB) in the first quarter, the sale of the investment in insurance group FBD (first quarter), and the sale of reinsurance company Lucare (fourth quarter). The net impact of changes in the scope of consolidation on group profit was negligible.

The Czech koruna and Polish zloty increased in value in 2005 by an average of 7% and 13%, respectively, compared to 2004. Fluctuations in other currencies had no relevant impact on the results.

Group results – summary

Profit came to 2 249 million euros, with a return on equity of 18%.

Compared to the start of the year, customer deposits were up by 14 billion euros (+8% excluding deposits by professional counterparties), the loan portfolio by 8 billion euros (+12% excluding loans and advances to professional counterparties) and life insurance reserves by 5 billion euros (+38%). As a result, net interest income rose to 4.3 billion euros (although the increase was enhanced by the new IFRS valuation rules).

Premium income from insurance is not comparable with the 2004 figure, owing to the new accounting treatment. On a comparable basis, the premium inflow went up by 56% to 8.0 billion euros.

Net fee and commission income went up by 415 million euros, thanks largely to successful sales of investment funds and life insurance and wealth management services. Compared with year-end 2004, assets under management increased by 40 billion euros (+25%).

Capital gains on the investment portfolio (458 million euros) were somewhat lower than in 2004.

The level of charges (4.9 billion euros) fell by 1% and the cost/income ratio in banking dropped to 60%.

Provisions for problem loans remained limited to 35 million euros (loan loss ratio of 0.01%). In contrast to 2004, no impairment worthy of note was recorded on the investment portfolio. The combined ratio for the non-life insurance business came to 96%.

The return on capital allocated to the retail and private bancassurance business in Belgium came to 28%; the return on capital allocated to Central Europe amounted to 39%. On capital allocated to the European private banking business, the return came to 32%, while capital allocated to services to businesses and capital market activities came to 24% and 32%, respectively.

Balance sheet and solvency – summary

On 31 December 2005, capital and reserves came to 15.8 billion euros (compared with 13.3 billion euros at the start of the year). Unrealised gains on available-for-sale assets accounted for 2.1 billion euros of this amount (1.4 billion at the start of the year). Equity per share came to 43.8 euros (37.0 euros at the beginning of the year).

The tier-1 ratio for the banking business (banking and European private banking activities) and the solvency ratio of the insurance business came to 9.40% and 385% respectively (with a group gearing ratio of 106%).

Customer deposits amounted to 172 billion euros, up by 8% (the percentage increase does not take interprofessional deposits into account). Life insurance reserves grew by 38% to 19 billion euros. Assets under management in the asset management businesses went up by 25% to 196 billion euros.

The loan portfolio (excluding loans and advances to credit institutions and reinsurers) came to 119 billion euros at the end of the year. If the volume of reverse repurchase agreements is not taken into account, this represents a 12% increase on the previous year, which can be attributed chiefly to the 23% increase in the volume of home loans (+16% in Belgium, and +39% in Central Europe).

Changes in gross income at group level

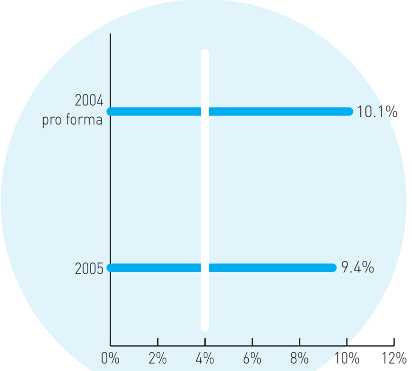
Gross income, KBC group

In millions of EUR	**2004 *pro forma***	**2005**
Net interest income	3 833	4 348
Gross earned premiums, insurance	5 158	3 550
Non-life insurance	1 543	1 650
Life insurance	3 615	1 901
Dividend income	231	235
Net gains from financial instruments at fair value	725	513
Net realised gains from available-for-sale assets	503	458
Net fee and commission income	1 404	1 819
Other income	479	574
Total gross income	12 333	11 498
Banking	5 581	5 933
Insurance	5 566	4 257
Asset management	364	450
European private banking	747	782
Gevaert	126	137

Pro forma means: 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 figures.

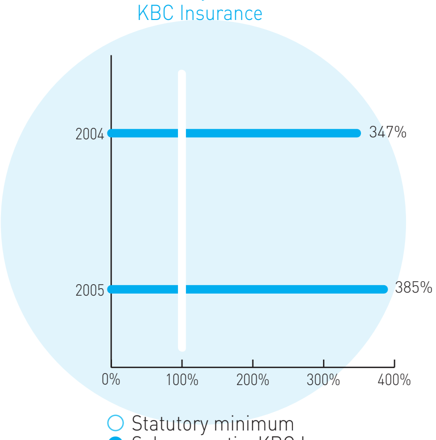
Net interest income (4.3 billion euros) was up by 515 million euros on the year-earlier figure, primarily as a result of sustained volume growth and the new IFRS treatment of interest-rate derivatives (impact of this last: +406 million euros, offset by a negative 406 million euros under the heading 'Net gains from financial instruments at fair value'). On account of the flatter yield curve, the interest margin in banking (1.64%) was nine basis points narrower than for 2004.

Tier-1 ratio,
KBC Bank and KBL EPB



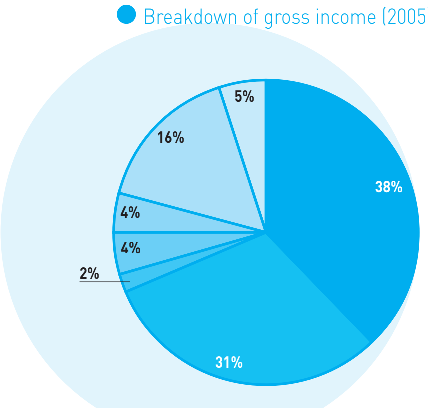
- Statutory minimum
- Tier-1 ratio KBC Bank and KBL EPB

Solvency ratio,
KBC Insurance



- Statutory minimum
- Solvency ratio, KBC Insurance

Breakdown of gross income (2005)



- Net interest income
- Gross earned premiums, insurance
- Dividend income
- Net gains from financial instruments at fair value
- Net realised gains from available-for-sale assets
- Net fee and commission income
- Other

Premium income in the non-life insurance business (1.6 billion euros) went up by 107 million euros, a 7% increase. In Belgium, the increase came to 6%, and in Central Europe to 13%, while premium income in the reinsurance business fell by 4% on account of a more selective acceptance policy.
In the life insurance business, the figure for premium income is not comparable with the 2004 figure, since IFRS no longer allows sales of certain forms of life insurance to be recorded as premium income as of 2005. Otherwise, total sales of life insurance came to 6.4 billion euros (4.6 billion euros of this amount were accounted for by unit-linked products). Consequently, the outstanding life insurance reserves went up by 38% compared with year-end 2004 (+38% in Belgium and +39% in Central Europe).

Net fee and commission income (1.8 billion euros) was 415 million euros higher (+30%) year-on-year, thanks chiefly to continuing strong growth in revenues from the sale of investment funds, life insurance, and asset management products and services. The margin on unit-linked life insurance came to 119 million euros.

Net gains from financial instruments at fair value (513 million euros) were down 212 million euros on the figure for 2004. This was due to the new method adopted in 2005 for measuring financial instruments (see also the explanation provided in the passage on 'net interest income'), which had a negative impact of 406 million euros. On the other hand, income earned on the capital markets improved markedly, especially in the latter part of the year.

Gains realised on investments (458 million euros) were down by 44 million euros on 2004. These gains were derived from the sale of the investment in the Irish insurance group FBD and of the reinsurer Lucare, as well as from divestitures of holdings in Gevaert's equity portfolio, among other things.

Dividend income came to 235 million euros, more or less unchanged from 2004.

'Other income' (574 million euros) was up by 95 million euros on 2004, owing to the favourable settlement of a credit dispute in Slovakia in the first quarter of the year.

Changes in operating expenses at group level

Operating expenses, KBC group

In millions of EUR	2004 *pro forma*	2005
Staff expenses	-2 868	-2 849
General administrative expenses	-1 601	-1 599
Depreciation and amortisation of fixed assets (excluding goodwill)	-403	-389
Provisions for risks and charges	-72	-77
Total operating expenses	-4 944	-4 914
Banking	-3 646	-3 668
Insurance	-511	-523
Asset management	-54	-67
European private banking	-632	-563
Gevaert	-103	-70

Pro forma means: 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 figures.

For 2005, operating expenses were 30 million euros lower (-1%), mainly as a result of the drop in restructuring expenses in the European private banking business, the effect of cost-cutting in the banking business in 2004 and the phasing-out of Gevaert's activities. The fourth quarter also saw one-off expenses being recorded for pension provisions (100 million euros). The cost/income ratio in the banking and asset management businesses came to 60%, compared to 65% for 2004.

Changes in impairment at group level

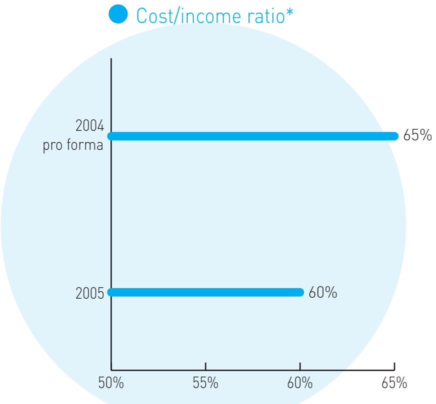
Impairment, KBC group

In millions of EUR	2004 *pro forma*	2005
Impairment on loans and receivables	-198	-35
Impairment on available-for-sale assets	-150	6
Impairment on goodwill	0	-20
Impairment on other assets	-17	-54
Total impairment	-365	-103
Banking	-220	-34
Insurance	-162	-30
Asset management	2	0
European private banking	15	23
Gevaert	2	-62

Pro forma means: 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 figures.

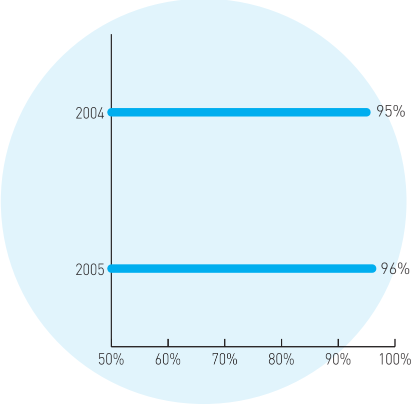
In 2005, the loan loss ratio improved to 0.01% (0.03% for Belgium, 0.37% for Central Europe and -0.21% for the international loan portfolio). Owing to the decline in outstanding problem loans, the percentage of cover for problem (non-performing) loans provided by the loan loss provisions went up to 99%, notably higher than at the start of the financial year (84%).
Thanks to the favourable trend on financial markets, 6 million euros in impairment recorded on the investment portfolio was reversed in 2005.
In 2005, 20 million euros in impairment was recorded on goodwill paid on previous corporate acquisitions. In the fourth quarter, an impairment loss of 49 million euros was also recorded on the investment in Agfa-Gevaert (under the 'Other' heading).

Cost/income ratio*



* Banking, asset management and European private banking.

Combined ratio, non-life insurance



Changes in technical insurance charges, ceded reinsurance result and income tax expense at group level

2005 was characterised by a strong technical result in the non-life business, which kept the claims ratio for the financial year at 63%. In the non-life business, the claims reserve ratio ended the year at 174%, more or less on a par with the figure recorded at the start of the year (177%).

The technical insurance charges for 2005 amounted to a gross 3.1 billion euros, while net reinsurance expense came to 69 million euros. The combined ratio in the non-life insurance business ended the year at 96% (95% in 2004): 95% for Belgium, 99% for Central Europe and 92% for the reinsurance business.

The fourth-quarter result of listed associated company, Agfa-Gevaert, has not been included in our figures, as this company only publishes its results at a later date.

The tax burden for 2005 came to 925 million euros.

Profit outlook for 2006

KBC is confident about the growth potential inherent in its corporate strategy and believes that the surrounding economic conditions will develop favourably, and is, therefore, predominantly optimistic about 2006. Moreover, the share buyback programme will be completed in 2006, which will further underpin the growth in earnings per share.

Overview of profit contribution by business segment

Net profit – group share, by business segment

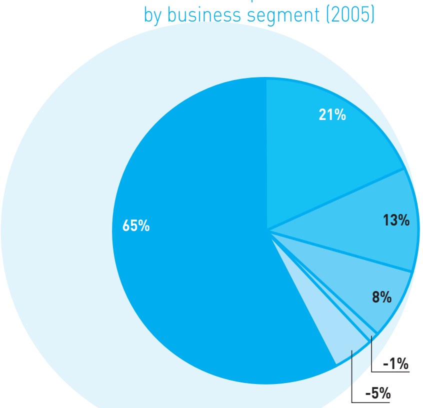
In millions of EUR	**2004 *pro forma***	**2005**
Banking	1 263	1 459
Insurance	122	462
Asset management	228	286
European private banking	74	184
Gevaert	-12	-32
Holding-company activities	-59	-109
Net profit – KBC group	1 615	2 249

Pro forma means: 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 figures.

The table provides an overview of net profit, broken down across the different business segments. These are defined for IFRS purposes as follows:

- Banking (KBC Bank and its subsidiaries);
- Insurance (KBC Insurance and its subsidiaries);
- Asset management (KBC Asset Management and its subsidiaries);
- European private banking, or KBL EPB (Kredietbank SA Luxembourgeoise and its subsidiaries);
- Gevaert (Gevaert and its subsidiaries);
- Holding-company activities (KBC Group NV on a non-consolidated basis, KBC Exploitatie and Kredietcorp).

Share in net profit by business segment (2005)



The figures for the holding-company activities also include the 'cost-sharing structure at holding-company level', which comprises a number of shared support services, such as marketing, logistics, IT, risk management and communication. The costs incurred by this structure are paid by the holding company and then charged to the other business segments, which means they are recorded under both operating expenses and gross income (stemming from costs that have been passed on) at the level of the holding company, and under operating expenses at the level of the other business segments.

A complete overview of the results for each business segment and a brief report are given in the ensuing sections of this annual report.

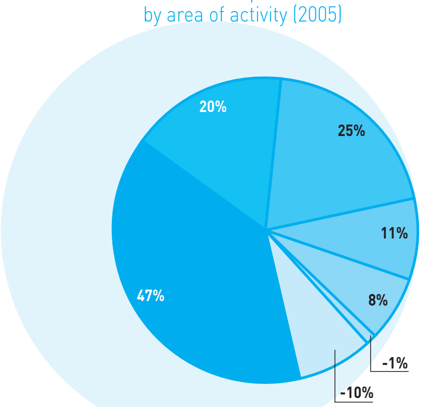
Overview of profit contribution by area of activity

Net profit – group share, by area of activity

In millions of EUR	2004 *pro forma*	2005
Retail and private bancassurance	550	1 064
Central Europe	293	458
Business customers	422	554
Capital markets	219	241
European private banking	74	184
Gevaert	-12	-32
Group item	69	-220
Net profit – KBC group	1 615	2 249

Pro forma means: 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 figures.

Share in net profit by area of activity (2005)



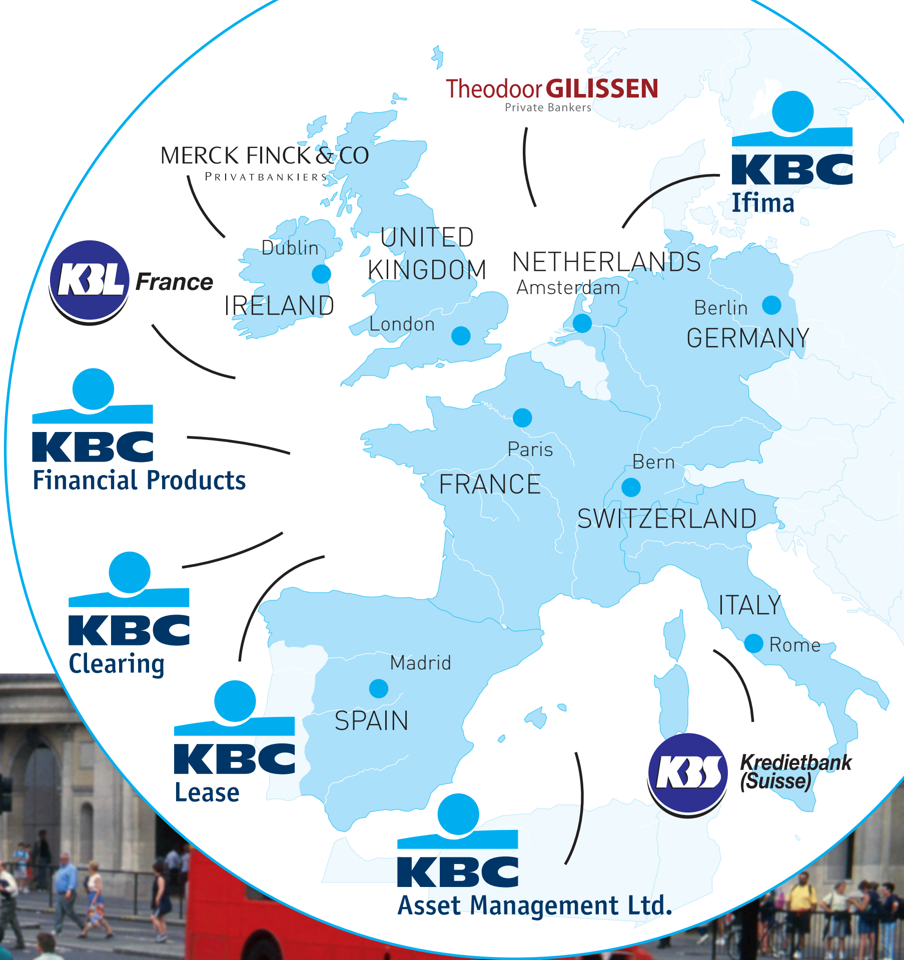
In addition to the breakdown by business segment (IFRS primary segment reporting format) and by geographic area (IFRS secondary segment reporting format, see the 'Consolidated annual accounts' section, note 2b), KBC also provides a breakdown by 'area of activity'.

Information provided in this segment reporting format has not been audited, as it is not one of the official IFRS segment reporting requirements. However, it is largely the same as the breakdown used in previous annual reports and has therefore been included to enable a comparison to be made with previous reporting formats and to enhance transparency.

The different areas of activity are:

- Retail and private bancassurance
- Central Europe
- Business customers
- Capital markets
- European private banking
- Gevaert
- Group item

More information and detailed figures are provided in the 'Overview of the areas of activity' section.



Trafalgar Square, London, United Kingdom

Gideon Stanley, KBC Lease, United Kingdom: 'As specialists in vendor leasing, our products have a unique place in KBC's offering. We finance both capital goods and software, and because companies are always coming up with new products, their financial needs constantly change and evolve. There's always work for us to do, especially since the expansion in Central Europe has opened up new markets for KBC and our vendor partners.'

Banking

For the other KBC group companies in Europe, see the 'Gevaert' section.

Highlights

- A dual-brand private banking strategy was introduced in Belgium, giving clients the choice between KBC Bank's network of private banking branches and the private banking business of Puilaetco Dewaay Private Bankers.
- KBC Bank took over a number of Gevaert's businesses. The private equity businesses, for instance, were merged with KBC Investco to create KBC Private Equity, which is now the group's sole private equity financier.
- Opportunities for efficiency-enhancing operational alliances continued to be sought: DZ BANK and Rabobank joined forces with KBC subsidiary Fin-Force, which is now set to become one of the biggest players in Europe in cross-border payments.
- Customer satisfaction in KBC Bank's branch network in Belgium increased.
- The position in Central Europe was strengthened with the buyout of the 40% minority interest in Hungarian K&H Bank held by ABN AMRO.
- Central European equity trading and corporate finance activities were centralised under the umbrella of KBC Securities.
- KBC's corporate identity was strengthened, as all the Central European subsidiaries adopted a uniform logo.

Contribution to group results

Results, banking

In millions of EUR	2004 *pro forma*	2005
Net interest income	3 253	3 624
Dividend income	103	107
Net gains from financial instruments at fair value	632	459
Net realised gains from available-for-sale assets	307	122
Net fee and commission income	1 042	1 234
Other income	243	387
Gross income	5 581	5 933
Operating expenses	-3 646	-3 668
Impairment	-220	-34
on loans and receivables	-199	-27
on available-for-sale assets	-7	-4
Share in results of associated companies	35	28
Profit before tax	1 750	2 259
Income tax expense	-320	-609
Profit after tax	1 430	1 650
Minority interests	-167	-191
Net profit, group share	1 263	1 459

Pro forma means: 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 figures.

The banking business comprises KBC Bank and its subsidiaries. KBL European Private Bankers group (KBL EPB) is a separate business segment and will be dealt with in another section.

In 2005, the banking business made a net profit (group share) of 1 459 million euros, up 16% on the figure for 2004. The figures are not fully comparable, however, since the IAS 32 and IAS 39 standards were not applied in 2004.

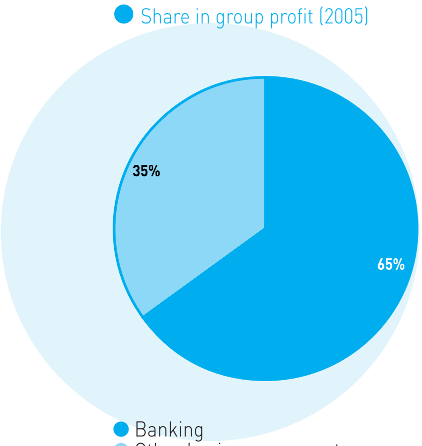
Disregarding the impact of the introduction of IFRS, net interest income remained more or less unchanged compared with 2004, despite the more intense competition that prevailed in Central Europe and elsewhere and the difficult interest rate conditions that persisted. Net fee and commission income went up sharply (+18%, from 1 042 million euros to 1 234 million euros), thanks to the buoyant securities and investment fund businesses and the increase in the number of corporate finance deals, among other things. The robust growth in the 'Other income' heading (from 243 to 387 million euros) is attributable in the main to non-recurring income stemming from the settlement of an unpaid loan to the Slovak government (the 'Slovak Collection Unit Award'), which boosted gross income by 101 million euros and net profit by 68 million euros.
Net realised gains from available-for-sale assets fell from 307 million euros in 2004 to 122 million euros in 2005, but this was partly due to the fact that considerable gains had been realised in the reference period (on the sale of the investments in Belgacom and BIAC and other companies). Gross income was also reduced by the drop in net gains from financial instruments at fair value (which went from 632 million euros in 2004 to 459 million euros in 2005).

Besides being due to income components, the strong performance in banking in 2005 was also due to cost-containment and a decline in impairment on loans. Expenses (3 668 million euros) remained more or less unchanged from 2004, which helped to improve the cost/income ratio in the banking activities (including the asset management business and the European private banking business) from 65% to 60%. In 2005, expenses included a sum of 93 million euros (100 million for the entire KBC group) that was earmarked for the harmonisation of supplementary pensions, death benefits and disability allowances. Net additions to impairment recorded on loans dropped sharply from 199 million euros to 27 million euros, bringing the loan loss ratio to an all-time low in 2005 of 0.03% (0.01% if KBL EPB is taken into account), compared to an already low 0.20% in 2004. More details on impairment are given in the 'Value and risk management' section.

Central Europe accounted for approximately 30% (438 million euros) of the net profit of the banking business in 2005. Even if the one-off income relating to the Slovak Collection Unit is not taken into account, Central Europe's contribution would still come to 27%. More information is provided in the 'Overview of the areas of activity'.

An overview of the main group companies active in banking is given in the 'Consolidated annual accounts' section, note 46. At year-end 2005, nearly 36 000 people (in full-time equivalents, or FTEs) were employed in the group's banking businesses worldwide.

Share in group profit (2005)



Banking
Other business segments

Network and market position

Bank network in Belgium and Central Europe, 31-12-2005[1]

		Ranking	Market share	Customers (in millions)	Branches
Belgium	KBC Bank	2nd	22%	3.3	946
Czech Republic	ČSOB	2nd	21%	3.0	218
Slovakia	ČSOB	4th	7%	0.2	99
Hungary	K&H Bank	2nd	11%	0.8	158
Poland	Kredyt Bank	9th	4%	0.9	333
Slovenia	NLB[2]	1st	42%	2.0	395

1 Figures for ranking, market share and customers are KBC estimates. For Belgium, the ranking is valid for 2004.
2 Figures for customers and branches include (an estimate of) the customers and branches of the NLB group outside Slovenia.

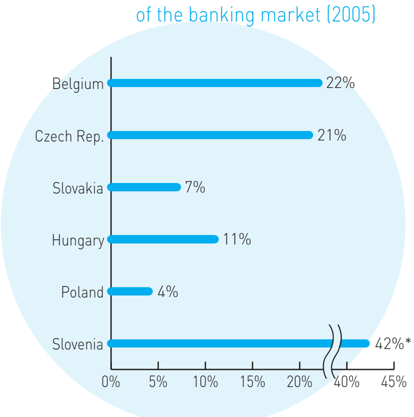
Network in Belgium

At the end of 2005, KBC had a network of 946 branches in Belgium: 835 KBC Bank branches in the Dutch-speaking part of the country and 111 CBC Banque branches in French-speaking Belgium. The branch network is broken down into 892 retail branches, 29 corporate branches and 25 private banking branches.
The Belgian retail market is also catered for by 723 independent agents working under the umbrella of the retail savings bank, Centea, a subsidiary of KBC Bank. The group's expansion has given private banking customers the choice of being served by KBC Bank and CBC Banque private banking branches or Puilaetco Dewaay Private Bankers, a subsidiary of KBL EPB (see below). Via these networks, the group caters for some 3.3 million customers in Belgium.

In 2005, KBC had a share of around 21% of the Belgian deposit market and a share of 22% of the lending market. Over the past few years, KBC has built up a particularly strong position in investment funds, and leads the Belgian market with an estimated share of 33% (see the 'Asset management' section).

Home loans proved particularly successful in 2005, with the portfolio growing by a net 16%. The historically low interest rates, combined with a number of successful commercial campaigns, were two of the reasons accounting for this success. KBC puts its share of the market in home loan products at 24% (its estimated share of the instalment loan market also comes to 24%, and its share of the business credit market is estimated at 22%). Where deposit-taking is concerned, savings accounts again proved extremely popular, partly because investors were still fairly cautious and averse to risk. KBC saw net deposits go up in 2005 by 6% to 30 billion euros, giving it an estimated market share of 19%. The percentage of savings certificates continued to fall (by 25% to 3.5 billion euros), and KBC puts its share of this market at 15%. Although this is slightly lower than its market share for other banking products, it is more than offset by KBC's extremely high share of the investment fund market.

Estimated share of the banking market (2005)



* Via minority shareholding in NLB.

Network in Central Europe

Over the past few years, KBC has built up an extensive network in five carefully chosen countries in Central Europe. At year-end 2005, this network consisted of just over 1 000 branches operated by its ČSOB subsidiary in the Czech Republic and Slovakia, by K&H Bank in Hungary, Kredyt Bank in Poland and, via a minority shareholding, by Nova Ljubljanska banka (NLB) in Slovenia. In the Czech Republic, ČSOB also sells its products through over 3 000 Czech post offices, and in 2005 renewed its contract with the Czech postal service until 2017.

Through this network, KBC caters for approximately seven million bank customers in the region. This customer base, along with the group's nearly three million insurance customers, make KBC one of the largest financial groups in Central Europe, a region whose economic growth is expected to outstrip Western Europe's significantly in the years ahead. If account is also taken of the fact that the penetration rate of banking and insurance products in this region is expected to catch up with levels in the West, it is clear that KBC's presence in Central Europe has given it a strong motor to drive growth in the future.

At year-end 2005, the estimated market share (the average of the share of the lending market and the deposit market) came to 21% in the Czech Republic, to 7% in Slovakia, to 11% in Hungary, to 4% in Poland and to 42% in Slovenia. Given the increasing sophistication of these markets, there has been a shift to some extent from traditional deposits to off-balance-sheet products, such as investment funds. KBC also boasts a very strong position in the investment fund market in Central Europe (see the 'Asset management' section).

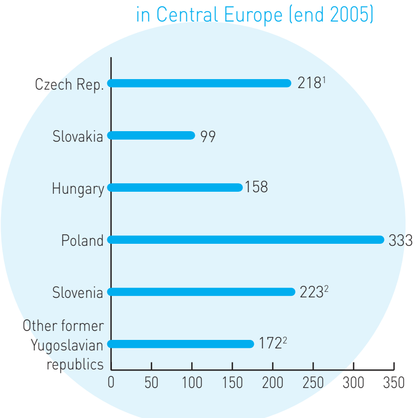
2005 marked the end of an important phase in the process of strengthening the group's corporate image in Central Europe. At the close of the year, all Central European (both banking and insurance) subsidiaries in which KBC has a majority shareholding adopted the same company logo, while keeping their own strong brand name.

Network in the rest of the world

Outside Belgium and Central Europe, KBC concentrates on merchant banking through a network of KBC Bank representative offices and branches (mainly in Western Europe, Southeast Asia and the US) and a number of subsidiaries abroad.
The main subsidiaries are IIB Bank (an Irish bank that provides financial services to SMEs and corporate customers, and that also has a sizeable share of the home loan market), KBC Bank Nederland (which is based in Rotterdam and engages in corporate banking activities, relationship management and providing operational support to the group's business-network customers) and KBC Bank Deutschland (which operates through a limited branch network in the banking market for local mid-sized companies, banks and network customers doing business in Germany). The subsidiaries engaging in more specialised activities are discussed below.

Following the rationalisation of the past few years, no far-reaching changes were made to this network in 2005 (only the representative office in Mexico was closed). The objective is, of course, to continue optimising the network wherever possible. This will not only entail reducing the number of branches, it will also involve opening new ones in order to improve market coverage, where necessary.

Number of bank branches in Central Europe (end 2005)



1 Plus more than 3 000 points of sale located in post offices.
2 Via minority shareholding in NLB.

Acquisitions in 2005: a stronger presence in Central Europe

In keeping with its strategy of buying out minority interests in Central Europe when possible, KBC signed an agreement at the end of 2005 under which KBC Bank acquired ABN AMRO's 40% stake in the Hungarian K&H Bank. Through this deal, which still requires the approval of certain supervisory authorities, KBC stepped up its stake in K&H Bank from 59.4% to 99.6%. In addition, NLB (in which KBC holds a minority interest) also strengthened its presence in former Yugoslavia in 2005 by acquiring Euromarket banka in Montenegro, Continental banka in Serbia, and Razvojna Banka and Tuzlanska banka in Bosnia. For some of these acquisitions, official authorisation is still pending.

In the latter part of the year, KBC, along with a number of other banks, was selected for the purposes of a preliminary study with a view to the acquisition of Banca Comerciala Romana, the largest bank in Romania, but KBC ultimately decided not to make an offer. Nonetheless, it will remain KBC's policy to continue to invest in Central and Eastern Europe, more specifically in countries that are highly likely to join the EU in the future. In Poland, specifically, KBC intends to raise its market share significantly in the future by acquiring another bank or, if no opportunities arise, by achieving substantial organic growth (with a planned increase in the number of branches), so that it can achieve the targeted market position in future. Additional acquisitions (in Croatia or Serbia, for instance) or greenfield operations (in Romania, for instance) are also among the possibilities being considered for the years ahead.

Continued success in cross-selling

KBC considers itself to be an integrated bancassurer and illustrated this clearly through the new management structure it announced that is to be introduced in 2006. Certain shared and support services will be organised at group level and serve the entire group, not just the bank or insurance businesses separately, and the group will be divided up into five divisions, each combining both banking and insurance activities. It is KBC's explicit aim to continue to actively encourage the cross-selling of bank and insurance products within the group's various divisions.

The success of KBC's bancassurance concept can be measured by various factors, including the number of customers the bank and insurer share, as well as by sales of insurance products via the bank distribution channels. At the end of 2005, the group's bank branches worldwide already accounted for 90% of the premium income in the life insurance business. This boils down to 68% of the premium income from guaranteed-rate products and as much as 99% of the premium income generated by unit-linked products (class 23). Where non-life insurance is concerned – traditionally sold more via the agent or broker channel – the bank was already generating 8% of premium income at year-end 2005. More information on this is available in the 'Insurance' section.

Increasing use of e-bancassurance channels

The brick-and-mortar networks in Belgium and Central Europe are supplemented by electronic channels, such as ATMs, telephones and the Internet. These alternative channels have proved very popular: in Belgium, for instance, the percentage of domestic payments processed electronically or automatically has gone up to 91%. At the end of 2005, there were already 390 000 customers actively using KBC- and CBC-Online, KBC's main e-banking systems, a 14% increase within the space of just one year (this comes on top of a 20% increase in 2004).

E-banking indicators – Belgium

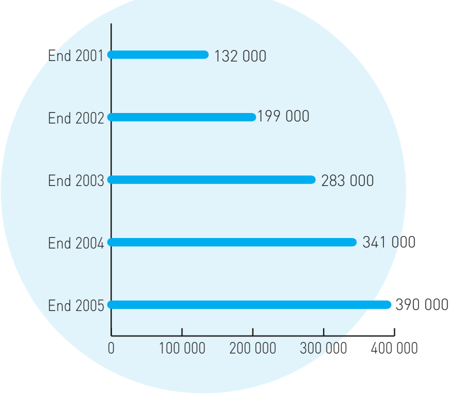
	31-12-2004	31-12-2005
Share of payments transactions via electronic channels	89%	91%
Number of KBC- and CBC-Matic ATMs	1 204	1 204
Number of cash withdrawals at KBC- and CBC-Matic ATMs per month	2.7 million	2.7 million
Active subscribers to KBC's Internet and PC banking facilities (KBC-Online and CBC-Online)	341 000	390 000
Active subscribers to KBC's telephone banking services (KBC-Phone and CBC-Phone)	43 000	39 000

In 2005, the range of electronic bancassurance facilities was expanded and upgraded. KBC-Online, for instance, was enhanced with the addition of a special version for young people, and a feature for viewing PINTO VISA credit card billing statements. Just recently, a new facility has been made available to KBC Bank and CBC Banque's private banking customers, too, and they can now view their investment portfolios via KBC- and CBC-Online.
New features were also added to the KBC website (www.kbc.be), and it was made more accessible to the visually impaired. In total, some 20 million pages of this website were visited in 2005 by nearly 600 000 unique visitors every month.
2005 was also an important year as regards ATMs. At the start of the year, agreement was reached within the Belgian banking sector to open up proprietary ATM networks to customers of other financial institutions, and at the end of the year, the first pilot projects got under way. The entire KBC network was opened up at the start of February 2006.
Lastly, in 2005, by organising road shows and training sessions on electronic banking, KBC again devoted a good deal of effort to promoting electronic banking for senior citizens, who make up the fastest growing group of KBC-Online subscribers.

KBC also offers various electronic services to its business customers, including KBC-Online for Business, KBC-Flexims (an Internet channel customers can use to apply to KBC for documentary credit, documentary collections and international bank guarantees or to modify those facilities), and the more recent W1SE, which is discussed in more detail in the 'Specialised activities' section.

In the Central European network, there were again various co-ordinated initiatives taken in the area of electronic banking. ČSOB, K&H Bank and Kredyt Bank, along with KBC Bank, all opted to purchase the same chip card technology from now on and to outsource the personalisation of their cards to the same firm. Where card transactions are concerned, there are currently a number of projects ongoing in Central Europe to scale down local processing and to centralise it at SiNSYS, which will yield numerous benefits with regard to synergy and economies of scale. Migration got under way at the end of 2005 and the project is scheduled for completion at the end of 2006.

Active subscribers to KBC-Online and CBC-Online



Private banking strategy in Belgium

With the expansion of the group, more specifically the inclusion of KBL EPB, the private banking strategy was screened and updated. In Belgium, this has led to a dual-brand strategy being adopted.

KBC Bank and CBC Banque operate a private banking network of twenty-five specialised branches that offer high-net-worth customers a broad range of private banking services, along with the expertise of a large bank. Via these branches, KBC provides both advisory and discretionary portfolio management services, tailored to the client's individual needs and objectives. It goes without saying that private banking clients are catered for on a privileged basis and offered services reserved specifically for them, such as exclusive investment funds and bond issues, funds of other asset managers and exclusive management solutions. In Central Europe, too, KBC is developing private banking activities based on this model.

In addition, since the new group was formed, Belgian clients have also been able to opt for the private banking service provided by Puilaetco Dewaay Private Bankers, a subsidiary of the KBL EPB group. This company is discussed in more detail in the 'European private banking' section, which also provides an overview of the entire European private banking network of KBL EPB.

Customer satisfaction and awards

In mid-2005, a customer satisfaction survey was carried out at KBC Bank in Belgium. The survey showed that customers are generally very happy with their KBC Bank branch. Compared to 2004, the number of highly satisfied customers went up from 62% to 66% in 2005. Moreover, no less than 77% of the customers said they would recommend KBC to friends and acquaintances, a very good result and again an increase on the 2004 figure (74%).

KBC also won a number of national and international awards in 2005. In September, for instance, *The Banker* named KBC 'Bank of The Year 2005' in Belgium. *The Banker*'s country awards are given to the banks with the best overall performance. Besides taking a bank's results into account, they also consider factors such as strategy. Among the reasons for giving this award to KBC, *The Banker* cited KBC's successful retail bancassurance strategy and its merger with Almanij, which has enhanced transparency and the liquidity of the share.
Nova Ljubljanska banka (NLB), in which KBC Bank holds a 34% stake, was also named 'Bank of The Year 2005' in Slovenia by *The Banker*. NLB has already won this award a number of years in a row and in 2005 received a similar award from *Global Finance* ('World's Best Banks 2005 – Slovenia').

Specialised activities

Besides traditional lending and deposit-taking activities, KBC's banking segment also engages in a number of specialised activities through specific units or subsidiaries. A few of these specialised business activities are described briefly below.

Acquisition finance: strong deal volume in 2005

Acquisition finance has to do with the financing of buyouts, whether by management or shareholders, of entire companies or company assets, with repayment being derived primarily from future cashflows. KBC offers acquisition finance services through specialist teams in London, Paris, Frankfurt, Dublin, Brussels and, more recently, the Czech Republic and Poland.

2005 was another busy year for the acquisition finance units. In the Benelux, for instance, KBC strengthened its position by structuring and underwriting a large number of deals (including Aviapartner and Pizza Hut Belgium) as mandated lead arranger in Belgium and by participating in various other important deals in the Benelux (including Bureau Van Dijk Electronic Publishing and Sun Beverages Company).

Payments: important alliances at Fin-Force

Since 2000, KBC Bank has channelled its payments traffic for processing through its Fin-Force subsidiary, which has also joined forces with other financial institutions. In March 2005, Fin-Force entered into a partnership with German DZ BANK (through its subsidiary Transaktionsinstitut für Zahlungsverkehrsdienstleistungen (TAI)) for processing cross-border payments in Europe, with a view to consolidating its position in the growing market in pan-European payments processing. KBC Bank and DZ BANK each took a stake in the other's subsidiary (DZ BANK now owns 10% of Fin-Force and KBC Bank 5% of TAI).

In November 2005, Rabobank also signed an agreement with Fin-Force for outsourcing its cross-border transactions, and likewise took a stake (22%) in Fin-Force. At year-end 2005, it was decided that Fin-Force would gradually take over the handling of the cross-border payments of KBC's Central European banks. Through these alliances, Fin-Force has, within just a short space of time, become one of the biggest market participants in Europe in cross-border payments.

Brokerage and corporate finance: centralisation of the activities in Central Europe

Through KBC Securities, KBC has captured a leading position in stock brokerage and corporate finance activities in Belgium. In 2005, for instance, KBC Securities retained its number one position on Euronext Brussels and once again took part in major deals involving Telenet and Elia and a number of IPOs and/or capital increases for biotech companies.

KBC Securities' strategy will remain focused on catering for Belgian mid-caps and further developing the online broking application, Bolero, as well as continuing to develop its business in Central Europe. 2005 saw all of the group's Central European equity trading entities being brought under the umbrella of KBC Securities to lend added impetus to the development of equity and corporate finance activities in this region. Overall, KBC became the biggest broker in Central Europe in 2005, with a share of the broking market in Hungary of 15%, in Poland of 3% and in the Czech Republic of as much as 28%.

KBC Securities also works closely with KBC Peel Hunt, a British securities house focusing on institutional investors and one of the UK's biggest market makers in small and mid-cap shares. KBC Peel Hunt received various awards in 2005, including 'AIM Adviser of the Year' and 'AIM Broker of the Year' from *Growth Company Investor*.

Clearing: robust increase in activity

Through KBC Clearing in Amsterdam, KBC has become a major provider of clearing services for professional market makers, brokers and institutional investors on the main European markets. In addition, since 2004, all KBC Bank's European derivatives clearing activities have been handled by KBC Clearing. In 2005, strong growth was posted not only on the home market (Netherlands), but also on Eurex, Xetra and Euronext.Liffe London. In 2006, KBC Clearing is aiming to expand its activities to the emerging markets in Central Europe and to the US derivatives markets, such as CME and CBOT®.

Foreign trade finance: clear operational quality commitments

In 2005, KBC managed to increase its portfolio of credit backed by Export Credit Agencies (ECA) yet again. This activity also became increasingly international, and met with success in France, the Netherlands and Southeast Asia, as well as in other regions. In Shanghai, for instance, 2005 saw the first deal backed by Sinosure (a Chinese credit insurer) being set up. In addition, more and more synergies are gradually being harnessed between the Belgian activities and the activities of the Central European subsidiaries.

2005 also saw KBC continuing the efforts it initiated a few years ago to offer customers clear, written operational quality commitments with regard to the speed of processing and the provision of information, among other things. Customers clearly appreciated this strategy and it led to a much higher volume of documentary transactions and related fee income.

Dealing rooms and primary market activities: strong results

In 2005, long-term interest rates were much lower, and hit new record lows during the summer. Moreover, the volatility of interest rate and other products was extremely low. KBC's dealing rooms naturally took advantage of this for proprietary trading purposes. A particularly strong performance was put in by the currency, interest rate option and interest rate swap businesses. The sales desks concentrated on offering customers products that afforded protection against upside interest rate risk. The overall result was another fine performance by the dealing rooms. In keeping with the relevant strategy, already more than 50% of the dealing rooms' income is derived from sales.

KBC was again a prominent player on the primary Eurobond market during the year under review, participating in more than 350 syndicated bond loans as lead, co-lead or co-manager. In this market segment, KBC developed significant issue activity as lead manager in a number of Central European currencies, including the Slovenian tolar and the Slovak koruna. In the Belgian corporate segment, public issues were lead managed for Agfa-Gevaert (200 million euros) and D'Ieteren (100 million euros), among others.

Diamond finance: still in pole position

Via Antwerp Diamond Bank (ADB), KBC also specialises in lending and providing other bank services to the international diamond trade and industry. In Belgium, ADB is the premier financier of the diamond industry, with a share of the diamond finance market of 53%. Worldwide, its market share is put at a good 20%. Besides its presence in Antwerp, ADB is also present in the world's leading diamond centres of Mumbai, New York and Hong Kong. In 2005, ADB also opened a representative office in Dubai through its Swiss subsidiary (Banque Diamantaire (Suisse)).

Structured finance: growing opportunities

Structured finance encompasses mainly project finance and structured trade finance, and 2005 was a record year for this business at KBC. In the US, some difficult projects were brought to a successful conclusion, as a result of which it was possible to record recoveries on provisions booked in previous years. Activity in Europe continued at a high level, with a number of prestigious mandates completed in the infrastructure and energy sectors, especially in Belgium, the UK, Ireland, Hungary and Germany. The growing use of Public-Private Partnerships in infrastructure development globally (entailing private sector financing of public infrastructure works) is providing various opportunities for project finance worldwide. The structured trade finance unit also did well in 2005, with a greater level of activity primarily in metals and soft commodities.

International cash management: successful roll-out of W1SE

The KBC group boasts a very strong position in international cash management and achieved considerable commercial success in 2005. The roll-out of the bank-wide Internet application 'W1SE Corporate e-Banking' was completed in 2005, with Poland becoming the ninth European country to offer this application. W1SE enables companies to remotely initiate and approve local and cross-border payments and direct debits, regardless of where the employees in question are located. W1SE proved to be extremely popular amongst customers again in 2005.

KBC Financial Products: good results achieved in 2005

In addition to KBC Securities and KBC Peel Hunt, KBC Financial Products also engages in trading in equities and their derivatives. Additionally, via KBC Financial Products, KBC does business in credit derivatives and hedge funds.

KBC Financial Products group produced good results in 2005. The convertible bond business performed well despite tough market conditions in the first half of the year. The equity derivatives business also produced good results, driven in the last six months of the year by a strong trading environment in the Asian markets. The credit derivatives business produced sharply higher results due to the issuance of three new Collateralised Debt Obligation (CDO) deals, among other things. Lastly, the fund derivatives business also recorded strong growth in revenues due to higher customer transaction volumes.

Leasing: strong market position

KBC is active in both Western and Central Europe in finance leasing, real estate leasing, renting, full-service car leasing and European vendor finance. In Belgium, KBC's network of bank branches is the main distribution channel for KBC Lease, which occupies a leading position in both the finance leasing and full-service car leasing markets. At European level, in addition to local leasing activities, the company focuses on collaboration with international vendors. In 2005, KBC Lease started a real estate leasing business in France through its new company, KBC Bail Immobilier France.

KBC Private Equity: the group's sole private equity financier

In July 2005, KBC Investco and Ortelius, which had handled the lion's share of Gevaert's venture capital business, joined forces to form KBC Private Equity. As the group's sole investment company, KBC Private Equity finances buyouts and provides mid-caps with growth capital. KBC Private Equity provides funding in the form of equity capital or mezzanine finance. It is active primarily in Belgium, but is gradually building up a presence in Central Europe via local teams in the countries concerned. The portfolio currently contains more than seventy-five active investments, with a total market value of around 400 million euros at year-end 2005.

Real estate services: notable achievements

KBC also offers its business customers a variety of real estate services, including finance for property developers and real estate investors, real estate securitisation, real estate investment and project development services. In 2005, in repositioning Gevaert within the group, Almafin Real Estate was transferred to KBC Bank's real estate business.
There were again a number of notable achievements in real estate in 2005. In Belgium, KBC took part in a real estate leasing deal for the *Financiëntoren* building in Brussels, for instance, and a number of major residential, office and logistical real estate projects were also financed in the Czech Republic, Hungary and Poland. 2005 saw the real estate investment portfolio being expanded with the addition of office buildings that are let to the government under a long-term lease. Lastly, the completion of the new court house in Antwerp was one of the milestones in public-private partnerships participated in by KBC.

Old Town Square, Warsaw, Poland

Grzegorz Czekiel, WARTA, Poland: 'In 2005, our company, KBC group's Polish insurer, got a new logo similar to Kredyt Bank's, which is based on KBC's own logo. This 'rebranding' represented a major change and got a lot of attention in the Polish media. Never before has the new direction taken by WARTA as a result of its co-operation with KBC been so clearly apparent'.

Insurance

* WARTA Life

Highlights

- 2005 saw a record level of premium income being posted in the life insurance business and KBC strengthening its leading position on the Belgian market in unit-linked life insurance (class 23).
- KBC's bancassurance concept continued to meet with success: in 2005, the banking channel accounted for 90% of life insurance premium income. This concept will remain key to the group going forward, as illustrated by the unity of management for banking and insurance activities that will be achieved in each home market under the new management structure.
- Group-wide corporate identity was strengthened, as all Central European banking and insurance subsidiaries adopted a uniform company logo, while keeping their local brand names. Moreover, in Hungary, Argosz changed its name to 'K&H General Insurance' with a view to reinforcing the link with the group's banking subsidiary.
- Non-core activities were scaled down: Lucare and the minority stake in Irish insurer FBD were sold.
- In the new group, the co-operation between insurance subsidiary VITIS Life Luxembourg (VITIS Life) and KBL European Private Bankers (KBL EPB) got under way.
- Agreement was reached in the first quarter of 2006 to buy out the minority interests in WARTA (Poland), which will make KBC the sole owner of this company.

Contribution to group results

Results, insurance

In millions of EUR	**2004 *pro forma***	**2005**
Net interest income	463	548
Gross earned premiums, insurance	5 158	3 550
Dividend income	85	107
Net gains from financial instruments at fair value	5	1
Net realised gains from available-for-sale assets	121	264
Net fee and commission income	-340	-269
Other income	75	56
Gross income	5 566	4 257
Operating expenses	-511	-523
Impairment	-162	-30
on loans and receivables	-2	-1
on available-for-sale assets	-160	-19
Gross technical charges, insurance	-4 633	-3 059
Ceded reinsurance result	-68	-69
Share in results of associated companies	20	0
Profit before tax	213	575
Income tax expense	-86	-118
Profit after tax	127	456
Minority interests	-5	5
Net profit, group share	122	462

Pro forma means: 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 figures.

The insurance business comprises KBC Insurance and its subsidiaries.

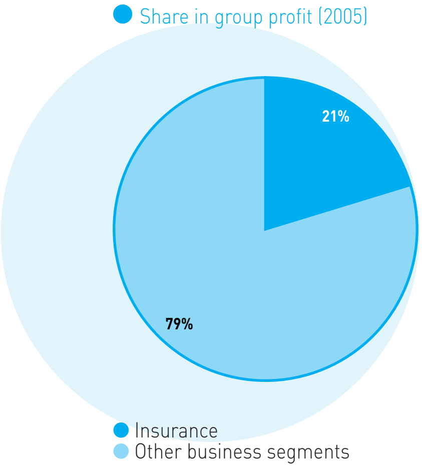
In 2005, the insurance business made a net profit (group share) of 462 million euros, nearly four times the 2004 figure. These figures are not fully comparable, however, since the IAS 32, IAS 39 and IFRS 4 standards were not applied in 2004.
For the same reason, gross earned premiums (and gross technical charges) are not comparable either. From 1 January 2005, the deposit accounting method has been applied to investment contracts without a discretionary participation feature. Simply put, this means that the premium income shown in the table for 2005 does not include unit-linked contracts (life insurance linked to investment funds), so it is no longer comparable with the 2004 figure.
2005 premium income for unit-linked insurance reached a record 4.6 billion euros, compared with 1.1 billion euros a year earlier, thanks in part to the successful launch of new products in collaboration with KBC Asset Management. Class 21 (guaranteed-interest-rate) insurance yielded premium income of 1.8 billion euros, slightly less than for 2004 (2.5 billion euros), though that figure had been exceptional. The decline in 2005 was accounted for mainly by the lower rate of guaranteed interest offered on Life Capital products in Belgium. Premium income for non-life insurance came to 1.6 billion euros in 2005, up 7% on a year earlier.

Where the other components of gross income are concerned, there was an increase in net realised gains from available-for-sale assets (which went from 121 million euros to 264 million euros). This figure includes realised gains of 89 million euros on the sale of a minority shareholding in an Irish insurer and 37 million euros on the sale of a captive subsidiary (see below). Profit was also enhanced by higher net interest income (up from 463 to 548 million euros, although this was partly offset by higher technical charges) and higher dividend income (up from 85 to 107 million euros).
The main reason for the increase in net profit, however, was the sharp decline in impairment on available-for-sale assets: in 2004, the related impairment came to 160 million euros, whereas in 2005, it came to 'only' 19 million euros.

In the insurance business, operating expenses edged up in 2005 from 511 to 523 million euros. In non-life insurance, the expense ratio improved slightly, from 33.3% to 32.8%. This, combined with the change in the loss ratio (which went from 61.4% to 62.8%), led to a slight increase in the combined ratio to roughly 96%. The claims reserve ratio in the non-life insurance business came to 174%, roughly the same as in 2004.

An overview of the main group companies active in insurance is given in the 'Consolidated annual accounts' section, note 46. At year-end 2005, nearly 8 000 people (in full-time equivalents; not including the distribution network) were employed in the group's insurance businesses worldwide.

Share in group profit (2005)



Network and market position

Insurance network in Belgium and Central Europe, 31-12-2005*

		Life: ranking and market share		Non-life: ranking and market share		Customers (in millions)
Belgium	KBC Insurance	2nd	22%	4th	9%	1.5
Czech Republic	ČSOB Pojišťovna	4th	9%	6th	4%	0.7
Slovakia	ČSOB Poisťovňa	8th	4%	6th	4%	0.2
Hungary	K&H Life and K&H General Insurance	6th	4%	6th	4%	0.4
Poland	WARTA (including WARTA Life)	8th	2%	2nd	11%	1.8
Slovenia	NLB Vita	4th	8%	-	-	0.1

* Figures are based partly on KBC estimates.

Network in Belgium

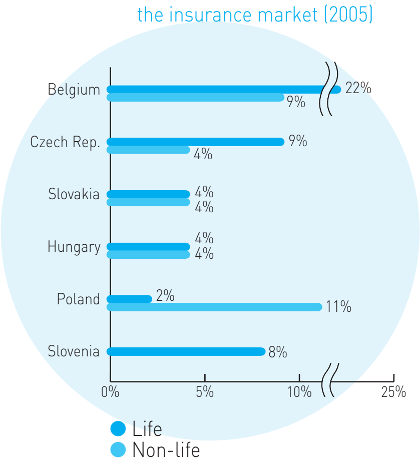
KBC's insurance products are sold in Belgium through 'tied' insurance agents (584 agencies at year-end 2005) and through the branches of KBC Bank and CBC Banque. In addition, the group offers the insurance products of subsidiary Fidea through independent brokers and the agency network of KBC Bank subsidiary Centea. Via these networks, KBC serves around 1.5 million insurance customers in Belgium and, according to its own provisional estimates, was the second largest insurer in Belgium in 2005.
In 2005, KBC's share of the Belgian insurance market came to an estimated 22% for life insurance and to 9% for non-life insurance (in each case, based on premium income). Where life insurance is concerned, the group occupies a leading position in unit-linked products, boasting an estimated share of 63% of this market in 2005, compared to 8% of the market in guaranteed-rate products. Where the main classes of non-life insurance are concerned, KBC Insurance's share of the Belgian market for third-party liability insurance for motor vehicles comes to 11% and for fire and other property damage to 12%.

Network in Central Europe

As in the banking business, KBC has built up a second home market in Central Europe in insurance. Since KBC explicitly aims to implement the bancassurance concept in this region, the group has an insurance business in each Central European country in which it also has a banking subsidiary. In the Czech Republic, the group's insurer is ČSOB Pojišťovna; in Slovakia, ČSOB Poisťovňa; in Poland, WARTA and WARTA Life; in Slovenia, NLB Vita (a joint venture with Nova Ljubljanska banka); and in Hungary, K&H Life and Argosz. In 2005, Argosz changed its name to 'K&H General Insurance' with a view to emphasising its ties with K&H Bank.

Through these companies, KBC occupies a strong position in the insurance market in this region. At year-end 2005, its estimated market share in non-life insurance came to 11% in Poland, 4% in the Czech Republic, 4% in Slovakia and 4% in Hungary. In life insurance products, its market share came to 2% in Poland, 9% in the Czech Republic, 4% in Slovakia, 4% in Hungary and 8% in Slovenia. From a historical perspective, the performance of the greenfield operation, NLB Vita, in Slovenia was remarkable: in less than three years' time, this company has managed to capture 8% of the life insurance market in Slovenia to become that country's fourth largest life insurer. Through these group companies, KBC serves around three million insurance customers in Central Europe, with WARTA in Poland accounting for over half that number.

Estimated share of the insurance market (2005)



Like the banking subsidiaries, all Central European insurance subsidiaries have over the past few years also adopted the KBC company logo, though they have kept their own brand names. This operation, intended to strengthen KBC group's corporate identity in Central Europe, was completed in the latter part of 2005, when both Kredyt Bank and WARTA in Poland switched to using the new logo.

Network in the rest of the world

KBC's presence outside Belgium and Central Europe is limited to the activities of the subsidiaries VITIS Life (Luxembourg) and Secura (reinsurance). Both companies are discussed in greater detail below.

Since the end of 2005, Assurisk, a former captive insurance company of KBC Bank in Luxembourg, has also belonged to KBC Insurance. Assurisk was set up initially to provide KBC's banking activities with an efficient solution for their insurance needs, and gradually came to accept non-group business on a selective basis. The intention is for Assurisk to provide services to the group's insurance companies too in future, in order to optimise consolidated group retention.

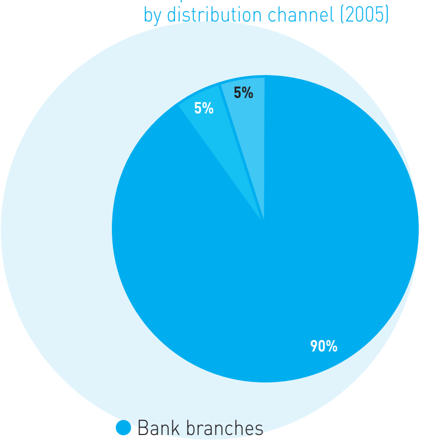
Acquisitions and disinvestment in 2005

In early March 2005, KBC sold its 22% stake in Irish insurer FBD Holdings. Strategic considerations prompted this decision, as KBC did not see its way clear to acquiring a majority stake in this company in the near future. At the end of 2005, Lucare was also sold with a view to rationalising the group's captive insurance companies in Luxembourg. Both these disinvestments yielded considerable realised gains (of 89 million euros and 37 million euros, respectively).

KBC reached agreement with Kulczyk Holding in the first quarter of 2006 on the sale of its 24.6% shareholding in WARTA to KBC Insurance. This move fits in with KBC's general strategy of buying out minority shareholders, where possible, in Central European group companies. Following the buyout of the remaining minority shareholders in WARTA (0.3%), KBC will become the sole owner of this company.

As in the banking business, the group is aiming to capture a share of the insurance market of at least 10% in each of its home markets in Central Europe. So far, it has only done so in the non-life insurance market in Poland (WARTA). Consequently, the group plans to encourage the organic growth of the existing subsidiaries and will continue to keep an eye out for opportunities to make acquisitions in markets where it has yet to capture the targeted share. Among other things, it is considering acquiring a non-life insurance company in Hungary if the opportunity arises.

Life premium income by distribution channel (2005)



Bank branches
Agents
Brokers

Continued success in cross-selling

With an estimated four out of ten KBC Bank customers having purchased insurance products from KBC Insurance, cross-selling in Belgium can be termed an outright success.
Naturally, this is in large part due to the unique model for co-operation that exists between the bank branches and the insurance agents, whereby the branches sell standard insurance products to retail customers and refer their customers to the insurance agents for non-standard products. Claims-handling is the responsibility of agents, a call centre and head office departments at KBC Insurance.
KBC's success in cross-selling individual products is illustrated by the combined sale of fire insurance and home loans: in 2005, more than half of KBC Bank's new home loans in Belgium were sold together with a KBC Insurance fire insurance policy. Also illustrating its success is the cross-selling percentage achieved for home loans and loan balance insurance, which came to as much as 66%.

KBC's bancassurance concept has over the past few years been exported to KBC's Central European entities, and has met with considerable success. In 2005, for instance, the cross-selling ratio between home loans and life insurance amounted to nearly 60% in the Czech Republic and nearly 70% in Slovakia.
To support cross-selling and the collaboration between the respective banks and insurers in Central Europe, 'Cross-company Steering Committees' were set up in Central Europe in 2004 to direct the sales, marketing, distribution and support activities of the respective banking and insurance businesses.

The group's bank network is a very important distribution channel, particularly for life insurance products. In 2005, 99% of direct (i.e. without reinsurance) premium volume from unit-linked life insurance and 68% of direct premium volume from guaranteed-rate products was generated by bank branches. Where non-life insurance is concerned, the agents (69% of direct premium volume) and brokers (23%) remain the main distribution channels. However, the bank network is already accounting for nearly 8% of premium volume in this line of business too. Despite these fine results, KBC is not planning to rest on its laurels, and in Belgium for instance took additional measures in 2005 to step up sales of insurance via the banking channel.

Cross-selling indicators*

	31-12-2004	31-12-2005
Guaranteed-rate life insurance sold via the bank channel	81%	68%
Unit-linked life insurance sold via the bank channel	98%	99%
Non-life insurance sold via the bank channel	7%	8%

* Premium income generated via KBC group bank branches, as a per cent of total premium income.

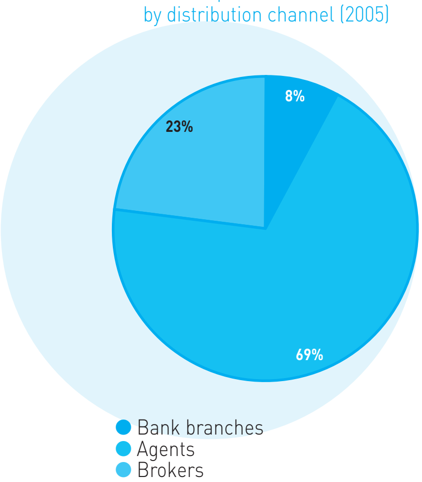
E-insurance services

The provision of services and information through electronic channels is gaining in importance, not only for the banking business, but also for the insurance business.

Customers can now view online the portfolio of insurance cover they have at KBC via KBC- and CBC-Online. Insurance portfolios were viewed over 300 000 times in 2005 alone. Customers can also use an 'insurance advice' facility, and send messages to and file certain claims electronically with their KBC Insurance agents.
Businesses also have access to e-insurance services. For instance, via KBC- and CBC-Online for Business (an online application in the secure Isabel environment), business customers can not only do their banking business, they can also call up an overview of their non-life and group insurance cover and send messages to their insurance agents.

The AssurCard system, which KBC Insurance helped to launch a few years ago, revolves around an electronic insurance card that can be used for all kinds of interaction and communication with service-providers. Thanks to the third-party payment facility offered via the AssurCard, in the event of hospitalisation, customers do not, for instance, have to pay money in advance or pay hospital bills themselves immediately. KBC Insurance will make payment direct to the hospital. At the end of 2005, nearly 180 000 KBC customers had an AssurCard. AssurCard holders can use the services of 158 affiliated hospitals in Belgium, which together account for around 85% of the total number of hospital beds in Belgium.

Non-life premium income by distribution channel (2005)



Product innovation and rationalisation

KBC Insurance seeks to continuously improve its customer service by offering a suitable, up-to-date range of products.

Accordingly, it comes out with new and innovative products on a regular basis. One such product launched in Belgium in mid-2005 was the comprehensive business property policy, an insurance package that groups all kinds of property damage insurance and enables companies to obtain cover for a variety of risks through one single policy. On request, the policy can even cover damage resulting from natural disasters; indeed, KBC is ahead of legislation in this regard. Where life insurance is concerned, KBC Employee Benefits is another innovative service that was launched. This is a unique advisory service offered by KBC to its business customers on how to optimise their employee remuneration policies, encompassing group insurance, hospitalisation insurance, stock option plans and leasing solutions. Another example is KBC's continuously updated mix of unit-linked insurance products on offer; in fact, this is one of the reasons behind KBC's dominant position in these products. In the near future, KBC aims to focus more closely on products that respond to demographic developments and longevity risks.

Besides bringing out new products, the existing product offering is also continuously screened to see if it can be simplified, and particular attention is paid to updating older types of products. In this way, KBC always manages to offer its customers the most up-to-date and appropriate products, while still keeping costs under control (less maintenance because there are fewer product versions).

Where product development is concerned, there is actually a good deal of synergy between KBC in Belgium and the group's Central European insurance companies. Not only does co-operation exist between Belgium and Central Europe, but also within each individual Central European country, where the group's banks, insurance companies and asset managers work closely together to introduce new insurance and asset management products onto the market.

Specialised activities

KBC Insurance, Fidea and the Central European group companies sell life and non-life products mainly to retail customers. A number of the group's subsidiaries also offer more specialised services.

Insurance brokerage for businesses

KBC offers its business customers a comprehensive package of advisory and other bank and insurance services.
Small and medium-sized businesses are catered for in Belgium by KBC Insurance agents, who co-operate with the SME relationship managers in the bank branches. Larger corporate customers can also turn to subsidiary ADD, which is specialised in providing general and specific tailor-made insurance solutions for business customers. ADD is a member of the Worldwide Broker Network (WBN), with representatives around the globe. It offers companies a full range of services in all insurance products, such as credit insurance, fleet management and director's liability. It also offers companies professional risk management solutions for their international activities or assets abroad .

Reinsurance

KBC also operates on the reinsurance market through its subsidiary Secura, in which it has a 95% stake. Secura confines its activities to a number of core markets in Europe and certain classes of insurance (primarily property damage, liability and personal insurance). Just as in 2004, Secura posted fine results in 2005. Although net premium income fell by around 10%, this was due to the very strict underwriting policy pursued and a shift from proportional to non-proportional business. The combined ratio for KBC's reinsurance business (including Assurisk) came to 92% for 2005.

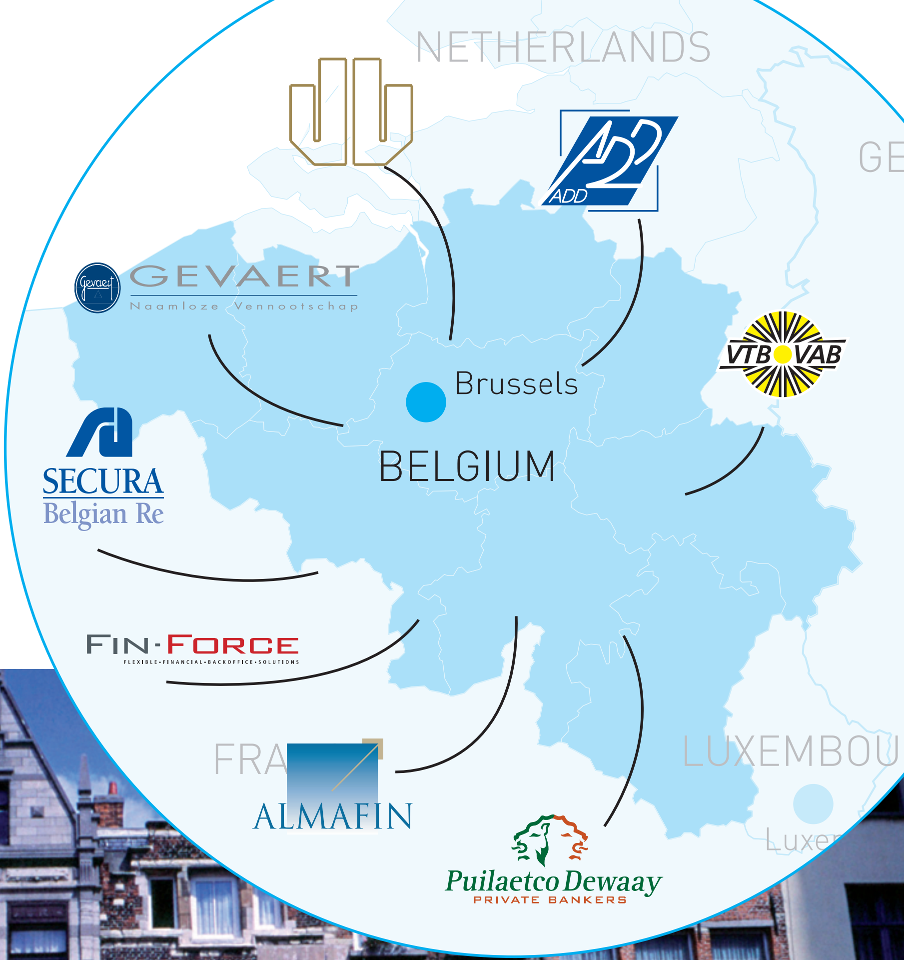
Insurance for high-net-worth clientele

Through VITIS Life, a KBC Insurance subsidiary in Luxembourg, KBC is also active in the market segment of high-net-worth individuals. Since the merger of the former KBC with Almanij, VITIS Life has also worked more closely with KBL EPB, which has naturally opened up new distribution opportunities and markets for VITIS Life. This also means an integrated approach is taken to KBL EPB's clientele, as the group's life insurance products and services are now available to them as well.
In the new organisational structure (which will be operational from mid-2006), VITIS Life will come under the European Private Banking Division.

Non-insurance activities

Since it acquired Gevaert's share package a few years ago, KBC Insurance has had a 65% majority shareholding in VTB-VAB. This group, with 468 employees, is active mainly in roadside and travel assistance and a few related activities (an automobile diagnosis centre, driver's education, etc.).

Andrzej Dudek, Kredyt Bank, Poland: 'The good thing about 2005 was that the co-operation with KBC became more visible. Last year, we got to know more of our colleagues, both in Belgium and in the international network and of course in the other Central European countries. Now we know who we can contact when we need a special solution which may already exist.'



Groenplaats, Antwerp, Belgium

Koen Vandendriessche, KBC Bank, Belgium: '2005 has left us feeling good, and not just because of the increase in the share price. Since 2005, it looks as if the season of plenty has finally arrived. After all the reorganisation, everything seems to have finally slotted into place, and if you take a stroll around Budapest or Prague, you're bound to see the KBC logo. We've plainly become a European financial group.'

Asset management

Highlights

- Assets managed by the entire KBC group rose sharply on account of the inclusion in the group of KBL European Private Bankers (KBL EPB). At year-end 2005, group-wide assets under management came to no less than 196 billion euros.
- Synergies were created in the new group, as illustrated by the substantial increase in the capacity to sell KBC Asset Management (KBC AM) products thanks to the addition of KBL EPB's European network.
- The leading position in the Belgian investment fund market was maintained (with a share of more than 30%) and the share of the Central European market was increased significantly.
- The asset management business in Central Europe continued to be streamlined: at the end of 2005, the group had a specialised asset management company in each of its Central European home markets, with KBC AM operating as a central 'product factory'.
- Assets invested in sustainable funds soared, rising from 300 million euros to over 1 billion euros.

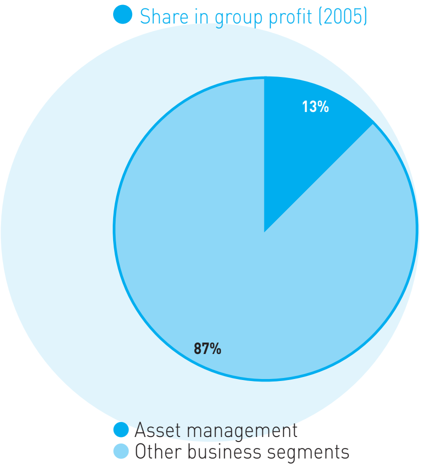
Contribution to group results

Results, asset management

In millions of EUR	**2004 *pro forma***	**2005**
Net interest income	3	10
Dividend income	13	7
Net gains from financial instruments at fair value	10	19
Net realised gains from available-for-sale assets	3	1
Net fee and commission income	333	410
Other income	2	2
Gross income	364	450
Operating expenses	-54	-67
Impairment	2	0
on loans and receivables	0	0
on available-for-sale assets	2	0
Share in results of associated companies	0	0
Profit before tax	312	383
Income tax expense	-84	-97
Profit after tax	228	286
Minority interests	0	-1
Net profit, group share	228	286

Pro forma means: 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 figures.

Share in group profit (2005)



The asset management business segment comprises KBC AM and its subsidiaries. KBC AM is 55%-owned by KBC Group NV and 45%-owned by KBC Bank.

In 2005, asset management made a net profit (group share) of 286 million euros, up 25% on the figure for 2004. The figures are not fully comparable, however, since the IAS 32 and IAS 39 standards were not applied in 2004.

The bigger profit contribution was the resultant of an increase in gross income (up from 364 to 450 million euros) combined with a rise in costs (up from 54 to 67 million euros). The higher level of gross income was accounted for by the increase in assets managed by this business segment (see below), which of course boosted net fee and commission income (+23%). At 15%, the cost/income ratio for the asset management business in 2005 was the same as a year earlier.

An overview of the main group companies in the asset management segment is given in the 'Consolidated annual accounts' section, note 46. At year-end 2005, over 500 people (in full-time equivalents) were employed in the group's asset management business worldwide (including asset managers belonging to the group's Central European banking subsidiaries).

Network and market position

Share of the investment fund market in Belgium and Central Europe*

	2004	2005
Belgium	31%	33%
Czech Republic	22%	27%
Slovakia	7%	8%
Hungary	9%	12%
Poland	4%	5%
Slovenia	8%	13%

* Partly based on estimates. Figures for Belgium relate to 30 September 2005.

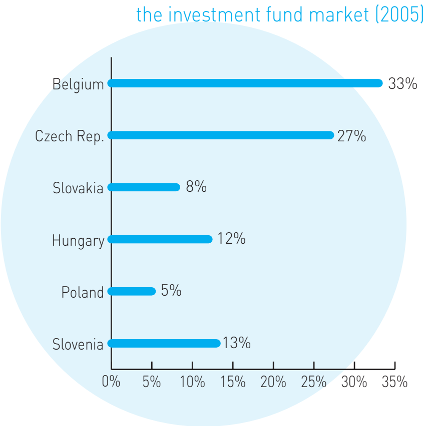
Network in Belgium

KBC AM provides asset management services to individuals and institutions, and offers collective asset management services. It also manages the pension fund of KBC Bank and the bulk of the investment portfolio of KBC Insurance. All this is backed up by research, product development, advice, risk management and marketing activities. KBC AM is responsible for conducting much of the economic research in the group, for defining the investment strategy and for providing investment advice on all the relevant financial markets.

In Belgium, asset management products are sold through the KBC Bank, KBC Insurance, CBC Banque and Centea networks. In June 2005, KBC AM became a UCITS III management company for collective investment undertakings, enabling it to pursue its activities under the new European UCITS III Directive.

In recent years, KBC's share of the Belgian market in investment funds has continually exceeded 30%. 2005 was no exception and KBC remained market leader in this type of product. It has a clearly dominant position on the market in capital-guaranteed products, with an estimated market share of no less than 56% in 2005. In collaboration with KBC Bank, KBC Insurance, CBC Banque and Centea, KBC AM launched no fewer than 192 new investment (sub-)funds on the Belgian market in 2005.

Estimated share of the investment fund market (2005)



Network in Central Europe

Through its banking and insurance subsidiaries, KBC has also built up an important position in asset management in Central Europe. These activities have been streamlined in recent years to the point that KBC now has just one asset management firm in each of its Central European home markets. In Poland, streamlining was completed in 2005, when four different asset management firms owned by WARTA and Kredyt Bank were merged to form KBC Towarzystwo Funduszy Inwestycyjnych (KBC TFI). All the asset management companies in Central Europe now operate under the umbrella of KBC AM in Belgium, which – acting as a 'product factory' – assists KBC's local subsidiaries to develop their asset management activities and to launch their own or KBC investment funds.

Thanks to its numerous innovative products (including funds offering capital protection, which also present an attractive alternative in Central Europe to traditional deposits), KBC continues to strengthen its position in this region. In 2005, it launched no fewer than sixty-six new (sub-)funds: thirty-three in the Czech Republic, three in Slovakia, eighteen in Hungary, six in Poland and six in Slovenia, each time in collaboration with KBC's local subsidiaries. KBC estimates that, in 2005, its share of the investment fund market came to roughly 27% in the Czech Republic (via ČSOB AM in Prague), 8% in Slovakia (via ČSOB AM in Bratislava), 12% in Hungary (via K&H Securities Investment Fund Management), 5% in Poland (via KBC TFI) and 13% in Slovenia (via NLB Asset Management), an improvement on the 2004 performance in all of these countries (see table).

Network in the rest of the world

Irish subsidiary, KBC Asset Management Limited, manages the assets mainly of Irish institutional customers and directs the operations of Lothbury Property Trust in the UK. KBC AM also set up a permanent establishment in New York recently. In Germany, KBC AM operates on the retail fund market jointly with KBC Bank Deutschland, where a number of people were added to the team in 2005 to meet the growing demand for capital-guaranteed and other products.

In Asia, KBC AM operates in Taiwan and especially in Hong Kong, where a variety of capital-guaranteed funds were launched in collaboration with local distributors. In China, the intention is to start up an asset management firm with a local partner. In the US, where the focus of activities lies on the Northeast, the first mandates were won in 2005.

The inclusion of KBL EPB in the new KBC group has also had consequences for KBC AM. Scope has been created for harnessing various synergies where the investment fund offering is concerned (for instance, overlaps between KBL EPB's fund mix and KBC AM's can be eliminated) and the capacity for selling KBC AM products has been increased considerably.

Awards in 2005

A number of KBC's investment products won prizes again in 2005. In March, for instance, KBC AM in Belgium received the Standard & Poor's Award for one-year 'Open-Ended Funds', and in November was named 'House of the Year' in the 'Interest Rates' category by *Structured Products*, a magazine specialising in derivative-based investment products.

A successful year for asset management for private and institutional investors

Assets managed for private persons increased considerably, due primarily to an innovative formula offering capital protection ('Privileged Portfolio Protected') which was launched in 2004. This product seeks to achieve a certain level of protection (95%, 90% and 85%) for investment portfolios that is appropriate for the customer's risk profile, and a set of rules is used each day to determine when the portfolio manager should switch from risk-bearing investments to investments that curtail risk, and *vice versa*.

2005 was also a successful year in terms of assets managed for institutional investors. On balance, KBC AM won no fewer than seventy-eight new mandates to manage the investments of institutional customers and high-net-worth clientele (in collaboration with the group's private banking branches). By year-end, a total of 409 portfolios were being managed for the two customer groups, combined.
Increasing numbers of institutional investors have, since 2004, been replacing their general mandates with specialised mandates. In other words, they have been outsourcing the management of each class of assets to the best asset manager for that class, a trend that continued in 2005. In addition, demand for structured products offering a capital guarantee or a guaranteed return remained buoyant, in the institutional customer segment too. Thanks to its extended and specialised range of products (including tailor-made products), KBC AM again benefited from these trends both in Belgium and abroad.

The assets of private and institutional investors managed by the entire KBC group (i.e. KBC AM, KBL EPB and KBC Bank, including its Central European subsidiaries) are detailed below.

Sustainable and socially responsible investment

KBC currently offers an extensive range of sustainable investment products and established its very own Sustainable and Socially Responsible Research Department specifically for this purpose a number of years ago (see the 'Sustainable and socially responsible business and human resources' section). In 2005, assets invested in sustainable funds soared from 0.3 billion euros to more than 1 billion euros, mainly on account of the popularity of the KBC Institutional Fund Ethical Euro Bonds fund.

During the year, KBC AM came out with a number of initiatives in the field of sustainable and socially responsible investment. For instance, it organised meetings in Belgium specifically for private individuals investing in sustainable funds in order to explain the way in which shares and bonds were chosen for these funds and to allow shareholders to put questions to the fund managers and sustainability analysts. Another example is the repositioning of the IN.flanders© index to take more account of sustainability issues. Launched in 2000 by Tijd Beursmedia, VOKA (the Flemish employers' federation, VEV, at the time) and KBC, this index is intended to be a reliable stock-market indicator of social and economic development in Flanders. When selecting the components of this index, account is taken not only of employment (as was previously the case), but now also of how the relevant companies score in terms of sustainable and socially responsible business practices according to specialist researchers at KBC AM.

Assets under management in the group

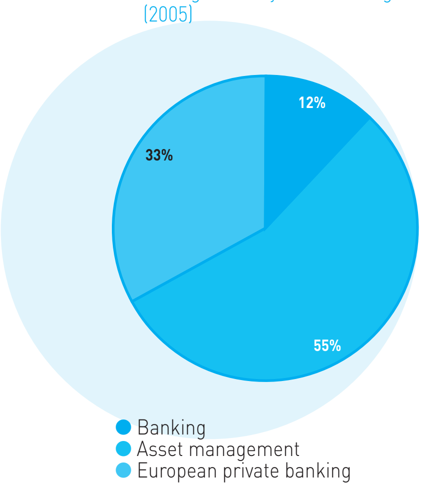
At year-end 2005, the total assets under management or advice (AUM) in the entire group came to approximately 196 billion euros. AUM for customers (i.e. excluding group assets) amounted to 181 billion euros, an increase of no less than 26% on the 2004 figure. In the table, AUM is broken down by business segment, product and region.

Assets under advice or management (AUM) at KBC group

In billions of EUR	2004	2005
By business segment[1]		
Banking	22.2	24.2
Asset management	84.4	107.5
European private banking	50.1	64.7
Total	156.7	196.4
By product or service		
Investment funds for private individuals	62.0	76.7
Assets managed for private individuals	61.9	83.8
Assets managed for institutional investors	25.3	27.9
Group assets (managed by KBC AM)	13.2	15.6
Eliminations[2]	-5.7	-7.7
Total	156.7	196.4
By region		
Belgium	96.4	125.0
Central Europe	5.0	7.2
Rest of the world	55.2	64.2
Total	156.7	196.4

1 Banking: advisory asset management for private individuals in Belgium, advisory and discretionary asset management for private and institutional investors in Central Europe, and funds issued by KBC Financial Products.
Asset management: investment funds managed by KBC AM, discretionary asset management for private and institutional investors in Belgium and Ireland, and group assets managed by KBC AM.
European private banking: asset management for private and institutional investors, and investment funds managed by KBL EPB.
2 Elimination of double-counting in asset management for private investors and investment funds.

Breakdown of assets under management by business segment (2005)



EUROPAZENTRUM, KIRCHBERG, LUXEMBOURG

Nadia Koren, Kredietbank SA Luxembourgeoise (KBL EPB), Luxembourg: 'The merger in 2005 between KBC and Almanij led to the establishment of the KBC group, that KBL EPB is now part of. The merger has made it possible for the various group entities to work together more easily, and scope has been created to harness a good deal of synergy. In 2005, the group consolidated its position as a leading European financial group and KBL EPB has benefited from this directly.'

European private banking

Main developments

- KBC's position in private banking was strengthened significantly, thanks to the inclusion of KBL European Private Bankers (KBL EPB) in the new group.
- A number of synergy-enhancing and cost-saving projects were started up in the new group's private banking business. This will have a positive impact on KBC's future results.
- A multi-brand private banking strategy was introduced in Belgium, so clients now have the choice between KBC private banking branches and the independent ('boutique' style) private banking services of Puilaetco Dewaay Private Bankers.
- KBC's position in a number of Western European countries was strengthened: in France, Aurel Leven Gestion was acquired and is being integrated into KBL France; in the Netherlands, the private banking activities of Effectenbank Stroeve and Deutsche Bank Nederland were acquired and added to Theodoor Gilissen Bankiers; in Germany, Merck Finck & Co acquired the private banking portfolio of Westfalenbank AG; and in Belgium, HSBC Dewaay was acquired.

Contribution to group results

Results, European private banking

In millions of EUR	**2004 *pro forma***	**2005**
Net interest income	181	226
Dividend income	10	12
Net gains from financial instruments at fair value	75	8
Net realised gains from available-for-sale assets	55	32
Net fee and commission income	375	447
Other income	50	57
Gross income	747	782
Operating expenses	-632	-563
Impairment	15	23
on loans and receivables	3	-3
on available-for-sale assets	9	28
Share in results of associated companies	2	3
Profit before tax	132	244
Income tax expense	-38	-53
Profit after tax	94	191
Minority interests	-21	-7
Net profit, group share	74	184

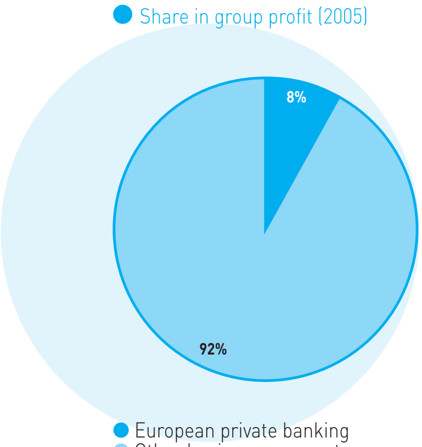
N.B.: *Pro forma* means: based on a combined KBC-Almanij entity. The IAS 32, IAS 39 and IFRS 4 standards were not applied to the 2004 figures, which means they are not fully comparable with the 2005 figures.

The European private banking business segment, KBL EPB, comprises Kredietbank SA Luxembourgeoise and its subsidiaries.

In 2005, KBL EPB made a net profit (group share) of 184 million euros, two and a half times as much as the year before. The figures are not fully comparable, however, since the IAS 32, IAS 39 and IFRS 4 standards were not applied in 2004.

Gross income rose by 5% year-on-year, due in part to the widening of the scope of consolidation, the continued growth of net fee and commission income (+19%, up from 375 to 447 million euros) and the increase in net interest income (up from 181 to 226 million euros). Realised gains from available-for-sale assets stood at 32 million euros and net gains from financial instruments at fair value amounted to 8 million euros.

Share in group profit (2005)



In the same period, costs fell from 632 to 563 million euros, notwithstanding a number of new acquisitions (see below) being included in the scope of consolidation and provisions being set aside for the reorganisation measures implemented at a number of subsidiaries (including Banco Urquijo). In 2004, expenses included roughly 130 million euros of re-structuring costs for early retirement schemes, among other things. Consequently, KBL EPB's cost/income ratio fell from 85% to 72%, which helped the overall cost/income ratio to improve from 65% in 2004 to 60% in 2005 (for the banking business, asset management business and KBL EPB, combined). Net impairment on loans was limited in 2005 (to 3 million euros), while impairment on available-for-sale assets made a positive contribution (28 million euros, thanks to the favourable credit risk climate on the debt capital markets).

An overview of the main group companies in the European private banking segment is given in the 'Consolidated annual accounts' section, note 46. At year-end 2005, the total number of staff in the segment came to some 3 800 full-time equivalents, up slightly (2%) on the year-earlier level. In fact, the increase due to the various new acquisitions was largely offset by ongoing rationalisation measures.

Network and market position

KBL EPB network 31-12-2005[1]

	Country	Since	Acquisitions in 2005
Banca KBL Fumagalli Soldan	Italy	2001	-
Banco Urquijo	Spain	1998	-
Brown, Shipley & Co	UK	1986	-
KBL France	France	1998	Aurel Leven Gestion
KB Luxembourg (Monaco)	Monaco	1996	-
Kredietbank SA Luxembourgeoise	Luxembourg	1949	-
Kredietbank (Suisse)	Switzerland	1980	-
Merck, Finck & Co	Germany	1999	private banking portfolio of Westfalenbank AG
Puilaetco Private Bankers	Belgium	2004	HSBC Dewaay
Theodoor Gilissen Bankiers	Netherlands	2003	Effectenbank Stroeve and private banking portfolio of Deutsche Bank Nederland

1 Significant subsidiaries.

Network in Belgium

Following the creation of the new group structure, KBC began updating its private banking strategy. In Belgium, it was decided to provide private banking services through two different, but complementary models: a network-led model, using KBC's branch network, and a 'pure-play' private banking model, via a KBL EPB subsidiary.

Both KBC Bank and CBC Banque offer private banking services through an extensive network of twenty-five specialised branches in Belgium. More information is provided on this in the 'Banking' section under 'Private banking strategy in Belgium'.

Since the inclusion of KBL EPB in the new group, the private banking offering has been complemented with the specialised services of Puilaetco Private Bankers (and enhanced through the acquisition of HSBC Dewaay, see below), a subsidiary of the KBL EPB group. With over 6.5 billion euros in assets under management, this company figures among the main private banks in Belgium.

Network in Central Europe

The KBL EPB group does not have a direct presence in Central Europe. Private banking activities are and will continue to be directed out of KBC Bank's subsidiaries in the region (ČSOB in the Czech Republic and Slovakia, K&H Bank in Hungary, Kredyt Bank in Poland, and via a minority shareholding in NLB in Slovenia). This 'network-led model' is underpinned by the experience and know-how built up by KBC Bank in Belgium.

Network in the rest of Europe

The KBL EPB group's parent company, Kredietbank SA Luxembourgeoise, is located in Luxembourg. Besides pursuing private banking and some niche activities there, it continues to develop specific support services (such as IT, back-office operations, global custody services and product support) within a Hub Service Centre for KBL EPB's Europe-wide activities.

Over the past few years, KBL EPB has been rapidly building up an on-shore network of local private bankers in a selection of Western European countries (see table). Besides Luxembourg and Belgium, it is now present in Germany, France, the United Kingdom, Spain, Switzerland, Monaco, Italy and the Netherlands.

Acquisitions in 2005: a stronger presence

In terms of acquisitions, 2005 was quite an important year for the KBL EPB group. All acquisitions were focused on gaining critical mass in countries where the group was already present.

In Belgium, KBL EPB signed an agreement in July 2005 to take over HSBC Dewaay, the private banking subsidiary of the HSBC group in Belgium. This company manages around 2.5 billion euros in client assets and hence substantially reinforced the position of KBL EPB on the Belgian home market. Moreover, in October 2005, it was decided to integrate Bank Dewaay with KBL subsidiary Puilaetco (which was bought in 2004) to form 'Puilaetco Dewaay Private Bankers'. This move has enabled KBL EPB to achieve substantial critical mass in Belgium, with combined client assets of over 6.5 billion euros.

In the Netherlands, Effectenbank Stroeve was purchased from Rabobank in April 2005. Stroeve has been merged with KBL EPB's Dutch subsidiary Theodoor Gilissen Bankiers, which was bought in 2003. Moreover, in September 2005, Theodoor Gilissen Bankiers also acquired the private banking portfolio of Deutsche Bank in the Netherlands. These two acquisitions have allowed Theodoor Gilissen Bankiers to substantially increase assets under management (from 4.5 billion euros to 8.5 billion euros) and helped it to become one of the top five players in the Dutch private banking market.

In Germany, KBL's subsidiary Merck Finck & Co acquired the private banking arm of Westfalenbank AG in Bochum in September 2005, allowing it to reinforce its presence in the Nordrhein-Westphalia region, where it is now present in five cities.

Finally, KBL France bought Aurel Leven Gestion in February 2005, and this company is being integrated into KBL France.

The expansion policy of KBL EPB has always been and will continue to be oriented towards the local development of brands that have already acquired a good reputation on their domestic markets, as well as towards gradually increasing its presence in each country by both internal and external growth to achieve critical mass.

Innovation and awards

All KBL EPB's companies keep close track of their markets and constantly update their product portfolio.

A nice example of this is the 'Dutch Infrastructure Fund' offered by Theodoor Gilissen Bankiers, the Dutch subsidiary of KBL EPB. This fund was created in response to the fact that the Dutch authorities are increasingly involving the private sector in the financing of infrastructure projects via public-private partnerships. This particular fund allows investors to participate indirectly in a wide variety of such projects.

Another example is the launch by KBL of the first pension pooling vehicle in Luxembourg. This investment fund is designed exclusively to pool assets invested by the various supplementary pension schemes of a single multinational group. Such pooling can achieve cost savings through economies of scale, better risk diversification and tax efficiency. This new fund was launched by KBL in February 2005 for the companies of the Suez group.

The innovative nature of the products and services provided by KBL EPB group companies was again reflected in quite a number of awards in different countries. For example, the French weekly *Le Revenu* awarded the KBL EPB group the 2005 bronze trophy in the category 'Meilleure Gamme Sicav et Fonds Diversifiés sur 3 ans'. In Germany, KBL EPB's subsidiary Merck Finck & Co was ranked second best research house (out of 120) for European mid-caps by the London-based research analysis firm *AQ Research*.

Private banking synergies in the new group

KBL EPB's integration into the KBC group in 2005 has led to various potential synergies being identified in private banking, both in the area of cost-cutting and in cross-selling.

For this purpose, a number of task forces were set up to identify and develop cost savings and synergies in several areas, including asset management, insurance, corporate banking, payments, ICT, and stock market activities. Examples of initiatives include the sale of KBC-brand funds and VITIS Life insurance products to KBL EPB customers, and the elimination of overlaps in generic equity funds. VITIS Life, which is a Luxembourg-based subsidiary of KBC Insurance, caters primarily for high-net-worth clients. In the new management structure of the group announced at the end of 2005, VITIS Life will come under the European Private Banking Division.

All these initiatives should have a significant pre-tax impact on the group's results, which is expected to rise within a few years to a recurring 75 million euros per year. Around 60% of this amount is expected to come from cost savings, while the rest is related to revenue-enhancing and other initiatives.

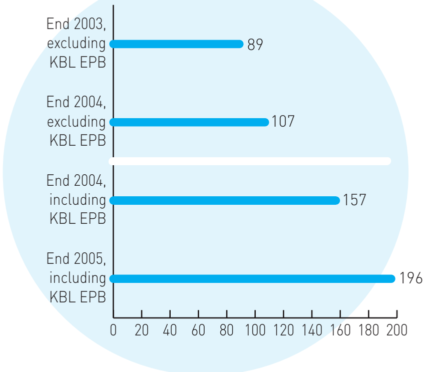
Assets under management

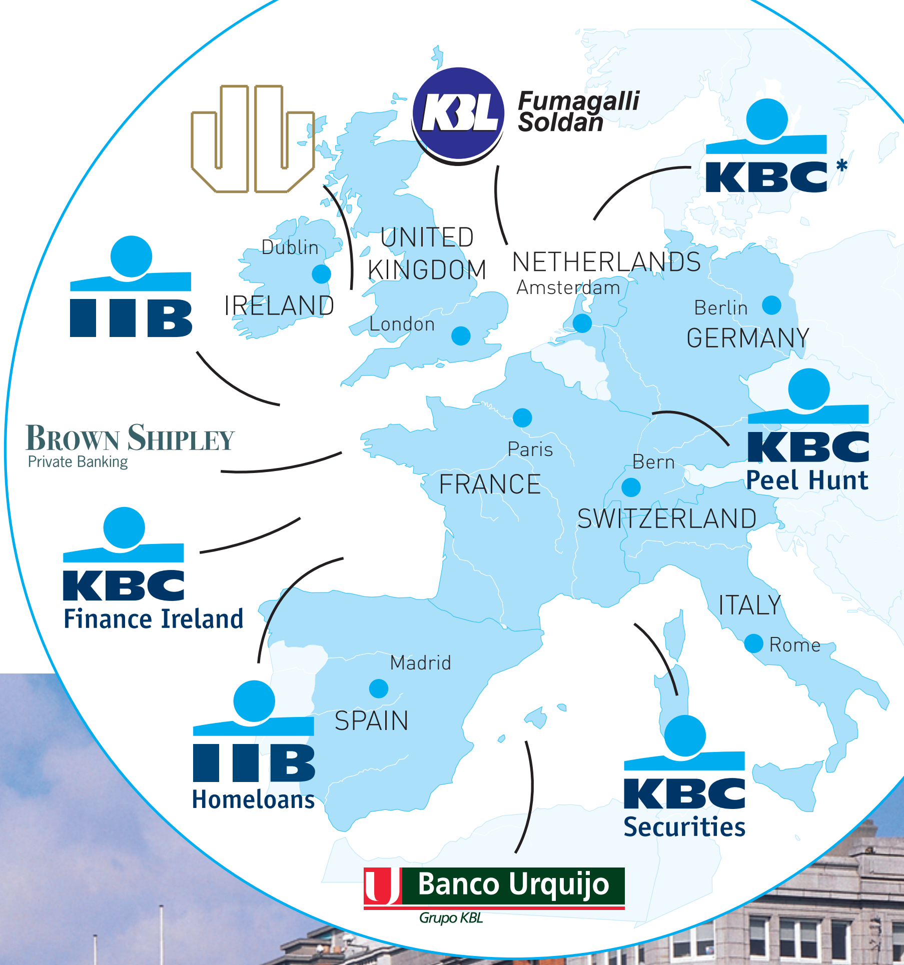
As at 31 December 2005, assets under management or advice (AUM) at KBL EPB totalled 65 billion euros (56 billion euros of which belonged to private clientele), up 29% on the figure for the end of 2004, and accounting for one third of KBC group's AUM (196 billion euros, see the 'Asset management' section).

KBL EPB aims to achieve sufficient critical mass in each of its markets in order to provide its subsidiaries with sufficient strength to protect themselves against market downturns. To date, this has been achieved in most of the group's subsidiaries.

Assets managed by the group

In billions of EUR





O'Connell Street, Dublin, Ireland

David Hogarty, KBC Asset Management, Ireland: 'The pension fund market in Ireland is getting bigger all the time, and this is creating opportunities for KBC Asset Management. Today's generation of adults were born during the baby-boom and are saving massively for retirement. Thanks to its know-how and experience, our company scores well in surveys, but we have to make our brand more widely known in Ireland.'

* KBC Bank, KBC Nederland, KBC Deutschland.

Gevaert

Highlights

- The KBC group was further streamlined by selling off some of Gevaert's activities and transferring others to other group business units.
- KBC Private Equity was created by merging Gevaert's venture capital business with KBC Investco. KBC Private Equity is now the sole private equity financier in the group (see 'Banking').
- Capital gains were realised in Gevaert, due to the sale of a number of investments (including Bourbon).
- Sale, in March 2006, of the 27% stake in Agfa-Gevaert.

Contribution to group results

Results, Gevaert

In millions of EUR	2004 *pro forma*	2005
Net interest income	-19	1
Dividend income	5	3
Net gains from financial instruments at fair value	3	24
Net realised gains from available-for-sale assets	15	40
Net fee and commission income	0	0
Other income	121	70
Gross income	126	137
Operating expenses	-103	-70
Impairment	2	-62
on loans and receivables	0	-3
on available-for-sale assets	8	1
Share in results of associated companies	-35	-15
Profit before tax	-10	-10
Income tax expense	-2	-22
Profit after tax	-12	-32
Minority interests	0	0
Net profit, group share	-12	-32

Pro forma means: 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 figures.

The Gevaert business segment comprises the Gevaert holding company and its subsidiaries.

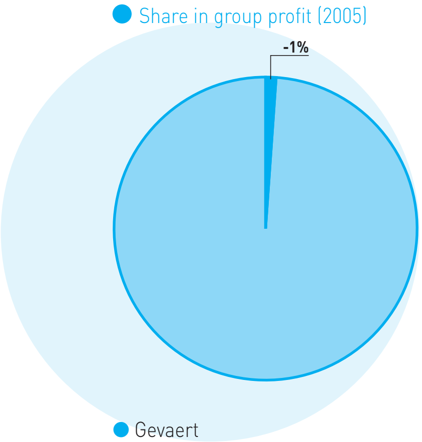
In 2005, Gevaert's net result (group share) came to -32 million euros, compared to -12 million euros a year earlier. These figures are not fully comparable, however, since the IAS 32, IAS 39 and IFRS 4 standards were not applied in 2004.

The increase in gross income in 2005 (from 126 million to 137 million euros) was attributable to a sharp improvement in net gains from financial instruments at fair value (due in part to the revaluation result on the private equity portfolio) and to higher net realised gains from available-for-sale assets (as part of the strategy pursued to phase out activities in this business segment).

Operating expenses fell from 103 million euros to 70 million euros (again because of activities being phased out) and impairment went up from (a positive) 2 million euros to (a negative) -62 million euros, which was due largely to the impairment loss on the investment in Agfa-Gevaert (whose share price had fallen in value). Lastly, the less negative 'Share in results of associated companies' heading (from -35 million to -15 million euros) was partly due to the fact that the results for 2004 had been adversely affected by the inclusion of a loss related to the sale of Agfa-Gevaert's consumer imaging division (in which Gevaert still held a 27% stake) in the second quarter of 2004. For 2005, this heading only contains the share in Agfa-Gevaert's results for the first three quarters of the year (the fourth-quarter results of this listed company have not been included because its results for 2005 are published after KBC's).

An overview of the main group companies in the Gevaert business segment is given in the 'Consolidated annual accounts' section, note 46.

Share in group profit (2005)



Gevaert
Other business segments

Repositioning of Gevaert's activities in the group

When the new KBC group was created, a thorough analysis was made of Gevaert's position and a strategy drawn up to harness as many synergies as possible between Gevaert and the other group companies by, among other things, integrating any overlapping activities. This should lead *de facto* to activities in this segment being phased out.

Consequently, a large number of Gevaert's activities or subsidiaries were integrated into other group companies in 2005. For instance:

- The private equity business of Ortelius (which had grouped the bulk of this business at Gevaert) was merged with KBC Investco. Renamed KBC Private Equity, this new entity has been a subsidiary of KBC Bank since then and is now the group's sole private equity financier.
- The real estate portfolio (worth roughly 100 million euros) of Almafin Real Estate was transferred to KBC Bank's specialised real estate department.
- Gevaert's (limited) trading activities (via subsidiary Ligeva) were sold to KBC Securities.

At the same time, the structure of the Gevaert group was simplified, the KBL EPB shares held by Gevaert were sold to KBC Group NV (and Kredietcorp), and most of the investments in listed companies (in particular, Bourbon, Aegon, Delhaize and ING) were sold.

At year-end 2005, the sole remaining participating interest held (besides a few minor investments in Gebema, Almafin, Royal Oak and Gevafin) was the 27% stake in Agfa-Gevaert. KBC does not consider this investment (Agfa-Gevaert) to be part of its core business and consequently decided to sell it in March 2006.

Lastly, KBC intends to simplify the group structure further in 2006 by merging Gevaert with KBC Group NV (the holding company). This means that, in this case, Gevaert will cease to be a separate business segment.

Woman trader, Aberdeen, Hong Kong

George Ngan, KBC Hong Kong: 'Despite the thousands of kilometers that separate us, KBC Financial Products Hong Kong and KBC Asset Management have good contacts with one another. If we make sure our relationship remains transparent and continue to respect each other's interests, our co-operation should be just as positive in future.'

Value and risk management

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 investment risk, technical insurance risk and operational risk. Controlling all these risks is one of the most crucial tasks of group management.

At KBC, value and risk management is based on the following principles:

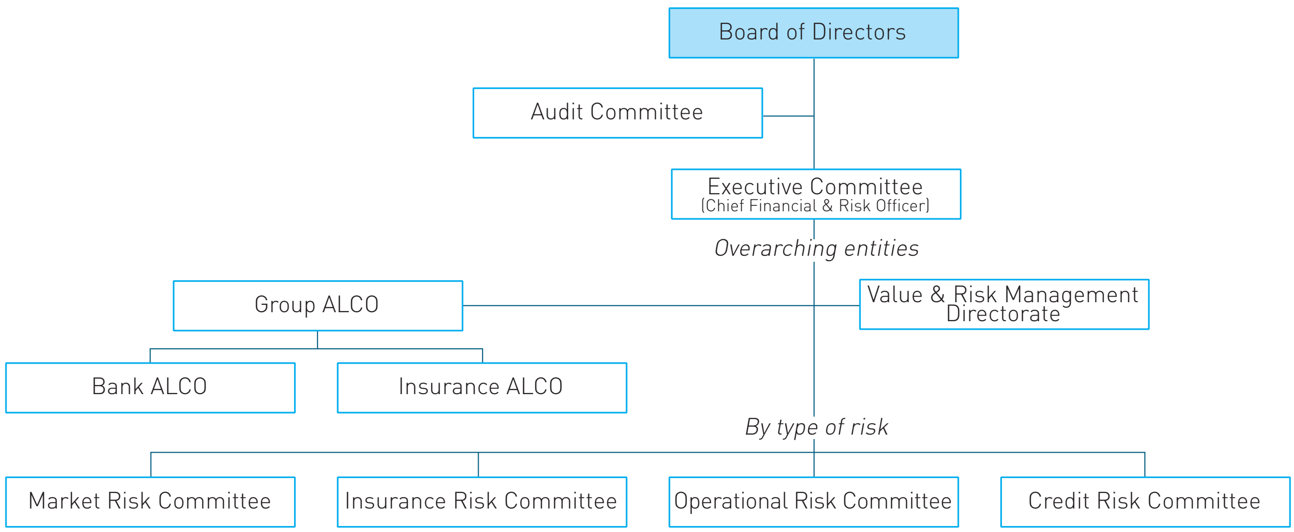
- Value, risk and capital management are inextricably linked to one another. Every company's aim is to create value. To achieve this aim, decisions are taken and activities developed, even though there is no certainty as to where they will lead. To ensure its own continuity, a company must have adequate capital to be able to deal with any unforeseen consequences of adverse developments.
- Risk management should be approached from a comprehensive, enterprise-wide angle, taking into account all the risks a company is exposed to and all the activities it engages in.
- Primary responsibility for value and risk management lies with line management, while a separate Value and Risk Management Directorate, operating independently of line management, performs an advisory, supporting and supervisory role.
- Every (material) subsidiary must adhere to the same risk governance model as the parent company.

Risk governance model

The governance model for value and risk management defines the responsibilities and tasks of various bodies and persons within the organisation, with a view to ensuring the sound management of value creation and all the associated risks. The governance model is organised in three tiers:

- Committees that overarch the various companies and types of risk: the Board of Directors, Audit Committee, Executive Committee, Group ALCO, Insurance ALCO and Bank ALCO. These committees concentrate on global risk management and on monitoring value creation and capital adequacy for the entire group. Regular reporting to the Audit Committee ensures that there is an ample flow of information to the relevant members of the Board of Directors. Each year, the full Board sets the risk tolerance limits. The Executive Committee is responsible for the implementation of the value and risk management strategy, outlines the structure and makes the necessary resources available. The Chief Financial and Risk Officer (CFRO) has been entrusted with the specific task of supervising risk management and the internal control structure. The Group ALCO monitors concentration risk, group-wide credit risks at portfolio level and preparations for implementing the Basel II and Solvency II guidelines, and is also responsible for establishing 'mirror portfolios' and developing capital management. To make certain that the insurer's investment decisions are not inspired by information available in the bank that is not in the public domain and *vice versa*, the ALM positions of the bank and the insurer are managed by separate ALCOs.

- Specialised risk committees: these committees concentrate on developing a group-wide framework for one particular type of risk and monitoring the associated risk management process. Chaired by the CFRO, the risk committees are composed of representatives from line management and the Value and Risk Management Directorate. The various risk committees are as follows:
  - The Market Risk Committee, which monitors the market risks associated with forex and securities trading. However, ALM risks are managed and monitored by the Group ALCO.
  - The Credit Risk Committee, which supervises the composition and quality of the loan portfolio (including counterparty risk in respect of (re)insurance and market transactions).
  - The Operational Risk Committee, which oversees operational risk management.
  - The Insurance Risk Committee, which monitors specific insurance risks.
- Line management and activity-specific committees: line management has primary responsibility for value and risk management. The Value and Risk Management Directorate measures risks, economic capital and value creation for all relevant business entities and reports its findings directly to line management and the relevant activity-specific committees. Line management is moreover entrusted with the task of developing transactional models, whereas the Value and Risk Management Directorate is responsible for developing portfolio models. Note, however, that the Value and Risk Management Directorate is also responsible for validating both transactional models and portfolio models, but that there is a clear separation of responsibilities (within this directorate, validating staff is different from modelling staff).



Since the new KBC group was created, risk management at KBL European Private Bankers (KBL EPB) has also been organised according to the risk governance principles that apply to all (material) group subsidiaries.

Capital management

In 2004, a multi-year project to calculate economic capital was started up and, to run it, a separate unit was created within the Value and Risk Management Directorate. The main concepts relating to economic capital have already been defined, and a pilot project has got under way. The ultimate objective of this programme is to ensure that the financial resources available are used as effectively as possible.

Information

Much of the data used in this section has been drawn from internal risk management databases. In a few cases, the data is based on assumptions or extrapolations.

Credit risk management

Description

Credit risk is the potential shortfall relative to the value expected consequent on non-payment or non-performance by a borrower, guarantor, counterparty to an interprofessional transaction or issuer of a debt instrument, due to that party's insolvency or lack of willingness to pay, or to events or measures taken by the political or monetary authorities of a particular country. The latter risk is also referred to as 'country risk'.

Managing credit risk in the banking business

Acceptance. Credit or limit proposals are submitted in writing by a commercial entity; any applications for larger or riskier loans are screened by a loan adviser. In principle, loan decisions are taken jointly by two or more managers, whether they meet as a credit committee or otherwise. Matrices that take account of such parameters as the group risk total, the class of risk and the type of borrower or counterparty (private individuals, companies, etc.) are used to determine at what level decisions should be taken. The 'group risk total' is the sum of all credit and limits that all companies in the borrower or counterparty's group already have or have applied for from all KBC group entities (this includes the investment portfolios of the bank and the insurer, but excludes KBL EPB's exposure for the time being). The 'risk class' reflects the assessment of the risk relating to the credit and is determined primarily on the basis of internally developed rating models.

Supervision and monitoring. In principle, a member of a credit committee will supervise decisions taken at the decision level immediately below his, by checking whether the decision is consistent with lending policy. How the credit is managed is determined primarily by the risk class, with a distinction being made between the Probability of Default (PD) and the Expected Loss (EL). The latter takes account not only of the PD, but also of the amount expected to be left outstanding on default and the non-recoverable loss in that event.

The 'normal' loan portfolio is split up into classes, ranging from 1 (lowest risk) to 9 (highest risk), and this for both the EL and the PD. Loans in the 'normal' portfolio are reviewed periodically. This portfolio is also screened regularly for signals that might indicate that credit risk has increased. The riskiest loans in the normal loan portfolio – loans with a PD of 8 or 9 – are subject to special monitoring. For private individuals (regulated credit), specific rules apply.

Defaulting borrowers are put into PD classes 10, 11 or 12. Class 10 is for 'still performing' borrowers (see definition below) and classes 11 and 12 for 'non-performing' borrowers. Class 12 comprises borrowers whose loans have been cancelled or which are in danger of going bankrupt. For the larger loans, an overview of all borrowers in default is submitted to the Executive Committee every quarter.

Impairment. For credit granted to borrowers in PD classes 10, 11 and 12 (impaired loans), KBC records individual write-downs, i.e. impairments, based on an estimate of the net present value of the recoverable amount. In addition, for credit for which no specific impairment is recorded, amounts are written down on a 'portfolio basis', based on a formula that takes account of the amount of credit extended to borrowers in classes 8 and 9 and the loan loss ratios for the past seven years.

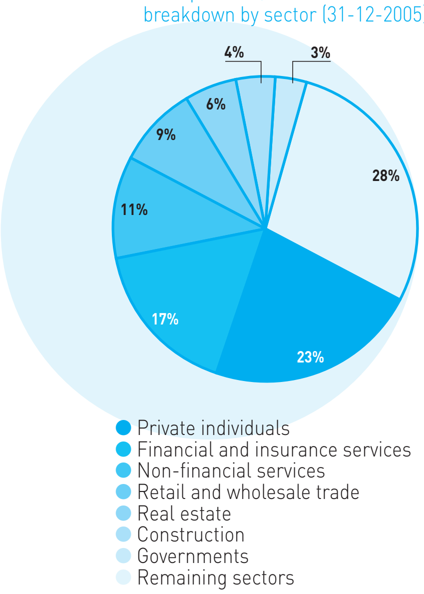
Portfolio management. Monitoring is conducted on a portfolio basis; *inter alia* by means of quarterly reports on the consolidated loan portfolio. The largest risk concentrations are, in addition, monitored via various periodic and *ad hoc* reports. Certain maximum risk concentration limits also apply at borrower or counterparty level.
As part of the credit function, the portfolio management desk seeks to actively manage and monitor the loan portfolio. By means of a model, this unit pinpoints risk concentrations and seeks to enhance the diversification of the loan portfolio using such instruments as credit derivatives. The portfolio management desk also co-ordinates credit securitisation operations. At the end of 2005, there was still one securitisation operation outstanding involving own loans (Phoenix Funding, a securitisation operation involving IIB Homeloans' mortgage loans, for an amount outstanding of some 350 million euros).

Loan portfolio overview

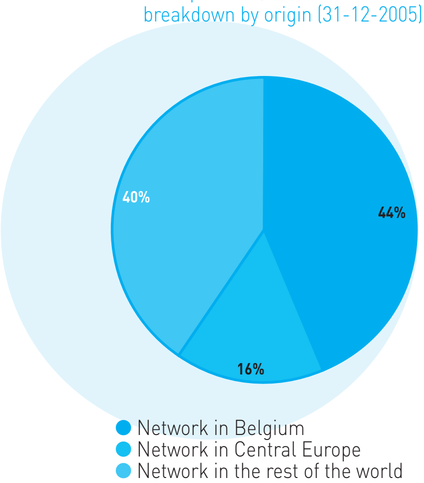
The loan portfolio (see table) includes all KBC Bank and KBL EPB payment credit, standby credit, guarantee credit and credit derivatives (protection sold). It includes corporate and bank bonds held in the investment book, but not government bonds or securities in the trading book. Interprofessional transactions (deposits with financial institutions, exchange transactions, etc.), short-term commercial transactions (e.g., documentary credit) and intragroup transactions are not included either.
The amount granted shown in the table comprises both committed and uncommitted credit. Based on the above definition, the total portfolio of credit granted came to 175 billion euros at the end of 2005, 12% more than a year earlier.

The loan portfolio is well diversified in geographical terms, with the network in Belgium accounting for 44% of credit granted, followed by the network in the rest of the world (40%, mainly in the US, Western Europe and Southeast Asia) and Central Europe (ČSOB, K&H Bank and Kredyt Bank, together good for 16%).
Virtually all (99.5%) of the loan portfolio is accounted for by credit to borrowers in investment-grade countries (i.e. countries with a rating of AAA through BBB-). Payment credit is the major type of credit, followed by standby credit and commitment credit (bonds and guarantees).
The loan portfolio is also well diversified in terms of sector exposure. Only five sectors account for a share of over 5%, viz. the financial sector (which has a rather low risk profile), private individuals (where exposure is, by definition, spread over many relatively small loans), non-financial services and the retail and wholesale sectors (which both, however, group a variety of subsectors) and, lastly, the real estate sector (which has a good geographic spread). Exposure to more cyclically sensitive or higher risk sectors is also limited (electricity accounts for just 2.6% of the portfolio, the automobile industry for 3.2%, telecom for 1.6% and aviation for 0.6%).

Loan portfolio, breakdown by sector (31-12-2005)



Loan portfolio, breakdown by origin (31-12-2005)



As set out above, KBC records specific impairment for certain loans (2 532 million euros at 31 December 2005). In addition, the bank records portfolio-based impairment on the portfolio of loans for which no specific impairment has been recorded (290 million euros at year-end 2005).
Non-performing loans (PD 11 and 12) are impaired loans for which principal repayments or interest payments are more than ninety days in arrears (or overdrawn). At year-end 2005, 2.2% of the portfolio was non-performing (compared with 2.9% at year-end 2004; the decline occurred in Belgium, Central Europe and in the rest of the world). Of these non-performing loans, 72% was covered by specific impairment for non-performing loans. When, besides specific impairment for non-performing loans, specific impairment for still performing loans and portfolio-based impairment are also taken into account, as much as 99% of the non-performing loans were covered.

The loan loss ratio reflects the net change in impairment relative to the average outstanding loan portfolio. For 2005, the total loan loss ratio came to 0.01%. In Belgium, this ratio came to 0.03%, in Central Europe to 0.37% and in the rest of the world to -0.21% (a net reversal). The 2005 loan loss ratio for Central Europe breaks down as follows: 0.69% for K&H Bank, -0.25% for Kredyt Bank and 0.40% for ČSOB.

Other credit exposure of the banking business

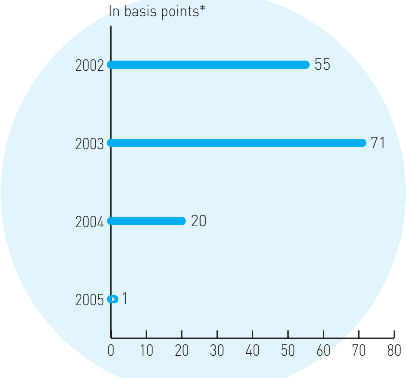
Besides the credit risks relating to the loan portfolio, there are other credit risks that arise in other bank activities. The main ones are shown in the table.

Short-term commercial transactions involve export or import finance and only entail exposure to financial institutions. Referred to here is documentary credit, pre-export and post-import finance and related transactions, with a term to maturity of no more than two years. At the end of 2005, this commercial exposure came to 1.1 billion euros. Despite the high proportion of non-investment-grade banks in this exposure (roughly two-thirds), losses are very low in historical terms, particularly for documentary credit. Risk management for this activity is conducted on the basis of limits set per financial institution and per country or group of countries.

Trading book securities. 'Issuer risk' (potential loss on default by the issuer) in trading exposure is accounted for primarily by KBC Financial Products (KBC FP; 1.5 billion euros out of a total of 3.1 billion euros in issuer risk at the end of 2005) and is measured on the basis of the expected loss on default by the issuer, based on the prevailing market value (the market value of the security is used as a yardstick for issuer risk elsewhere). Because counterparty risk only arises with long positions, issuers in respect of which a short position exists on balance (at KBC FP, for instance, short positions came to around 1 billion euros at the end of 2005) are not taken into account. The issuer risk exposure of other entities (aside from KBC FP) came to 1.6 billion euros. This rather high amount is the result of a temporary policy for investing excess cash mainly in prime (bank) securities with short remaining terms to maturity (no more than one year). Issuer risk is curtailed through the use of issuer limits both per issuer and per rating category.

Loan loss ratio

In basis points*



* KBC Bank, incl. KBL EPB from 2005.

Counterparty risk in interprofessional transactions (deposits with professional counterparties and derivatives trading). This reflects the potential loss on transactions should the counterparty default on its obligations. The amounts shown in the table are the group's pre-settlement risks, measured on the basis of the 'mark-to-market' value of the position plus an add-on, determined according to the capital-weighting method (Basel I). At the end of 2005, the group's total pre-settlement risk came to some 19.5 billion euros (excluding KBL EPB and before deduction of collateral). Deposits account for slightly more than one third of this amount. The bulk (93%) of the deposits are due from banks with an investment-grade rating. Risks are curtailed by setting limits (separate limits for both pre-settlement and settlement risk) per counterparty. Moreover, close-out netting and collateral techniques are used wherever possible. For netting to apply, derivative transactions need to be documented under ISDA-92 or ISDA-2002 Master Agreements, while for repo-style transactions, a GMRA needs to be in place. In addition, nettability rules have been established for all relevant jurisdictions and all relevant products, based on legal opinions published by ISDA. Financial collateral is only taken into account insofar as the assets concerned are considered eligible risk mitigants for regulatory capital calculations (Basel II). This implies, among other things, that legal comfort has been obtained regarding the ownership of the collateral for all relevant jurisdictions. The risk-mitigating impact of netting and collateral techniques came to around 9.5 billion euros and 1.5 billion euros, respectively, at the close of 2005.

Government securities in the investment portfolio. Exposure to governments (39 billion euros at the end of 2005) is accounted for mainly by EU states (particularly Belgium), representing a minimal credit risk. Local or regional governments account for only a fraction of the exposure (0.4 billion euros). The considerable exposure to governments is consistent with reinvestment policy (see ALM). However, there are limits for this type of credit exposure, as well, certainly for governments with a lower than 'AA' rating.

Loan portfolio, KBC Bank and KBL EPB

	31-12-2004 *pro forma*	31-12-2005
Total loan portfolio (in billions of EUR)		
Amount granted	156.1	174.8
Amount outstanding	113.6	126.9
Loan portfolio breakdown by origin (as a % of the portfolio of credit granted)		
Network in Belgium	45.5%	43.8%
Network in Central Europe	14.6%	15.8%
Network in the rest of the world	39.9%	40.3%
Total	100.0%	100.0%
Loan portfolio breakdown by credit type (as a % of the portfolio of credit granted)		
Payment credit	79.2%	79.6%
Standby credit	6.8%	6.5%
Guarantee credit	6.5%	6.6%
Credit derivatives sold	0.2%	0.1%
Bonds (only corporate and bank issues)	7.2%	7.2%
Total	100.0%	100.0%
Loan portfolio breakdown by counterparty sector (as a % of the portfolio of credit granted)		
Private individuals	20.7%	22.6%
Financial and insurance services	16.5%	16.6%
Governments	3.6%	3.3%
Corporates	59.2%	57.5%
Non-financial services	11.7%	10.8%
Retail and wholesale trade	8.7%	8.7%
Real estate	5.7%	5.5%
Construction	4.1%	4.3%
Automobile industry	3.4%	3.2%
Chemical industry	3.3%	2.6%
Electricity	2.9%	2.6%
Agriculture, stock farming and fishing	2.5%	2.3%
Food industry	2.4%	2.5%
Remaining sectors	14.5%	15.0%
Total	100.0%	100.0%
Loan portfolio breakdown by country rating of the counterparty or guarantor (as a % of the portfolio of credit granted)		
Investment-grade countries (AAA through BBB ratings)	99.2%	99.5%
Non-investment-grade countries (BB through D ratings)	0.8%	0.5%
Total	100.0%	100.0%
Impaired loans (PD 10 + 11 + 12; in millions of EUR or %)		
Specific impairment	2 617	2 532
Portfolio-based impairment[1]	169	290
Loan loss ratio[2]		
Network in Belgium	0.09%	0.03%
Network in Central Europe	0.48%	0.37%
Network in the rest of the world	0.26%	-0.21%
Total	0.20%	0.01%
Non-performing (NP) loans (PD 11 + 12; in millions of EUR or %)		
Amount outstanding	3 333	2 848
Specific impairment for non-performing loans	2 109	2 056
Non-performing ratio		
Network in Belgium	2.5%	2.0%
Network in Central Europe	6.6%	4.5%
Network in the rest of the world	1.7%	1.4%
Total	2.9%	2.2%
Cover ratio		
Specific impairment for non-performing loans	63%	72%
Specific and portfolio-based impairment for performing and non-performing loans	84%	99%

Pro forma means: 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 figures; for a definition of the ratios, please see the 'Additional information' section.
1 In 2004: impairment for international loans and for country risks.
2 Up to and including 2004, only changes in 'specific' impairments were included in the numerator. KBL EPB has only been included from 2005.

Other credit risks of KBC Bank and KBL EPB

In millions of EUR	31-12-2004 *pro forma*	31-12-2005
Short-term commercial transactions		
Amount (in billions of EUR)	1.0	1.1
By origin (%)		
Network in Belgium	78%	76%
Network in Central Europe	5%	4%
Network in the rest of the world	17%	20%
Total	100%	100%
Trading issuer risk[1]		
Amount (in billions of EUR)	1.4	3.1
By origin (%)		
Network in Belgium	24%	47%
Network in Central Europe	5%	5%
Network in the rest of the world	71%	48%
Total	100%	100%
Counterparty risk in interprofessional transactions[2]		
Amount (in billions of EUR)	17.3	19.5
By origin (%)		
Network in Belgium	13%	8%
Network in Central Europe	13%	15%
Network in the rest of the world	74%	77%
Total	100%	100%
Government bonds in the investment portfolio		
Amount (in billions of EUR)	33.3	39.1
By origin (%)		
Network in Belgium	50%	52%
Network in Central Europe	20%	20%
Network in the rest of the world	30%	28%
Total	100%	100%

* *Pro forma* means: 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 figures.
1 Excluding OECD government bonds and KBL EPB.
2 The breakdown by origin is a rough estimate; figures do not include KBL EPB. Figures for 2004 are shown net of collateral.

Country risk

Country risk is managed by limits set per country and per maturity for both transfer risks and performance risks. Despite the mitigated country risk, 'B' loans of supranationals (referred to below as IFC 'B' loans) are also charged to the limit for transfer risks. Country risk is calculated for each country separately according to a conservative method (see below).

Proposals for setting or changing country limits are handled centrally at head office and, after independent credit advice is taken, submitted for approval at the relevant level of decision authority. Before any new transactions are entered into, availability under the country limits and, where relevant, the sublimits concerned has to be checked.

Method used to calculate country risk

The following risks are included:

- credit (including so-called medium-term export credit, IFC 'B' loans and performance risks);
- bonds and shares in the investment portfolio;
- placements and other interprofessional transactions (such as exchange transactions and swaps);
- short-term commercial transactions (such as documentary credit and pre-export finance).

In principle, individual transactions are charged against country limits according to the following rules:

- fully fledged guarantees transfer the country risk to the guarantor's country;
- if a transaction is carried out with the office/branch of a company which has its head office in another country, the transaction will be assigned to the country where the office/branch is located, unless the rating of the country where the head office is located is lower, in which case the transaction will be assigned to this last country.
- Exposure in the counterparty's national currency and risks in respect of countries in the euro area are not included, but are reported separately.

Through KBC's significant presence in Central Europe, its country risk in respect of this region came to 8.5 billion euros at the end of 2005. Country risk exposure to Western Europe (not including the euro area) came to 10.8 billion euros (the country representing the most risk was the UK, a non-euro state), to North America to 3.6 billion euros and to Asia to 3.3 billion euros. Exposure to other regions remained relatively minor (Middle East: 1.5 billion euros; Latin America: 0.9 billion euros; Africa: 0.5 billion euros; and Oceania: 0.3 billion euros).

Country risk (excluding local-currency transactions) of KBC Bank and KBL EPB at year-end 2005

In millions of EUR	Total	Western Europe (excl. euro area)	Central and Eastern Europe	Asia	North America	Middle East	Latin America	Africa	Oceania	International institutions
Breakdown by transaction type										
IFC 'B' loans	45	1	0	5	0	2	20	17	0	0
Performance risks	960	23	431	15	0	65	181	233	13	0
Other loans	14 160	2 773	6 396	1 974	1 709	765	261	125	118	40
Bonds and shares	5 422	1 691	862	551	1 463	123	321	18	150	243
Interprofessional transactions (weighted)	8 163	6 233	712	416	435	102	122	25	47	73
MLT export finance	51	22	8	5	0	5	4	6	0	1
Short-term commercial transactions	1 008	21	88	346	10	450	33	51	2	8
Total	29 810	10 764	8 497	3 311	3 616	1 512	941	475	329	364
Breakdown by remaining tenor										
Not more than 1 year	13 818	7 103	2 246	2 177	1 081	504	365	106	157	78
More than 1 year	15 992	3 661	6 251	1 135	2 535	1 008	575	370	172	286
Total	29 810	10 764	8 497	3 311	3 616	1 512	941	475	329	364

Internal credit risk models and Basel II

In order to quantify credit risks, the group has developed various rating models over the past few years, both for the purpose of determining how creditworthy borrowers or counterparties are and to estimate the expected loss of various types of transactions. These models support credit risk management in such areas as pricing and the credit process (acceptance and monitoring). A number of models are uniform throughout the group (for instance, the models for governments, banks, large companies, project finance, etc.), while others have been designed for specific geographic markets (SMEs, private individuals, etc.). The same internal rating scale is used throughout the group.

Starting in 2007, these models will also form the building blocks for calculating the regulatory capital requirements for credit risk. KBC has in other words opted to use the Internal Rating Based (IRB) Approach. Initially, KBC will use the IRB 'Foundation' approach, but it may switch to the 'Advanced' approach later on. The switch to Basel II will take place in stages, with work being consolidated and spread over time.

The far-reaching introduction of rating models in the network has not only stimulated risk-awareness, it has also resulted in the models themselves being constantly tested against the market. Indeed, keeping the rating models up to date is just as important as developing them. Consequently, an appropriate framework for the governance of the life cycle of risk models has been created. A number of models have already been reviewed (which includes back-testing) based on the principles applying to this framework.

2006 will see the start of a 'parallel run' for KBC Bank and a number of its subsidiaries, implying that minimum capital requirements will be calculated according to both Basel I and Basel II standards. The latest impact study shows that minimum capital requirements according to the IRB Approach will be lower than those calculated according to the current approach.

Credit risk in the insurance business

Where the insurance business is concerned, credit risk exposure exists primarily in the investment portfolio (towards issuers of debt instruments) and towards reinsurance companies.

A number of guidelines have been established with regard to the investment portfolio for the purpose of controlling credit risk. There are standards, for instance, that stipulate what percentage of the portfolio has to be invested in securities issued by governments of OECD countries, or that require issuers to have a certain minimum rating, and so on. For a selection of these guidelines, please see the 'Asset/Liability Management' section below.

The credit risk in respect of (re)insurance companies is the potential loss KBC might incur if a (re)insurer defaults on its commitments under (re)insurance contracts concluded with KBC. The method used to measure this risk has now been defined, as has the way in which this risk is to be aggregated with other credit risks.

It should be noted that since 2004, the group risk total – an important yardstick used in the bank's credit acceptance process – has included the above credit exposure of the insurance business.

Asset/Liability Management

Description

Asset/Liability Management (ALM) is the process of managing KBC's structural exposure to macroeconomic risks. These risks include:

- interest rate risk
- equity risk
- real estate risk
- foreign exchange risk
- inflation risk
- credit risk (limited to the investment portfolios)
- liquidity risk.

'Structural exposure' encompasses all exposure inherent in the commercial activity of KBC or the long-term positions held by the group. Consequently, it covers all of the group's activities (banking and insurance), aside from its trading activities (which are characterised by a short holding period).

Structural exposure can also be described as a combination of:

- mismatches in the banking activities linked to the branch network's acquisition of working funds (demand accounts, savings accounts, savings certificates, etc.) and the use of those funds (via lending, among other things);
- mismatches in the insurance activities between obligations in the non-life and life businesses and the cover for these obligations present in the investment portfolios held for this purpose;
- the risks associated with holding an investment portfolio for the purpose of reinvesting shareholders' equity;
- the structural currency exposure stemming from the activities abroad (investments in foreign currency, results posted at branches or subsidiaries abroad, exchange risk linked to the currency mismatch between the insurer's obligations and its investments).

Managing ALM risk

The main purpose of ALM is to optimise the risk/return profile of the group, subject to the risk tolerance limits set by the Board of Directors. ALM risks are monitored by a Group Asset/Liability Management Committee (Group ALCO), which is responsible for establishing a group-wide framework for identifying, measuring, overseeing and steering ALM activities. A separate Bank ALCO and Insurance ALCO take strategic investment decisions for the banking and insurance businesses, respectively. At the subsidiaries, local ALCOs have been set up.

In the Value and Risk Management Directorate, a team has been assembled to provide support to the ALCOs and to develop ALM risk management; similar teams exist at the subsidiaries, as well. ALM risk management extends to modelling embedded value and performing related tasks concerning the life insurance business.

ALM strategy is effectively implemented locally by various front-office units. A new central investment function has also been set up recently to co-ordinate the tactical positions and the IFRS implications of the ALM strategies of these front-office units.

During the course of 2005, a new ALM framework for the KBC group was introduced. This framework, which builds on the strengths of the former, separate ALM frameworks for the banking and insurance businesses, provides for a uniform and consistent approach to ALM decision-making throughout the group. The main features of this framework are as follows:

- A focus on 'economic value' as the cornerstone for measuring ALM risk and returns.
- The introduction of a uniform ALM measurement methodology for banking and insurance activities, based on 'fair value models' that mathematically forecast the behaviour of the value of a product group under different market scenarios. In 2005, new models were introduced to define the ALM profile of non-life reserves, life reserves and demand accounts. For other banking products, the existing methodology, which is consistent with this new framework, will continue to be used.
- The extension of the use of a Value-at-Risk (VAR) measurement method for the various categories of risk throughout the group. This VAR measures the maximum loss that might be sustained over a one-year time horizon as a result of movements in interest rates and/or other fluctuations in market risk factors.
- An ALM VAR limit, set at group level, with authority being delegated to the Executive Committee to divide this overall limit up across KBC Bank, KBC Insurance, KBL EPB and KBC Asset Management; a separate sublimit has also been set for equity risk.

The VAR limit framework at group level is translated into more pragmatic risk limits at the level of the various group companies and the individual ALM positions.

ALM risk in 2005

Interest rate risk

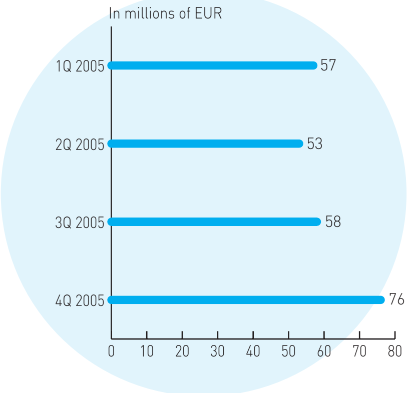
The bank's 'ALM interest rate positions' are managed via a system of market-oriented internal pricing for products with a fixed maturity date (dated products), and via a benchmarking system for products without a fixed maturity date (undated products; e.g., demand and savings accounts). For these last products, a benchmark maturity mix and a core amount are established in order to incorporate these products into the internal risk-measurement system. The bank manages, in a risk-neutral way, all the commercial production activity in products that are not covered by the benchmarking method through a book referred to as the 'hedging position'.
The bank may also hold interest rate positions with a view to acquiring interest income, both in the bond portfolio used for reinvesting equity and in a bond portfolio financed with short-term funds. The entire interest rate position in these different books is referred to as the 'transformation position'.

To measure interest rate risks, the bank uses two main techniques: Basis-Point-Value (BPV) and Value-at-Risk (VAR, see above). The BPV measures the extent to which the value of the portfolio would change if interest rates were to fall by ten basis points across the entire curve (positive figures indicate an increase in the value of the portfolio). In addition, such techniques as gap analysis, the duration approach and scenario analysis are used.

The transformation position is controlled by means of specific 'BPV limits'. These limits are set in such a way that interest rate positions combined with the other ALM positions remain within the overall VAR limits (see above).

The table shows how the bank's exposure to interest rate risk developed over the course of 2005. The figures relate to KBC Bank, CBC Banque, Centea, KBC Lease, KBC Deutschland, IIB Bank, ČSOB, K&H Bank, Kredyt Bank and KBL EPB. For most of 2005, the interest rate position was limited on account of the low interest rates that prevailed; in the fourth quarter of the year, the bank took a limited interest rate position again, taking advantage of the increase in long-term euro interest rates.

ALM: average BPV of the ALM book per quarter, KBC Bank and KBL EPB



BPV of the ALM book of KBC Bank and KBL EPB*

In millions of EUR	
Average, 1Q 2005	57
Average, 2Q 2005	53
Average, 3Q 2005	58
Average, 4Q 2005	76
31-12-2005	75
Maximum in 2005	82
Minimum in 2005	51

* See definition of scope in the text. The figures have been restated owing to the altered scope and methodology used.

In keeping with the Basel II guidelines, a 2% stress test was carried out, which sets off the total interest rate risk in the banking book (given a 2% parallel shift in interest rates) against capital and reserves. At the level of the KBC Bank group, this risk came to 9.3% at year-end 2005. Where this stress test indicates that capital and reserves would fall by more than 20%, the bank in question is considered an 'outlier bank' (which leads to a higher charge against capital).

The table shows the bank's interest sensitivity gap on the balance sheet date. In the table, the carrying value of assets and liabilities is broken down according to either the contractual repricing date or the maturity date, whichever is earlier, so as to obtain an indication of the length of time for which interest rates are fixed. The carrying value of derivative financial instruments, which are used mainly to reduce exposure to interest rate movements, is shown in the 'Non-interest-bearing' column. The scope is the same as for the previous table.

Interest sensitivity gap of the ALM book (including derivatives) of KBC Bank and KBL EPB[1] at year-end 2005

In millions of EUR	≤1 month	1-3 months	3-12 months	1-5 years	5-10 years	> 10 years	Non-interest-bearing	Total
Assets[2]	110 942	55 572	120 418	117 677	48 374	16 969	26 557	496 509
Liabilities[2]	120 989	63 858	117 070	110 542	41 619	13 495	28 936	496 509
Interest sensitivity gap	-10 047	-8 286	3 348	7 136	6 755	3 474	-2 379	0

1 See definition of scope in the text.
2 Including derivatives.

Where the insurance business is concerned, the fixed-income investments for the non-life reserves are invested with the aim of matching the projected pay-out patterns for claims, based on extensive actuarial analysis.
The non-linked life business (class 21) combines a guaranteed interest rate with a discretionary participation feature (DPF) that is decided on by the insurer. The main risks to which the insurer is exposed in this business are a low-interest-rate risk (the risk that return on investments will drop below the guaranteed level) and a risk that the investment return will not be sufficient to give customers a competitive profit-sharing rate. The risk of low interest rates is managed via a cashflow-matching policy, which is applied to that portion of the life insurance portfolios covered by fixed-income securities. For the single premium life savings products (which constitute the major part of the existing reserves and new production), the low-interest-rate risk is hedged using a combination of cashflow-matching and derivative strategies. The lapse risk is managed by a combination of derivative strategies that match the expected profit-sharing policies with a mixed investment portfolio of fixed-income investments and equities.

Breakdown of the reserves for class-21 life insurance by rate guarantee of KBC Insurance NV and Fidea at year-end 2005

In millions of EUR	KBC Insurance NV	Fidea
4.75%	2 140	325
3.75%	1 362	74
3.30%	525	0
3.25%	2 587	406
3.00%	629	38
2.50%	747	90
remainder	310	116

Unit-linked life insurance (class-23) investments are not dealt with here, since this activity does not entail any ALM risk.

The table summarises the exposure to interest rate risk in KBC's life insurance activities. The non-linked life insurance assets and liabilities relating to business offering guaranteed rates are grouped according to the expected timing of cashflows.

Expected cashflows (not discounted) in the life insurance business of KBC Insurance at year-end 2005

In millions of EUR	0-5 years	5-10 years	10-15 years	15-20 years	> 20 years	Total
Assets backing liabilities, guaranteed component	4 278	5 678	1 719	437	923	13 035
Liabilities, guaranteed component	3 360	4 973	1 393	1 392	2 406	13 524
Difference in expected cashflows	919	705	326	-956	-1 483	-489
Mean duration of assets						5.99 years
Mean duration of liabilities						8.69 years

Discretionary participation features are not included in this table because they are subject to an annual discretionary decision by the insurer. These features, however, tend to increase along with interest rates, reducing the overall effective modified duration of reserves with DPF.

The ALM risks of the Belgian insurance activities were kept strictly under control in 2005 by reducing the duration mismatch between investments and obligations and limiting equity positions, among other things. The ALM conducted by the Central European subsidiaries is also subject to centralised supervision. At ČSOB Pojišťovna (Czech Republic), for instance, in co-operation with the local ALM unit, a study was carried out of the ALM risks, which led to the drafting of a new duration policy.

Lastly, it should be mentioned that the overall group-wide interest rate and ALM position (both banking and insurance) is significantly reduced by the compensating effect between the 'natural' long position of the bank and the 'natural' short position of the insurance business. At 31 December 2005, the group's total interest rate position was reduced in this way by around 30%.

Equity risk

KBC's equity exposure is concentrated in the investment portfolios of KBC Insurance. Apart from this, smaller equity portfolios are also held by KBC Bank, KBL EPB, KBC Asset Management and KBC Private Equity, among others.
The equity risk is monitored using a VAR technique (99% one-sided confidence interval, one-year time horizon). As stated above, there is an overall limit on the total equity risk associated with the ALM activities of the group. The table gives an overview of the contribution of the various group entities to the overall equity VAR at year-end 2005.

Marginal contribution of the equity position to the VAR of the KBC group at year-end 2005

In millions of EUR	
KBC Bank	124
KBC Insurance	574
KBC Private Equity	105
Fidea	126
VITIS Life	16
Secura	25
Assurisk	36
KBL EPB	36
KBC Asset Management	17
Other	14
Total	1 073

Credit risk

Only the ALM portfolios of KBC Insurance represent a material credit risk exposure, which is monitored under the credit risk framework described above. A number of the guidelines governing credit risk are shown in the table.

A selection of investment guidelines for borrower risk in the fixed-income portfolio of KBC Insurance NV and Fidea

% listed	Minimum 90%	
% government bonds of OECD countries	Minimum 40%	(Current strategic mix: 80%)
% with A rating or higher	Minimum 95%	(Current strategic mix: 100%)
% with AA rating or higher	Minimum 75%	(Current strategic mix: 90%)
% subordinated bonds	Maximum 15% (and always with borrower rating of AA or higher)	
% corporate bonds	Maximum 20%	

The next table provides an overview of the investment portfolios of KBC Insurance (consolidated) at year-end 2005.

KBC Insurance investment portfolio

In millions of EUR	Carrying value		Market value	
Per balance sheet item	31-12-2004	31-12-2005	31-12-2004	31-12-2005
Securities	13 397	16 882	14 300	17 136
Bonds and other fixed-income securities	10 409	12 685	11 036	12 939
Held to maturity (HTM)	-	2 740	-	2 995
Available for sale (AFS)	-	8 833	-	8 833
At fair value through profit and loss (FIFV)	-	1 112	-	1 112
Shares and other variable-yield securities	2 988	4 197	3 264	4 197
Available for sale (AFS)	-	4 041	-	4 041
At fair value through profit and loss (FIFV)	-	156	-	156
Loans and advances to customers	140	131	140	131
Loans and advances to banks	193	557	193	557
Property and equipment and investment property	297	283	419	389
Investments in associated companies	102	3	193	4
Other	120	125	125	125
Liabilities under investment contracts, unit-linked	3 931	7 778	3 931	7 778
Total	18 180	25 759	19 300	26 120
Bond portfolio details				
By rating*				
AA- and higher			88.5%	82.2%
A- and higher			99.1%	99.0%
BBB- and higher			99.5%	100.0%
By sector*				
Governments			72.9%	70.5%
Financial			21.9%	23.4%
Other			5.2%	6.1%
Total			100.0%	100.0%
By currency*				
Euro			91.0%	90.6%
Other European currencies			8.9%	9.3%
US dollar			0.1%	0.1%
Total			100.0%	100.0%
By remaining tenor*				
Not more than 1 year			4.8%	5.1%
Between 1 and 3 years			13.9%	13.6%
Between 3 and 5 years			15.8%	14.4%
Between 5 and 10 years			45.0%	44.7%
More than 10 years			20.5%	22.1%
Total			100.0%	100.0%
Equity portfolio details				
By sector*				
Financial			28.5%	29.3%
Consumer non-cyclical			13.7%	14.2%
Communications			12.4%	13.4%
Energy			10.3%	7.7%
Industrial			10.1%	10.1%
Utilities			6.5%	6.2%
Consumer cyclical			6.4%	6.7%
Basic materials			5.6%	6.1%
Other			6.4%	6.4%
Total			100.0%	100.0%

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 figures.
* Excluding investments for unit-linked insurance. In certain cases, based on extrapolations or estimates.

Real estate risk

KBC Bank holds a limited real estate investment portfolio with a view to realising long-term gains. The bulk of the real estate portfolio, however, is held by KBC Insurance. It is a diversified portfolio held as an investment for both non-life reserves and long-term life activities. The real estate exposure is used as a hedge against inflation risks and as a way of optimising the risk/return profile of these portfolios.

Currency risk

KBC pursues a prudent policy in managing its structural currency exposure, essentially seeking to avoid currency risk. FX exposures in the ALM books of the banking and insurance activities are hedged within strict limits. Participating interests in foreign currency are in principle funded by borrowing an amount in the relevant currency equal to the value of the net assets.

Liquidity risk

Within the group, the bank is the main source of 'liquidity risk', or the risk that it might incur losses if it is no longer able to fund its ordinary activities at acceptable terms. Factors limiting that risk are KBC's stable and broad customer base and its widespread international reputation. Liquidity risk is managed on a structural basis by holding substantial portfolios of assets that can be converted into cash immediately and that is proportionate to, among other things, a conservative estimate of balances on demand and savings accounts that can be withdrawn on short notice. Lastly, long-term working funds are also attracted at regular intervals in order to assure the stability of the liquidity position.

There are a number of liquidity ratios and limits in place at various levels in the bank. Structural liquidity is monitored via a cover ratio for one-year to five-year time buckets (ratio of all liabilities to assets). Periodic reports are submitted to the Bank ALCO and, in the event of a limit-overrun, a penalty is imposed in the form of a liquidity premium. In addition, a limit is imposed on the volume of unused committed credit lines, since these lines could be drawn on at any time and could therefore have a significant impact on liquidity management.

The following table illustrates liquidity risk by grouping the assets and liabilities on the balance sheet date according to the remaining term to maturity (contractual maturity date). The difference between the assets and liabilities is referred to as the 'net liquidity gap'.

Net liquidity gap of KBC Bank and KBL EPB at year-end 2005

In millions of EUR	≤ 1 month	1-3 months	3-12 months	1-5 years	5-10 years	> 10 years	Not defined	Total
Assets*	98 044	25 163	32 168	53 836	29 167	29 938	36 271	304 587
Liabilities*	133 253	40 492	37 355	39 252	11 487	8 736	34 012	304 587
Net liquidity gap*	-35 209	-15 329	-5 188	14 583	17 680	21 203	2 260	0

* Excluding derivatives.

For the insurance activities, liquidity funding risk is managed by matching the maturity profile of the bond portfolios with the expected timing of payments. Strict limits are also observed as regards the percentage of bonds and shares that cannot be sold within one day with a minimum deviation in price.

Liability adequacy test, life insurance activities

KBC adheres to a policy that takes into account the possible negative consequences of a sustained decline in interest rates and has already built up sizeable supplementary reserves, primarily for those products that are most susceptible to interest rate risk.
For instance, in Belgium (which accounts for the bulk of the life insurance reserves), technical provisions for products with a guaranteed rate of interest of 4.75% are calculated at a rate of 4%. In addition, supplementary provisions have been accumulated under a 'flashing lights' system since 2000. This system requires KBC insurance companies to set aside extra provisions if the guaranteed interest rate on a contract exceeds the 'flashing light' threshold by more than 0.1% (this threshold is equal to 80% of the average interest rate over the past five years on ten-year government bonds).

The various group companies conduct 'liability adequacy tests' (LAT) that meet the relevant local and IFRS requirements. Calculations are made using prospective methods (cashflow projections that take account of lapse rates and a discount rate that is set for each insurance entity based on local macroeconomic conditions and regulations), and extra market value margins are built in to deal with the factor of uncertainty in a number of parameters. These analyses show that the life reserves are adequate, even when account is taken of the extra safety margin. The only deficiency detected was at ČSOB Pojišťovna, and a deficiency reserve was accordingly charged to earnings in 2004 and 2005 for the equivalent of 69 million euros (26 million euros of this amount was recorded in 2005).

Embedded value, life insurance activities

The value of the life insurance activities is expressed in the embedded value figures. This is the sum of the Adjusted Net Asset Value, or ANAV, of KBC Insurance and the present value of all future cashflows coming in from the existing portfolio (Value of Business in Force or VBI), account taken of the risk-based capital required for this activity. Any form of goodwill – or value of future business – is not taken into account.
A simulation tool is used to calculate the embedded value of the life insurance portfolio on an annual basis. In 2005, the scope of the calculations was expanded by modelling the conventional contracts of the life insurance business. The method used to calculate embedded value is also used intensively in the analysis of value added by new contracts (Value of New Business or VNB) and for the profit testing of products that are still in the development phase.

KBC aims to be able to provide more detailed embedded value information for year-end 2005 in the first half of 2006.

Market risk management

Description

Market (or trading) risk is the risk of loss due to market movements causing a drop in the value of the interest rate, currency, equity and credit market positions held by the bank's dealing rooms either at KBC Bank, KBL EPB or at the specialised subsidiaries KBC FP, KBC Securities and KBC Peel Hunt. The Market Risk Committee monitors market risks. The insurer's interest rate, currency and equity risks are all included in ALM exposure.

KBC Bank has a number of dealing rooms in Western and Central Europe, the US and the Far East, though the dealing room in Brussels accounts for the lion's share of limits and risks. The dealing rooms abroad focus primarily on providing customer service in money and capital market products, funding local bank activities and engaging in limited trading for own account in local niches. KBL EPB's dealing activities are concentrated in Luxembourg. All of the dealing rooms focus on trading in interest rate instruments; activity on the currency markets has traditionally been very limited.

In addition, through its specialised subsidiaries, the bank also engages in trading in equities and their derivatives, such as equity options and convertible bonds. Via KBC FP, the bank is also involved in credit derivatives trading, managing and providing services relating to hedge funds and launching and managing Collateralised Debt Obligations (CDOs) and other instruments.

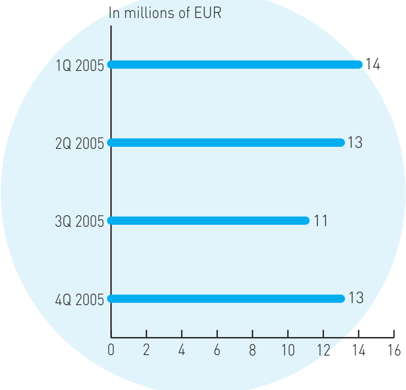
Managing market risk

To measure and monitor exposures in the trading book, the bank uses the VAR method. This method is designed to gauge the potential loss the bank may incur during a specific holding period, given a certain confidence interval. The bank uses the BIS (Bank for International Settlements) standards (ten-day holding period and 99% one-sided confidence interval, historical data going back at least 250 days) and historical simulation, a method that does not rely on assumptions regarding the distribution of price fluctuations or underlying correlations, but is based rather on experience patterns over the previous year.

To supplement the VAR method, the bank uses other instruments such as scenario analysis, BPV, concentration limits and stop-loss limits. Option positions are also tracked on the basis of one-dimensional risk benchmarks (the so-called 'Greeks') in order to measure risks inherent in such developments as price changes (*delta* and *gamma*), changes in volatility (*vega*), changes to dividends (*epsilon*), shifts in interest rates (*rho*) and the passing of time (*theta*).

Standard VAR estimates are also systematically supplemented by stress-testing. This involves testing the impact of extraordinary market scenarios on the market value of the positions held. Besides the hypothetical stress tests, position-dependent and historical stress tests are also performed. The results of this testing are reported to the Market Risk Committee at regular intervals.

Market risk:
average VAR per quarter, KBC Bank



Market risk exposure in 2005

The table shows the Value-at-Risk (99% confidence interval, ten-day holding period) for the bank's dealing rooms on the money and capital markets, based on historical simulation. Because of the lack of an historical series, KBC Securities, KBC Peel Hunt and KBL EPB have not been included in the table. At the end of 2005, the VAR of KBC Securities came to 1 million euros, of KBC Peel Hunt to 2 million euros and of KBL EPB to 19 million euros.

In 2005, the positions remained relatively limited, partly on account of the low level of volatility on the markets KBC has traditionally been active on. The equities markets on which KBC Securities, KBC Peel Hunt and KBC FP operate performed well, making the positions more pronounced. KBL EPB's trading positions have been calculated and reported in compliance with KBC's methodology since the fourth quarter of 2005.

The reliability of the historical simulation model which the bank uses to estimate potential loss is tested daily via a theoretical back-test, which compares the VAR figure with the 'no-action P&L' (i.e. the result calculated for a position that is the same as the previous day's). In 2005, there was only one exception (where the theoretical back-test produced a higher result than the VAR figure).

Market risk

In millions of EUR	KBC Bank	KBC Financial Products
	VAR	VAR
Average, 1Q 2005	14	*
Average, 2Q 2005	13	*
Average, 3Q 2005	11	*
Average, 4Q 2005	13	25
31-12-2005	10	18
Maximum in 2005	31	-
Minimum in 2005	7	-

* Up to and including the third quarter of the year, KBC FP's risk exposure was measured using the scenario analysis technique. The results are shown in the Quarterly Report 3Q 2005, page 19.

An overview of the derivative products is given in the 'Consolidated annual accounts' section, note 23.

Operational risk management

Description

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risks include legal risks.

The Group Operational Risk Committee (Group ORC) sets group-wide strategy and establishes standards for managing operational risks. It is chaired by the group CFRO. There are also seven Operational Risk Subcommittees (Credit, Payments, Asset Management, Business Continuity and Sustainability, Distribution Channels, Insurance, and Capital Markets Trading & Dealing).

The Value and Risk Management Directorate is responsible for designing a uniform process for the group-wide management of operational risks and for monitoring the implementation of that process throughout the group. It submits the various elements of its methodology to the Group ORC for approval and reports on progress made in various projects.

Ultimate responsibility for managing operational risks lies with line management, which receives support from local operational risk managers. The commitment of line management is encouraged not only by its having a presence on the various subcommittees, but also by the clear allocation of 'ownership' for specific problems, by the dialogue that exists with the internal audit function and by the joint development of the operational risk management method, among other things.

Losses resulting from operational risks are reported to the various Operational Risk Committees. Twice a year, a consolidated loss report is submitted to the Group ORC.

Managing operational risk

Two more building blocks were added to the method for managing operational risks in 2005: 'Group Standard Assessments' and 'Case Study Assessments'.
A group standard assessment is part of the process that entails benchmarking existing local practices and procedures to uniform standards that apply throughout the group. Where practices and procedures diverge from group standards, action plans have to be drawn up or a specific 'waiver' request has to be submitted for an alternative approach to be authorised.
A case study assessment is a way of testing the protection afforded by existing controls against major operational risks that have actually occurred in the financial sector.
These building blocks, along with the existing loss event database and the risk self-assessments, cover the entire (hypothetical) distribution curve of operational losses.

In 2005, group-wide standards were also used to create a uniform framework for business continuity management (BCM) within the group. These standards govern the requirements pertaining to BCM governance, the drafting of business continuity plans and disaster recovery procedures. Their implementation is monitored by a Group Business Continuity Committee. In addition, group-wide standards have also been defined for managing operational risks inherent in outsourcing services (internally or externally), protecting whistle-blowers, etc.

The group-wide method for managing operational risks is also being implemented in full at KBL EPB.

KBC will use the Standardised Approach to calculate regulatory capital for operational risks. Operational risk capital calculated for the purposes of the fifth Quantitative Impact Study (QIS 5) organised by the BIS comes to around 950 million euros. This methodology for managing operational risks does not preclude a switch to the Advanced Measurement Approach.

Management of technical insurance risks

Description

Technical insurance risks stem from uncertainty regarding how often insured losses will occur and how extensive they will be. This is relevant primarily for losses that will arise in the future in existing insurance portfolios. For losses that have already occurred, it is particularly the magnitude and timing of future claims payments that are uncertain. Account also has to be taken of uncertainty in respect of loss events that have already occurred in the past but have not yet been reported.
All these risks are kept under control, thanks to appropriate acceptance, tariffication, claims reserve, reinsurance and claims control policies.

Managing technical insurance risk

Insurance risk management, too, is founded on the principle that primary responsibility for risk control lies with line management, and that the entities responsible for value and risk management should operate independently of line management.

Acceptance and tariffication

KBC Insurance defines its acceptance and tariffication policy based on market data and its own technical analyses. It decides what risk and market combinations it is prepared to do business in and at what price it is prepared to accept the relevant risks, and draws up an adequate reinsurance policy.

KBC Insurance has its acceptance and tariffication policy double-checked. A certifying actuary in the independent Value and Risk Management Directorate uses technical analyses and models to determine whether the company is able to maintain underwriting equilibrium. In addition, the internal Audit Division of KBC Insurance ensures that acceptance and pricing are in compliance with all the relevant guidelines.

Non-life business. To price a specific risk properly, KBC Insurance needs to have all the relevant information, and this is where the agent and the bank branch have an important role to play. To support its intermediaries, KBC Insurance makes a variety of instruments available, such as a knowledge database that can be consulted online and an electronic offer system, which requires the risk to be described before an offer can be generated. For most standard risks, proposals are drawn up by the salespeople. The application will check whether a proposed risk meets the relevant acceptance criteria. If so, it will calculate the premium and draw up the contract. If the risk does not meet the conditions set, the relevant information will be sent to the policy departments of KBC Insurance for appropriate acceptance and pricing. Non-standard risks must also be processed via the policy departments of KBC Insurance for acceptance.

The technical profitability of the insurance portfolio is monitored on a continuous basis. KBC uses a business-economic model to evaluate the profitability of its insurance activities on an annual basis. Moreover, an analysis carried out per point of sale enables KBC to pinpoint distribution outlets whose technical results might be improved upon. Product officers also keep track of the profitability of the products for which they are responsible, and may suggest changes.

Medical acceptance in the life business. Where death, sickness and disability risks are concerned, the prior medical screening of the insured is necessary to preclude 'anti-selection', among other things. Exceptionally, risks may be refused as a result of the acceptance process, but higher risks are generally 'normalised' by charging a higher premium or taking measures to curtail risk. Higher risks are assessed on the basis of statistical information obtained primarily from international studies conducted by reinsurers.

Technical provisions

As part of its mission to independently monitor insurance risks, the Value and Risk Management Directorate regularly carries out in-depth studies. They confirm that there is a high degree of probability that the technical reserves are adequate.

Non-life business. To determine how extensive the technical provisions should be, systematic and individualised loss assessment is carried out on a case-by-case basis. An automated monitoring and reporting system ensures that claims managers are advised automatically at certain intervals of the need to update provisions for all their claims files.

Life business. KBC conducts a policy that takes into account the possible negative consequences of a sustained decline in interest rates and has already built up sizeable supplementary reserves. See the Asset-Liability Management section, under 'Liability adequacy test, life insurance activities'.

Ageing reserves. These reserves are set aside for health insurance products contracted without risk premiums (premiums that change with the age of the insured). To determine how extensive these reserves should be, account is taken of the increase in risk as the insured ages.

Reinsurance. Provisions for outstanding inward reinsurance contracts are estimated on a case-by-case basis. The provisions for claims for the current year are estimated on the basis of the expected technical results. The provisions for claims of earlier years are based on the estimates of the companies having the risk reinsured. If KBC expects a negative claim development in a contract due to the nature of the risk, such as liability insurance, additional reserves are set aside for such claims, even if they have not yet been reported.

Reinsurance

The insurance portfolios are protected against the impact of serious claims by means of reinsurance. Reinsurance is taken out in close collaboration with Secura, KBC's reinsurance subsidiary, which acts primarily as a consultant.
These reinsurance programmes are divided up into three main groups: property insurance, liability insurance and personal insurance, which are re-evaluated and renegotiated every year. Most of the reinsurance contracts are concluded on a non-proportional basis, which provides cover against the impact of serious claims or loss events. Where necessary, the general or 'treaty' reinsurance programme is supplemented by facultative contracts, i.e. reinsurance contracts for individual risks.

Claims control and anti-fraud measures

In Belgium, claims are handled quickly and efficiently via either the 'KBC Call Center 24+' or insurance agents, using the direct claims-settlement procedure. Other claims are handled in the area offices, which appoint loss adjusters if necessary. Serious accidents or accidents for which specific know-how is required are handled by the Central Claim Settlement Department.

The activities of the internal loss adjusters and external advisers are monitored via a system that not only checks turnaround times and costs, but the quality of the work performed, as well. The work done by approved garages is also supervised closely. In addition, a good deal of attention is paid to assisting new loss adjusters, who are assigned an in-house claims co-ordinator as their personal coach.

All the internal claims departments and loss adjusters are provided with a list of 'flashing lights' for detecting possible cases of fraud. Any indications of possible fraud turned up by this means are looked into by specialists who may call on the Anti-Fraud Unit for assistance. This unit also conducts an active anti-fraud policy. Additionally, the company has introduced the requisite procedures for disbursements in the life business in compliance with anti-money-laundering legislation.

KBC also has a system in place for the continuous random checking of claims files. This serves as a tool to adjust and monitor the claims-handling process. Depending on what the checks turn up, changes may be made to the claims-handling process or other corrective measures taken, such as the introduction of appropriate training programmes for in-house staff. The Audit, Control and Compliance Department oversees the random checking and the proper handling of claims.

Central Europe

For the Central European subsidiaries, the same principles apply as for KBC Insurance in Belgium with regard to pricing and acceptance, provisioning, taking out reinsurance for large claims, and combating fraud. Adherence to these principles will be facilitated by phasing in independent monitoring of these subsidiaries' insurance risks.

Loss triangles

Claims-settlement data for the non-life business for the past few years is shown in the table, which provides totals for the following group companies: KBC Insurance, Fidea, ČSOB Pojišťovna, K&H General Insurance, Secura, Assurisk (from financial year 2005) and WARTA (from financial year 2004). These companies together account for nearly 99% of the total provisions for claims to be paid at the close of the most recent financial year. The claims-settlement figures incorporate all amounts that can be allocated to individual claims, including the Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) provisions, and the external handling expenses for settling claims, but do not include internal claims-settlement expenses and provisions for amounts expected to be recovered. The figures included are before reinsurance and have not been adjusted to eliminate intercompany amounts. The first row in the table shows the total claims burden (claims paid plus provisions) for the claims that occurred during a particular year, as estimated at the end of the year of occurrence. The following rows indicate the situation at the end of the subsequent calendar years. The amounts were restated to reflect exchange rates at year-end 2005.

Loss triangles, KBC Insurance

In millions of EUR	Year of occurrence 2001	Year of occurrence 2002	Year of occurrence 2003	Year of occurrence 2004[1]	Year of occurrence 2005[2]
Estimate at the end of the year of occurrence	805	912	769	1 082	1 112
1 year later	749	998	793	981	
2 years later	699	814	760		
3 years later	720	807			
4 years later	714				
Current estimate	714	807	760	981	1 112
Cumulative payments	-501	-572	-478	-605	-387
Current provisions	213	235	282	376	725

1 From the 2004 financial year, WARTA's figures have been included. If this company were not taken into account, the following amounts would have been arrived at for financial year 2004 (amount and year of occurrence): 685 for 2001; 762 for 2002; and 685 for 2003.
2 From the 2005 financial year, Assurisk's figures have been included. If these figures were not taken into account, the following amounts would have been arrived at for financial year 2005 (amount and year of occurrence): 707 for 2001; 799 for 2002; 759 for 2003; and 955 for 2004.

Solvency

Description

Solvency risk is the risk that the capital base of the group, the bank or the insurer might fall below an acceptable level. In practice, this entails checking solvency against the minimum and/or in-house solvency ratios.

Managing solvency

Group solvency. In compliance with EU legislation, financial conglomerates are required to submit their own solvency calculations to their regulator (this is supplementary to the separate supervisory requirements for the bank and the insurer individually). Consequently, KBC calculates a solvency ratio and a core capital ratio at group level. The numerator in this equation is based on the adjusted equity figure (under IFRS). To calculate core capital, for instance, the equity figure used is net of, among other things, intangible fixed assets and the AFS reserve; on the other hand, hybrid capital elements are added (up to 15%). The denominator (the solvency requirement) is the sum of the separate solvency requirements for the various segments (bank, insurer, etc.). Recalculated equity must amount to at least 100% of the solvency requirement; the core capital elements must make up at least 50%.

Solvency in the banking business (KBC Bank and KBL EPB, combined). KBC reports its solvency calculated according to IFRS data and the relevant guidelines issued by the Belgian supervisory authority. For prudential reasons, the calculation is also still made according to local accounting standards. Where the tier-1 ratio is concerned, KBC has an internal target of 8% (for KBC Bank and KBL EPB, combined).

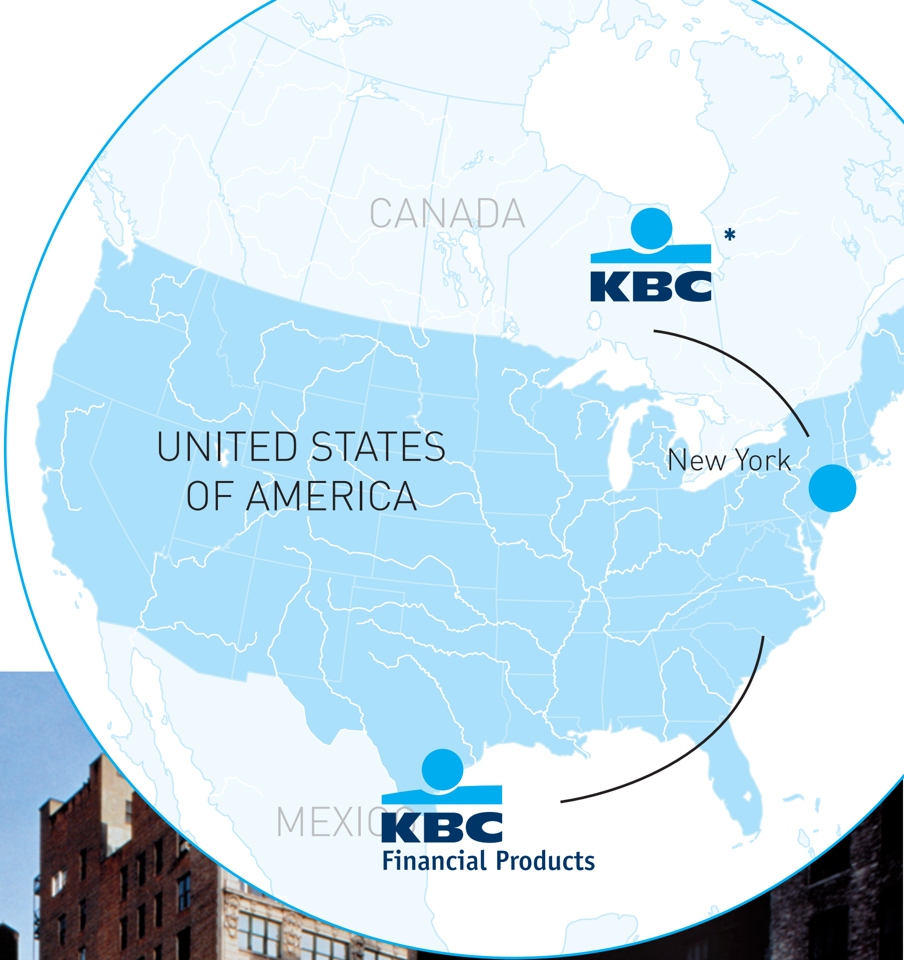
Solvency in the insurance business. The insurer's solvency, just as the bank's, is checked regularly to see whether it meets statutory and in-house targets and is reported to the supervisory authority. KBC's calculations are based on both B-GAAP (for prudential reasons) and IFRS. The in-house target for the solvency ratio is 200% (i.e. twice the statutory minimum).

Solvency in 2005

The main ratios are summarised in the table below. A detailed breakdown of and changes in the solvency ratios can be found in the 'Consolidated annual accounts' section, notes 43 and 44.

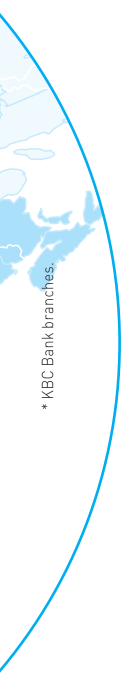
Solvency ratios (based on IFRS figures)

	Minimum	**In-house target**	**Actual figure 31-12-2005**
Tier-1 ratio, KBC Bank and KBL EPB	4%	8%	9.4%
Solvency ratio, KBC Insurance	100%	200%	385%



6th Avenue Flea Market, New York, United States

Katherine Mc Carthy, KBC New York, United States: 'For a Belgian bank operating in the US, it can be really important to find the right niche. In my job, for instance, I am involved in financing health care organisations, such as nursing homes and retirement communities. This type of lending often requires blending several disciplines, including real estate, project finance, and municipal bonds.'



Sustainable and socially responsible business and human resources

Background

Integrity and sustainable business practices are increasingly being regarded as essential to the way in which companies do business. Legislation is also in place to ensure that companies – not least those in the financial sector – pursue ethical business policies.

KBC's approach to community and social issues is reflected in the various commitments and guidelines that are encompassed in:

- its mission statement;
- the corporate anti-racism charter, *Ondernemers tegen racisme*;
- the *Code of Conduct for the KBC Group*;
- *KBC's Principles for Socially Responsible Business*;
- *KBC's Environmental Policy Statement*;
- the *West Flanders Environmental Charter*;
- its involvement in *BELSIF (Belgian Sustainable and Socially Responsible Investment Forum)*;
- its endorsement of the international *Transparency Guidelines for the Retail SRI Fund Sector* drawn up by the European Social Investment Forum (EUROSIF);
- its endorsement of the *Equator Principles*;
- its inclusion in the FTSE4Good Index.

Described below are some of the most important initiatives KBC took in the field of ethics, environmental conservation and community involvement in 2005.

Business ethics

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.

Since it was founded – and as expressed in its mission statement – KBC has introduced various guidelines and codes of conduct to foster sustainable and socially responsible business within the group. The most important is the *Code of Conduct for the KBC Group*, which comprises a uniform set of rules for all KBC employees regarding their professional conduct towards their employer, customers and suppliers, colleagues, society, competitors and the media.
There are also specific rules in place governing conduct in certain areas or specialised activities, such as the codes of conduct for using means of communication, or for staff employed in the dealing room, asset management or departments handling medical

information. Various rules and codes of conduct also apply to lending and address a number of concerns including the environment and the arms trade. For instance, KBC does not in principle grant loans to or invest in the weapons industry. This means that KBC will not invest in or grant loans to manufacturers of weapons prohibited by 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 over the past fifty years.

Maintaining the confidentiality of information and protecting privacy is also an ongoing concern. For instance, there is a Financial Ethics unit that checks compliance with policies in this area, there are specific guidelines on combating corruption and fraud, there are training courses for bank staff in order to prevent the laundering of funds from criminal activity, and specific restrictions are in place limiting trading in securities by staff who have access to price-sensitive information.

KBC offers an extensive range of sustainable funds in Belgium and is also the first financial institution in this country to establish its very own *Sustainable and Socially Responsible Research* department to screen countries and large companies in the euro zone for the purposes of its sustainable and socially responsible investment policy. Its findings are discussed with an external advisory board comprised of academics and other experts from a number of universities. KBL European Private Bankers (KBL EPB) also manages a number of sustainable funds at *inter alia* Theodoor Gilissen Bankiers – a subsidiary operating in the Netherlands – and Banco Urquijo in Spain, where an ethics committee selects social programmes to benefit from the return on two ethical funds managed by that bank.

Environmental stewardship

Despite the fact that a financial services group clearly has less of a direct impact on the environment than, for example, an industrial concern, KBC is still aware that a service-providing company can also reduce pressure on the environment by making rational use of natural resources. KBC's practices in this regard are summarised in its *Environmental Policy Statement* (see the KBC website at www.kbc.com/sustainability).

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

- The signing of the *West Flanders Environmental Charter* in 2005 – for the second year in a row – 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.
- The continuing 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 website, training courses and other services.
- The continuous attention paid to waste management. For instance, KBC Bank in Belgium inventoried, analysed and optimised the collection of the various types of waste produced. Moreover, efforts were made to process waste as usefully as possible by recycling it or by incinerating it and producing energy as a by-product. KBC has set up similar projects in Central Europe, such as the one in ČSOB's branch network in the Czech Republic to separate paper and plastic waste collection. KBL EPB is also working on implementing a waste management policy.

- The introduction of a sustainability clause in procurement contracts with third-party suppliers and in real estate contract work to ensure that environmentally-friendly products are used. In fact, all group companies are aware of the need for implementing environmentally responsible building practices. For instance, when ČSOB was building its new head office in Prague, sustainability principles were observed, as care was taken to integrate the building into the landscape, to ensure that a pleasant 'green' working environment was created and that appropriate building materials and technology were used. Another example can be cited at KBL EPB, whose biggest challenge was not to erect a new building, but to renovate offices built in the 1970s and 1980s. These are gradually being renovated according to current ecological standards, with account being taken of their architecture.

A selection of the environmental efficiency data for the buildings in Belgium is provided in the table.

Environmental efficiency data for KBC in Belgium (partial)*

		2004		2005
	Absolute	**Per FTE**	**Absolute**	**Per FTE**
Energy consumption (electricity, gas, heating oil, in GJ)	730 060	50.6	678 699	46.0
Paper consumption (number of sheets of white paper)	123 million	8 547	120 million	8 137
CO2 production, energy consumption (in tonnes)	50 001	3.47	46 035	3.12

* Relates to most of the buildings in Belgium (accounting for roughly 14 500 FTEs). Paper consumption relates to paper for printers and copiers. Some figures are estimates.

Personnel and in-house social policy

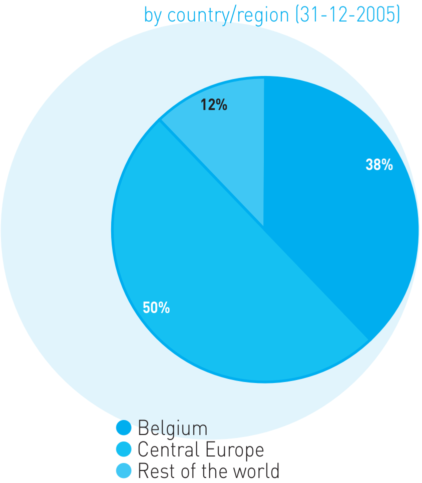
Employee satisfaction

For a financial services group like KBC, employee motivation, dynamism and satisfaction are the driving force behind much of its success. To measure levels of satisfaction, KBC has – since the end of 2002 – regularly surveyed half of its employees in Belgium on a number of set themes and topical matters. The results of these surveys enable KBC to take selective measures and have also revealed that employee satisfaction is improving.

Similar employee satisfaction surveys are also carried out in other group companies. For example, the findings of the survey performed at ČSOB led to the launch of the *Blue effect* programme, which aims to sharpen vision in the area of human resources and to enhance both group culture and individual performance.

KBC's primary aim is to be a fair employer by pursuing a personnel policy that meets needs as they arise and that takes account of social developments. In this regard, KBC has launched a number of pilot projects in Belgium over the past few years to help employees strike a balance between their professional and personal lives, such as *Plaats- en Tijdsonafhankelijk Werken* (teleworking, working in local offices, sharing workstations, etc.) and the provision of childcare during the summer holidays. In addition, through continual assessment and by modifying its pay policy, where necessary, KBC seeks to increase its staff's potential for development and to pay them a fair salary.

Breakdown of workforce by country/region (31-12-2005)



Equal treatment and anti-discrimination

In its staff regulations, its selection and promotion policy, and performance appraisal systems, KBC does not make any distinction whatsoever on the grounds of sex, religion, ethnic background or sexual orientation, etc. It keeps a close eye on the percentage of women it employs, an area in which progress has been made over the past few years, as illustrated by the fact that women now account for roughly 50% of all university-level appointments.

Moreover, KBC endorses 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 in order to help prevent and combat the social exclusion of migrants and to promote their economic and social integration. It has also signed up to the anti-racism charter, *Ondernemers tegen racisme en voor diversiteit*, which – as already stated – means that all forms of discrimination are prohibited during the recruitment and promotion processes at all of its entities worldwide.

Social dialogue

KBC again worked very closely with the trade unions in 2005, holding monthly talks with the works council and its committee, and consulting with the health and safety committees and union representatives. Representatives from KBC's establishments in Central Europe also participated in the European Works Council for the first time.

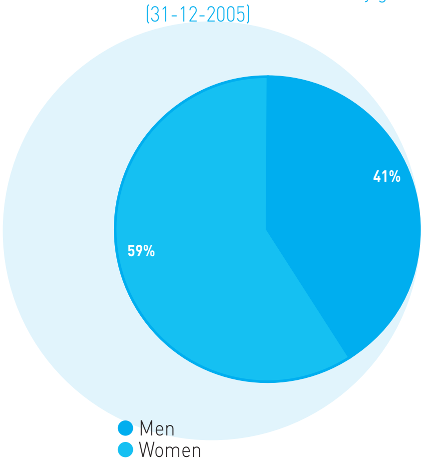
On 12 July 2005, the Belgian bank sector's 2004 Collective Labour Agreement (CLA) on *Employment* was extended into 2006, which meant that – among other things – the ceiling for the 'time credit' scheme would be set until the end of 2006. Even though no consensus could be reached on an agreement in the banking and insurance sector, KBC still acted on its own initiative and made a number of concessions to its employees. For instance, as of 1 January 2006, there will be a system in place for co-financing hospitalisation insurance for members of staff, with KBC paying its employees' share of the premium until the end of 2007.

In addition, KBC is making a substantial investment in providing a supplementary pension scheme, along with disability and death cover for its employees. At the end of 2005, KBC Bank, KBC Group NV (the holding company) and KBC Asset Management concluded a CLA to improve the supplementary pension scheme for employees and to make the pension formula more transparent. It also contained a number of measures for improving disability and death cover. A similar agreement was reached at KBC Insurance – Fidea, which makes it easier to move from one job to another within the KBC group, without this adversely affecting supplementary pension benefits.

Developing talent and managing knowledge

KBC's vision on training is based on the fundamental belief that appropriate remuneration should be paid to talented individuals and that opportunities should be provided for their further development. Consequently, it makes an extensive and differentiated range of opportunities available, encompassing various types of training (conventional, individual study, e-learning, learning on the job, etc.) across the entire banking and insurance spectrum. Developmental needs and possibilities are also an important element in the feedback and job performance interviews with line managers.

Breakdown of workforce by gender (31-12-2005)



In 2005, the focus was on training new employees. Specific training courses were developed specially for them, such as the *KBC Master's programme*, which covers every aspect of the KBC group and is aimed at all recently appointed employees holding a university degree. As was previously the case, a good deal of attention was again paid to the training of certain target groups in 2005 (via the dealers school, the IT school, training programmes for new bank branch or agency staff, special courses on non-life and life insurance and for relationship managers, etc.).

Moreover, the growing internationalisation of the KBC group led to an increase in language courses in 2005 (primarily English). It was also decided – after the relevant approach was fleshed out in Belgium – to extend and develop talent management at international level. In this regard, a start was made on identifying high flyers in Central Europe and having them take part in group-wide management programmes.

Staffing levels

Changes in the KBC group's workforce are shown in the first table. The second table provides a more detailed breakdown of the group's workforce according to various criteria (sex, full- or part-time employment, etc.).

Number of staff, KBC group

In FTE's	31-12-2004	31-12-2005
Breakdown by activity		
Banking	36 016	35 781
Insurance	7 739	7 727
Asset management	315	328
European private banking	3 705	3 771
Holding-company activities, including Gevaert	2 781	2 872
Total	50 556	50 479
Breakdown by country/region		
Belgium	19 033	19 179
Central Europe	25 583	25 271
Rest of the world	5 939	6 029
Total	50 556	50 479

* KBC Bank, KBC Insurance, KBC Asset Management, KBL EPB, Gevaert and KBC Group NV (the holding company), including the principal subsidiaries in which they have a majority participation on 31 December 2005. Figures for the asset management companies in Central Europe are included in the figures for the banking business. The figures do not include the distribution network of the insurance companies.

Breakdown of KBC group workforce

	% of total
Senior management	2%
Junior and middle management	31%
White- and blue-collar staff	67%
Men	41%
Women	59%
Full-time (100%)	82%
Part-time 80%–100%	8%
Part-time < 80%	11%
Total	100%
Total, in FTEs	50 479

* Extrapolation carried out on the basis of roughly 80% of the workforce.

Community involvement

As regards cultural sponsorship, KBC is a keen supporter of low-threshold projects. For example, it provided support in 2005 to Belgium's top exhibition, *Mechelen 2005, City in Female Hands*, and to the *Gouden Vleugels* project for young musical talent. Through various group companies, KBL EPB also sponsored a number of cultural events in 2005, including the production of Shakespeare's *Julius Caesar* in the Grand Théâtre de Luxembourg and in three other European cities, the Africa exhibition by sculptor Manuel Alvarez in Barcelona, the special *Surrealist Picasso* exhibition organised by the Fondation Beyeler in Basel, and the exhibition on the work of the impressionist Edouard Manet in Munich.

KBC is a structural partner in a number of solidarity campaigns in Belgium, such as *Kom op tegen Kanker* (the anti-cancer campaign) and *Levenslijn* (a charity). In other countries, too, various campaigns are sponsored. For example, K&H Bank is heavily involved in child welfare projects through the *K&H Magic Cure programme*, which collects funds for children's hospitals in Hungary, while Kredyt Bank and WARTA support the *Postcard to Santa Claus* campaign, which provides presents to children in Polish orphanages.

The social role played by KBC in the community is also reflected in the range of products and services it offers. In Belgium, for instance, older customers and customers with a serious handicap are not charged for their electronic payments. The various PC-training courses organised for senior customers in recent years have turned out to be so popular that they were organised again in 2005. Via its subsidiary ČSOB, KBC offers special products and services to disabled customers, non-profit organisations, etc. in the Czech Republic, too. ČSOB also supports the non-governmental organisation *Life 90*, which runs a number of schemes, including an internet for senior citizens project.

KBC Insurance's involvement in the community is illustrated by *inter alia* its environmental policy, a motor insurance policy that features affordable rates for young people and a lifelong guarantee for seniors who have a good track record as prudent drivers. Similarly, the numerous accident-prevention campaigns that KBC has set up in the past (for example, in relation to fire prevention and road safety) bear witness to the importance KBC continuously attaches to its social responsibility.

Maximilian Fountain, Hlavné námestie, Slovakia

Andrea Chuda, ČSOB Poist'ovňa, Slovakia: 'To me, the most positive result of last year was the increase in new life insurance production, thanks to the expanding network of tied agents, as well as the rising volume of bancassurance. Despite the keen competition, we were successful in keeping our portfolio of car insurance clients.'

Corporate governance

Introduction

The new guidelines on corporate governance for listed companies, as set out in the Belgian Code on Corporate Governance (referred to below as the 'Code'), came into effect in Belgium on 1 January 2005.
The Code seeks to ensure transparency in corporate governance by having every listed company disclose information in two separate documents: the Corporate Governance Charter (the 'Charter'), which has to be published as from 1 January 2006, and the Corporate Governance chapter (the 'Chapter'), which has to be included in the annual report from 2006 on.

The Charter sets out the main aspects of a company's corporate governance, such as its governance structure, the internal regulations of the board of directors, its committees, and the executive committee, together with other important topics. KBC Group NV published its Charter on 1 January 2006 on its website: www.kbc.com.

The Chapter in the annual report contains more factual information regarding the company's corporate governance, including any changes to it and any relevant events that took place during the year under review. In the event, it also provides reasons for any non-compliance with the Code. All points that must be disclosed under the Code are covered below; more comprehensive information is published in the Charter itself.

For the sake of clarity, this Chapter focuses primarily on details pertinent to KBC Group NV since its creation through the merger of Almanij NV and the KBC Bank and Insurance Holding Company NV on 2 March 2005. The period concerned therefore covers the ten months from 2 March up to 31 December 2005.

Composition of the Board of Directors, its committees and the Executive Committee

The table shows the members of the Board of Directors, its committees and the Executive Committee on 31 December 2005. It also indicates the number of meetings attended by the members of the Board of Directors and its committees. In 2005 (after 2 March), the Board met eleven times, the Audit Committee five times, the Nomination Committee once, the Remuneration Committee three times and the Agenda Committee ten times.

Name	Primary responsibility	End, current term of office	Board meetings attended	Non-executive directors	Core shareholders' representatives	Independent directors3	Executive Committee	Audit Committee, meetings attended	Nomination Committee, meetings attended	Remuneration Committee, meetings attended	Agenda Committee, meetings attended
Jan Huyghebaert	Chairman of the Board of Directors	2008	11	●					1*	3	10*
Philippe Vlerick	Deputy Chairman of the Board of Directors CEO and Managing Director, UCO Textiles NV and BIC Carpets NV	2009	8	●	●				1		
Willy Duron	President of the Executive Committee	2010	11				●*		1		10
André Bergen	Managing Director	2007	10				●				10
Etienne Verwilghen	Managing Director	2009	8				●				9
Paul Borghgraef	Director of various companies	2009	11	●	●						
Paul Bostoen	Managing Director, Christeyns NV and Algimo NV	2009	11	●	●						
Luc Debaillie	Chairman and Managing Director, Voeders Debaillie NV	2009	11	●	●						
Jo Cornu	Director, Alcatel NV	2008	10	●		●			1	3*	
Noël Devisch	Chairman, MRBB CVBA	2009	11	●	●				1		
Frank Donck	Managing Director, 3D NV	2007	11	●	●						
Rik Donckels	Managing Director, Cera Beheersmaatschappij NV and Almancora Beheersmaatschappij NV, President of the Executive Committee, Cera CVBA	2010	11	●	●				1		
Jean-Marie Géradin	Lawyer and Director, Cera Beheersmaatschappij NV and Almancora Beheersmaatschappij NV	2009	10	●	●						
Dirk Heremans	Professor at the Faculty of Economics and Applied Economics, Katholieke Universiteit Leuven (KUL)	2009	10	●		●		4			
Herwig Langohr	Professor of Finance and Banking, INSEAD	2007	11	●		●		5			
Christian Leysen	CEO, Ahlers Group	2009	10	●	●						
Xavier Liénart	Director of various companies and Director of Cera Beheersmaatschappij NV	2010	11	●	●						
Philippe Naert	Dean, Tias Business School at Tilburg University and the Technical University, Eindhoven	2009	11	●		●		5		3	
Luc Philips	Director	2009	11	●				5*	1		10
Theodoros Roussis	CEO, Ravago Plastics NV	2008	10	●	●			5			
Hendrik Soete	Managing Director, Aveve NV	2009	9	●	●						
Alain Tytgadt	Managing Director, Metalunion CVBA	2009	11	●	●						
Guido Van Roey	Member of management, InBev NV and Chairman of the Board of Directors, Cera Beheersmaatschappij NV	2009	11	●	●						
Germain Vantieghem	Managing Director, Cera Beheersmaatschappij NV and Almancora Beheersmaatschappij NV	2010	11	●	●			4			
Jozef Van Waeyenberge	Director, De Eik NV	2009	11	●	●						
Marc Wittemans	Secretary-General, MRBB CVBA	2010	11	●	●			5			

* Chairman of the committee.
Auditor: Ernst & Young, Bedrijfsrevisoren BCV, represented by Danielle Vermaelen and/or Jean-Pierre Romont; Secretary to the Board of Directors: Tom Debacker.

The members of the Board of Directors

After the creation of KBC Group NV on 2 March 2005 through the merger by acquisition ('Merger') of Almanij NV by the KBC Bank and Insurance Holding Company NV, the members of the Board of Directors were as follows:

Jan Huyghebaert, 60, Chairman

Jan Huyghebaert obtained a degree in philosophy, language and literature from the University of Antwerp (UFSIA) and a doctorate in law from the Katholieke Universiteit Leuven (KUL). He is a former attaché to the office of the minister for Scientific Policy Programmes, Theo Lefèvre, a former adviser to the Cabinet of Prime Minister Leo Tindemans, and former alderman of the Port of Antwerp. From 1985 to 1991, he served as President of the Executive Committee of Kredietbank, and from 1991 until the Merger, he was Chairman of the Board of Directors and of the Management Committee of Almanij. In 1996, he was appointed President of Kredietbank SA Luxembourgeoise (KBL) and Deputy Chairman of the Board of Directors of the KBC Bank and Insurance Holding Company and KBC Bank, and Director of KBC Insurance. Following the Merger, he became Chairman of the Board of Directors of KBC Group NV and KBC Bank, and Deputy Chairman of the Board of Directors of KBC Insurance.

Philippe Vlerick, 50, Deputy Chairman

Philippe Vlerick obtained a bachelor's degree in philosophy and a licentiate in law from the Katholieke Universiteit Leuven (KUL). He also obtained a management degree from the Vlerick Leuven Gent Management School in Ghent and an MBA from Indiana University in Bloomington (US). He currently serves as President and Managing Director of UCO Textiles and BIC Carpets, CEO of Febeltex, and Vice-Chairman of Voka – Flanders' Chamber of Commerce and Industry. He was appointed Director of Almanij in 1991, became a member of its Management Committee in 1997 and Deputy Chairman of its Board of Directors in 2001. In 2005, he was appointed Deputy Chairman of KBL's Board of Directors.

Willy Duron, 60, Managing Director

Willy Duron has a degree in mathematics from Ghent University (RUG) and a degree in actuarial sciences from the Katholieke Universiteit Leuven (KUL). He started his career in 1970 as an actuary for Assurantie Belgische Boerenbond (ABB). In 2000, he was appointed President of the Executive Committee of KBC Insurance and Director of KBC Asset Management. In 2003, he was appointed President of the Executive Committee of the KBC Bank and Insurance Holding Company.

André Bergen, 55, Managing Director

André Bergen obtained a doctorate in economics from the Katholieke Universiteit Leuven (KUL). He is a former member of the Executive Committee of Generale Bank (subsequently Fortis Bank), and was Vice-President of Agfa-Gevaert. In 2003, he was appointed President of the Executive Committee of KBC Bank and Vice-President of the Executive Committee of the KBC Bank and Insurance Holding Company.

Etienne Verwilghen, 58, Managing Director

Etienne Verwilghen has a degree in civil engineering from the Université Catholique de Louvain (UCL) and an MBA from the University of Chicago. In 1987, he became a member of the Executive Committee of KBL. In 1993, he became Managing Director and in 1996 was allocated responsibility for asset management and for the international expansion of the KBL group in Europe. In 2002, he became President of the Executive Committee of KBL.

Paul Borghgraef, 51, Director

Paul Borghgraef obtained his degree in accounting and fiscal studies and his post-graduate degree in computer science and social legislation from the Economische Hogeschool in Antwerp. He was formerly Managing Director of Krefima and Concentra, and Director of KBL. He is Chairman of the Board of Directors of Retail Estates. He was appointed Director of Almanij in 2000 and became a member of its Management Committee in 2001.

Paul Bostoen, 66, Director

On completing his high school education, Paul Bostoen immediately embarked on a career in business. He is Managing Director of Christeyns and Algimo. He was appointed Director of Almanij in 1996.

Luc Debaillie, 65, Director

Luc Debaillie is the Chairman and Managing Director of Voeders Debaillie, and Chairman of the Board of Directors of De Vervoersverzekeringen. He was appointed Director of Almanij in 1976.

Jo Cornu, 60, Independent Director

Jo Cornu has a degree in electronic and mechanical engineering from the Katholieke Universiteit Leuven (KUL), and a Master's and PhD in engineering from Carleton University in Ottawa. He is Chairman of the Board of Directors of Alcatel Bell and Director of Alcatel SA. He is also Chairman of the Information Society Technologies Advisory Group of the European Commission. He was appointed Independent Director of the KBC Bank and Insurance Holding Company in 1998.

Noël Devisch, 62, Director

Noël Devisch has a degree in agricultural engineering from the Katholieke Universiteit Leuven (KUL), a Master of Science in agricultural management from the University of Reading (UK), and a PhD in agricultural economics from the University of Missouri-Columbia, Missouri (US). He is Chairman of the Boerenbond (Belgian Farmers' Union), and of SBB Dienstengroep and MRBB. He was appointed Director of Almanij in 1998 and became a member of its Management Committee in 2004. He is also Director of KBC Insurance.

Frank Donck, 40, Director

Frank Donck has a degree in law from Ghent University (RUG) and a Master of Finance from the Vlerick Leuven Gent Management School in Ghent. He is Chairman of the Board of Directors of Telenet and Zenitel. He is also Managing Director of 3D and Ibervest. In 2003, he was appointed Director of the KBC Bank and Insurance Holding Company.

Rik Donckels, 64, Director

Rik Donckels has a degree in mathematics, a teaching degree, and a master's degree in economic sciences from the Katholieke Universiteit Leuven (KUL). He is also special emeritus at the Katholieke Universiteit Brussel (KUB). He is Managing Director of Cera Beheersmaatschappij and Almancora Beheersmaatschappij and also President of the Management Committee of Cera. In 1998, he was appointed Director of Almanij and became a member of its Management Committee, as well as being appointed Director of the KBC Bank and Insurance Holding Company, KBC Bank, KBC Insurance and KBL.

Jean-Marie Géradin, 54, Director

Jean-Marie Géradin obtained an undergraduate degree in law from the Faculté Notre Dame de la Paix in Namur, and a licentiate in law from the Université Catholique de Louvain (UCL). He is a lawyer and Board member of Cera Beheersmaatschappij and Almancora Beheersmaatschappij. He was appointed Director of Almanij in 1998.

Dirk Heremans, 62, Independent Director

Dirk Heremans obtained a doctorate in law, as well as a licentiate in notarial law and in economic sciences at the Katholieke Universiteit Leuven (KUL). He obtained a diploma in economic sciences from the Faculté de Droit et des Sciences Economiques at the Université de Paris, and an MA, Cphil. and PhD in economics at the University of California. He is a full professor at the Faculty of Economics and Applied Economics, Katholieke Universiteit Leuven (KUL). He was appointed Independent Director of Almanij in 2002.

Herwig Langohr, 61, Independent Director

Herwig Langohr obtained a licentiate in law from the Katholieke Universiteit Leuven (KUL). He has a DBA and an MBA from Indiana University (USA) and an MBA from the Vlerick Leuven Gent Management School. He is a full professor of Finance and Banking at INSEAD, held the Leo Goldschmidt Chair of Corporate Governance at the Solvay Business School and has been visiting professor at Wharton School, Darden School and the Universität Konstanz. He was a Visiting Scholar at the Board of Governors of the Federal Reserve System. He was also Dean of the MBA programme at INSEAD. In 1998, he was appointed Independent Director of the KBC Bank and Insurance Holding Company.

Christian Leysen, 51, Director

Christian Leysen holds a commercial engineering degree and a licentiate in law from the Vrije Universiteit Brussel (VUB). He is CEO of the Ahlers Group and AXE Investments. Mr Leysen is also President of the Management School of the University of Antwerp (UAMS). He was appointed Director of Almanij in 1998.

Xavier Liénart, 48, Director

Xavier Liénart obtained a degree in commercial engineering from the Katholieke Universiteit Leuven (KUL), and holds a Marketing diploma from the Vlerick Leuven Gent Management School in Ghent. He is Director of various companies, including Cera Beheersmaatschappij. In 1998, he was appointed Director of Almanij and the KBC Bank and Insurance Holding Company, and subsequently became a member of Almanij's Audit Committee.

Philippe Naert, 62, Independent Director

Philippe Naert has a degree in civil electrotechnical engineering from the Katholieke Universiteit Leuven (KUL). He obtained a post-graduate diploma in management science at the University of Manchester (UK) and a PhD in business administration at Cornell University (USA). He also holds an honorary doctorate from the Helsinki School of Economics (Finland), and is Dean of the Tias Business School of Tilburg University and the Technical University, Eindhoven. Philippe Naert is Independent Director of Barco. He was appointed Independent Director of Almanij in 2001.

Luc Philips, 54, Director

Luc Philips has a degree in commercial and financial sciences from the Hoger Instituut voor Bestuurs- en Handelswetenschappen (HIBH) in Brussels. In 1997, he was appointed to the Board of Directors and the Executive Committee of Kredietbank. From 1998 to 2003, he was Managing Director of the KBC Bank and Insurance Holding Company and KBC Bank. He was appointed Managing Director of Almanij in 2003. In the same year, he was also appointed Director of the KBC Bank and Insurance Holding Company, KBC Bank, KBC Insurance and KBL, and became Chairman of the Audit Committee of the first three of these companies. After the Merger, Luc Philips remained Chairman of the Audit Committees of KBC Group NV and KBC Bank, joined the Audit Committee of KBC Insurance, and became Chairman of the Board of Directors of KBC Insurance and Deputy Chairman of the Board of Directors of KBC Bank.

Theodoros Roussis, 51, Director

Theodoros Roussis obtained a degree in biology (majoring in biochemistry) from the University of Athens and a master's degree in food-biochemistry from the University of Seville (Spain). He is Managing Director of Ravago Plastics. He was Director of Almanij from 1994 to 1997, when he was appointed Director of the KBC Bank and Insurance Holding Company.

Hendrik Soete, 55, Director

Hendrik Soete is an agricultural engineer, and obtained his doctorate in agricultural sciences from the Katholieke Universiteit Leuven (KUL). From 1999 to 2001, he was Deputy Director-General of the Aveve group in Leuven. In 2001, he was appointed Director-General of the Aveve group, and has been Managing Director of that group since 2005.

Alain Tytgadt, 49, Director

Alain Tytgadt has a degree in art history and archaeology (majoring in musicology) from Ghent University (RUG), and an MBA from Indiana University in Bloomington (USA). He is CEO of Cobeton, and Managing Director of Metalunion. He is also Director of various other companies. He was appointed Director of Almanij in 1986 and became a member of its Management Committee in 1994.

Guido Van Roey, 49, Director

Guido Van Roey graduated in chemical and agricultural engineering from the Katholieke Universiteit Leuven (KUL), and followed the postgraduate business management programme at the University of Antwerp (UFSIA). He is an executive officer of InBev, and Chairman of the Board of Directors of Cera Beheersmaatschappij. He was appointed Director of Almanij in 1998.

Germain Vantieghem, 60, Director

Germain Vantieghem has a bachelor's degree in philosophy from the Gregoriana in Rome, and obtained a doctorate in law from the Katholieke Universiteit Leuven (KUL). He is also a graduate in fiscal sciences from the Fiscal College of Higher Education (Fiscale Hogeschool) in Brussels. He was a managing partner at Arthur Andersen from 1994 to 2001. Mr Vantieghem is Managing Director of Cera Beheersmaatschappij and Almancora Beheersmaatschappij and also a member of the Management Committee of Cera. He was appointed Director of the KBC Bank and Insurance Holding Company, KBC Bank and KBC Insurance in 2002. In 2004, he was appointed Director of Almanij and became a member of its Management Committee. He is also Chairman of the Audit Committee of KBC Insurance, and member of the Audit Committees of KBC Group NV and KBC Bank.

Jozef Van Waeyenberge, 60, Director

On completing his high school education, Jozef Van Waeyenberge immediately embarked on a career in business. He is Director of various companies, including De Eik. He is also director of a number of professional organisations and cultural associations. He was appointed Director of Almanij in 1995.

Marc Wittemans, 48, Director

Marc Wittemans obtained a degree in applied economic sciences from the Katholieke Universiteit Leuven (KUL), and is a graduate in fiscal sciences from the Fiscal College of Higher Education (Fiscale Hogeschool) in Brussels. He also has a degree in actuarial sciences from the Institute of Actuarial Sciences at the Katholieke Universiteit Leuven (KUL). Mr Wittemans is Director of the Central Controlling Department of the Boerenbond group, General Secretary of MRBB and a professor at the VLEKHO Business School in Brussels. He was appointed Director of the KBC Bank and Insurance Holding Company in 1998, of KBC Bank in 2001 and is also a member of their Audit Committees.

Meetings of the Board of Directors and its committees

Board of Directors

Since the creation of KBC Group NV, the Board has met eleven times. The meetings were always attended by virtually all members. Besides carrying out the activities required under the Companies Code, monitoring the monthly performance of the group companies, reviewing the quarterly results and the activities of the Audit, Nomination and Remuneration Committees, the Board also dealt with the following matters in 2005:

- the group's strategy and organisational structure
- the establishment of the valuation rules
- the ALM limits
- the adoption of the Corporate Governance Charter
- the possible acquisitions
- the reports on the various areas of activity and/or group companies
- the repurchase of own shares
- the approval of the 2006 budget and the 2007-2008 annual plan.

The Executive Committee reported on a monthly basis on the trend in the results and the general course of business at KBC Bank, KBC Insurance, KBL and KBC Asset Management. In addition, considerable attention was also devoted at the Board meeting to the activities and results of the various subsidiaries of KBC Bank, KBC Insurance and KBL. The Board was informed whenever major developments occurred at those companies.

Audit Committee

The Audit Committee met five times in the presence of the President of the Executive Committee and the internal auditor. Four meetings were also attended by the statutory auditors.

Two fixed agenda items were the reports from the internal auditor and the Value and Risk Management Directorate (WRB). The internal auditor's report provided an overview of recent audit reports, including the most important audit reports on Central Europe. The Committee also took cognisance of the implementation of the 2004 audit and inspection plans, and approved the 2005 audit plan. The Audit Committee was also informed of progress made with regard to the programme aimed at streamlining the workings of all the group's audit departments. The periodic reports from WRB primarily covered developments regarding the ALM and market risks of the KBC group, but also covered developments in the area of risk management methodology (the development of operational risk management, credit risk management, QCR methodology). The revised ALM and market risk limits were presented to the Audit Committee for its recommendation before being submitted to the Board of Directors for decision.

In mid-March, the Audit Committee reviewed the consolidated and non-consolidated annual accounts for the year ended 31 December 2004, and approved the press release. The Board of Auditors explained their key audit findings. During the Audit Committee meetings of 6 June, 31 August and 23 November, the auditors explained their key findings following their limited review of the accounts as at 31 March, 30 June and 30 September, respectively. The Audit Committee also approved the respective press releases. The half-year accounts as per 30 June were discussed at the meeting on 31 August.

During the course of the year, the Audit Committee also reviewed several special reports:

- inspection reports and new CBFA circulars
- CDO structures in the KBC group
- assignments carried out by Ernst & Young with regard to KBC Financial Products
- results of the investigation into the workings of the audit committees
- the CRO's annual report.

The senior managers responsible were regularly invited to provide explanations on specific subjects under discussion.

Nomination Committee

Since the creation of KBC Group NV, the Nomination Committee has met once, for the purpose of appointing the members of the Executive Committee within the framework of the new organisational structure approved by the Board in December. At the same time, the Nomination Committee took cognisance of the appointment of those persons reporting directly to the Executive Committee. The Committee also discussed for the first time how to ensure continuity within the Executive Committee.

Remuneration Committee

During the course of 2005, the Remuneration Committee met three times with a view to, among other things, drawing up a proposal regarding the remuneration of members of the Board of Directors of KBC Group NV and its operating companies. In addition, the Committee examined the remuneration package of the Executive Committee members of KBC Group NV, KBC Bank and KBC Insurance, as well as of the Chairman of the Board and Luc Philips, in view of the considerable amount of time spent on and his responsibility for the ongoing monitoring of the business of the KBC group. A proposal was also submitted to the Board regarding the application of the contractual provisions on the departure of Emiel Celis as a member of the Executive Committee of KBC Insurance.

Agenda Committee

Since the creation of KBC Group NV in March 2005, the Agenda Committee has met ten times, on each occasion prior to a meeting of the Board of Directors in order to set the relevant agenda. It also decided how the various topics would be presented to the Board, and what documentation would be made available to the Board. Furthermore, it ensured that the questions raised by the Board were adequately answered at the following meeting. It prepared a list of topics to be covered in the upcoming periods for the continuous education of the Board of Directors and its members on financial and technical subjects.

Policy regarding transactions between the company and its directors, not covered by the statutory regulations governing conflicts of interest

The Board of Directors of KBC Group NV drew up regulations governing transactions and other contractual ties between the company (including its associated companies) and its directors, not covered by the conflict of interest rule set out in Articles 523 or 524ter of the Companies Code. These regulations have been incorporated into the Corporate Governance Charter of KBC Group NV. No such conflicts of interest arose in KBC Group NV during the course of 2005.

Measures regarding insider dealing and market manipulation

In accordance with Directive 2003/6/EC on insider dealing and market manipulation (market abuse), and following publication of the Royal Decree of 24 August 2005 to amend, with respect to the provisions regarding market manipulation, 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 Charter of KBC Group NV. The dealing code will enter into effect on publication of the implementing Royal Decree.

Remuneration

Remuneration granted by KBC Group NV to its non-executive directors.

KBC Group NV was created on 2 March 2005 through the merger by acquisition of Almanij NV by the KBC Bank and Insurance Holding Company NV. The first financial year of KBC Group thus covers just ten months and should be considered a transitional year.

The remuneration or profit share awarded by KBC Group NV to its directors at the Annual Meeting of 28 April 2005, is a fixed remuneration that is deducted from the net profit for the financial year concerned.
This remuneration thus related to the offices that the directors had performed in Almanij NV and/or the KBC Bank and Insurance Holding Company NV in financial year 2004, prior to the Merger. This is also the case for the remuneration paid around this date by subsidiaries of KBC Group NV to some of its directors for offices held in those subsidiaries. Consequently, this remuneration paid by KBC Group NV in 2005 is not relevant as regards the disclosure required under the Corporate Governance Code in this annual report on the 2005 financial year. Indeed, this remuneration relates to duties performed by the directors on behalf of other companies, more specifically Almanij NV and/or KBC Bank and Insurance Holding Company NV and its subsidiaries. The first remuneration or profit share for services performed on behalf of KBC Group NV will therefore relate to its first financial year, 2005, and will only be paid out at its 2006 Annual General Meeting.

For these reasons, it was not considered relevant to provide a comprehensive table of the individual amounts paid to directors in 2005. Nonetheless, by way of illustration, the individual remuneration paid out in 2005 for offices held in Almanij NV and/or the KBC Bank and Insurance Holding Company is shown in the following table.

The table also shows the amount paid in attendance fees in 2005. These fees are for the first two months of 2005 (Almanij NV prior to the merger) and/or the period from May 2004 through February 2005 (KBC Bank and Insurance Holding Company NV prior to the merger). The attendance fees for the ten months of the first financial year of KBC Group NV will be paid in 2006.

The aggregated individual remuneration that KBC Group NV will pay to its directors in future will be of the same order of magnitude.

Gross remuneration of non-executive directors (in EUR)

Name	remuneration	attendance fees
Paul Borghgraef	74 368	1 244
Paul Bostoen	74 368	944
Jo Cornu	74 368	3 718
Luc Debaillie	74 368	944
Noël Devisch	74 368	1 244
Frank Donck	74 368	4 462
Rik Donckels[1]	148 736	4 962
Jean-Marie Géradin	74 368	944
Dirk Heremans	74 368	944
Jan Huyghebaert[1,2]	74 368	4 462
Herwig Langohr	74 368	4 462
Christian Leysen	74 368	944
Xavier Liénart[1]	148 736	4 662
Philippe Naert	74 368	944
Luc Philips[1,3]	148 736	4 462
Theodoros Roussis	74 368	4 090
Hendrik Soete	0	744
Alain Tytgadt	74 368	1 244
Guido Van Roey	74 368	944
Jozef Van Waeyenberge	74 368	944
Germain Vantieghem[1]	148 736	4 962
Philippe Vlerick	74 368	872
Marc Wittemans	74 368	4 462

1 Director of both Almanij NV and KBC Bank and Insurance Holding Company NV in 2004
2 This remuneration relates to the office held at the KBC Bank and Insurance Holding Company. Total remuneration received by Jan Huyghebaert as Chairman of the Board of KBC group is 868 254 euros per annum.
3 This remuneration is part of the total remuneration package received by Luc Philips in his previous capacity as Managing Director of Almanij NV and is equivalent to that of an executive director of KBC Bank.

Remuneration and other benefits which were granted, directly or indirectly, by KBC Group NV and by other entities belonging to the KBC group, to members of the Executive Committee of KBC Group NV.

KBC Group NV was created on 2 March 2005 through the merger by acquisition of Almanij NV by the KBC Bank and Insurance Holding Company NV. Its first financial year, 2005, thus exceptionally covers just ten months and should therefore be considered a transitional year. As the various companies concerned had to be integrated rapidly during that financial year and the early months of 2006, a limited, provisional executive committee comprising three members was established. These persons each kept their previous legal status, which was more or less equivalent. For this reason, the separate disclosure of the remuneration of the CEO of this limited executive committee in 2005 is not relevant.

The following total remuneration was paid in 2005 by KBC Group NV and its direct and indirect subsidiaries to the three members of the Executive Committee of KBC Group NV, namely Willy Duron, André Bergen and Etienne Verwilghen.

Base salary

In 2005, the three members of the Executive Committee received a combined, fixed salary of 1 591 143 euros.

Variable emolument

In 2005, the three members of the Executive Committee received a combined variable emolument amounting to 1 353 528 euros, which related to the results for the 2004 financial year.

Other components of remuneration

In financing the supplementary pension for the members of the Executive Committee, account is taken of the pension benefits to which they may already have been entitled as an employee of a KBC group company, as well as of their age at the time of their appointment to the Executive Committee. As a result, the group insurance premiums paid are fundamentally different. In 2005, premiums totalling 879 826 euros were paid.
The retirement pension amounts to about 30% of the total earnings ceiling.
For the rest, members of the Executive Committee enjoy the same supplementary benefits as other employees of the KBC group (hospitalisation insurance, assistance insurance, etc.). Members of the Executive Committee are also entitled to use a company car, which is not solely for the use of the Executive Committee members themselves, however.

Remuneration granted to members of the Executive Committee who are also members of the Board of Directors.

All members of the Executive Committee are members of the Board of Directors, in which capacity they receive no remuneration.

The number and main characteristics of the shares, share options, or any other rights to acquire shares, which were allocated during the year to members of the Executive Committee

For the same reason as given above, the Board of Directors is of the opinion that the individual disclosure of the share options allocated to the CEO and members of the Executive Committee during 2005 is not relevant.
In 2005, a total of 19 000 options, at an exercise price of 65.21 euros, were allocated to members of the Executive Committee. These options can be exercised from June 2009 to July 2012. They originate from the stock option programme already agreed by the Board of Directors of the KBC Bank and Insurance Holding Company NV in 2002. This decision by the Board allows the allocation of share options on existing KBC shares up to 2012. The KBC stock option plans resulting from the 2002 Board of Directors' decision, therefore no longer need to be approved by the General Meeting of Shareholders.

Principal contractual stipulations regarding appointments and departures agreed with executive officers

The remuneration of members of the Executive Committee comprises a fixed monthly sum and an annual profit bonus. An earnings ceiling exists for the total individual remuneration (including income from offices performed at the behest of the KBC group). They receive no attendance fees and no fixed remuneration as members of the Board of Directors.
Members of the Executive Committee also have the benefit of a supplementary retirement pension and, if the insured dies, a supplementary survivor's pension. If an individual's office as a member of the Executive Committee is terminated otherwise than through retirement, remuneration will be paid equal to four times the fixed annual remuneration, save upon resignation or dismissal for serious misconduct.

Shareholdings

Shareholdings, 31 December 2005

	Members of the Executive Committee	Non-executive directors	Complete Board of Directors
KBC shares	10 689	25 697 251	25 707 940
2008 MCBs	-	1 252	1 252
Options on KBC shares	37 100	19 700	56 800

Comments

- *Provision 5.2./1. of the Belgian Code on Corporate Governance (the Code) stipulates that the Board of Directors should set up an audit committee composed exclusively of non-executive directors. At least a majority of its members should be independent.*

The Audit Committee of KBC Group NV is composed of seven non-executive directors, three of whom are independent. When selecting the members of the Audit Committee, as is also the case with the Board of Directors and the Nomination Committee, account is taken of the specific shareholder structure of KBC Group NV and, in particular, of the presence of Cera, Almancora and MRBB and the other core shareholders. In this way, a balance is maintained that is beneficial to the stability and continuity of the group.

- *Provision 5.3./1. of the Code stipulates that the Board of Directors should set up a nomination committee composed of a majority of independent non-executive directors.*

The Nomination Committee of KBC Group NV is composed of six non-executive directors, of whom one is independent, and of one executive director. When selecting the members of the Nomination Committee, as is also the case with the Board of Directors and the Audit Committee, account is taken of the specific shareholder structure of KBC Group NV and, in particular, of the presence of Cera, Almancora and MRBB and the other core shareholders. In this way, a balance is maintained that is beneficial to the stability and continuity of the group.

- *Provision 5.2./9. of the Code stipulates that the audit committee should review the specific arrangements made, by which staff of the company may, in confidence, raise concerns about possible improprieties in financial reporting or other matters. If deemed necessary, arrangements should be made for proportionate and independent investigation of such matters, for appropriate follow-up action and arrangements, whereby staff can inform the chairman of the audit committee directly.*

The draft text drawn up by KBC Group NV regarding the standards the group should apply pertaining to the protection of so-called 'whistleblowers' is currently being examined and will be applied as quickly as possible.

Conflicts of interest that fall within the scope of Article 523 or 524 of the Companies Code

(The following is an unofficial translation, provided solely by way of information, of the original Dutch minutes of the relevant meetings).

On 6 June 2005, deliberations were conducted on the Almanij option plans. The deliberations took place in conformity with Article 523 of the Companies Code.

Extract from the minutes:

'The meeting was asked to:
- ratify the decision taken on 18 May 2005 by Messrs Guido Poffé and Tom Debacker regarding Almanij's 2000 and 2003 stock option plans;.
- delegate authority to (i) take decisions that, under the regulations governing Almanij's 2000 and 2003 stock option plans, may or must be taken, and (ii) make changes to the regulations governing Almanij's 2000 and 2003 stock option plans, and to the terms thereof.

The meeting took note of the announcement by the Chairman that he had a conflicting interest under property law with regard to these decisions.
The Chairman announced that his conflicting interest under property law was due to the fact that he had participated in the Almanij stock option plans of 2000 and 2003. He deemed, nevertheless, that Almanij's 2000 and 2003 stock option plans were in the interests of the company and of the entire KBC group, since they will enhance the commitment of the employees and the Chairman of the KBC group, as well as their involvement in the affairs of the KBC group.
The Chairman likewise declared that he had informed the statutory auditor of the company of his interest.
The Chairman asked the secretary to record his declaration and reasons for it in the minutes of this meeting of the Board of Directors.
The Chairman left the meeting during the deliberations and the vote on the resolutions relating to Almanij's 2000 and 2003 stock option plans. The Deputy Chairman, Mr Philippe Vlerick, took over as acting chairman for this agenda item.
The Board of Directors then ratified the decision of 18 May 2005 of Messrs Tom Debacker and Guido Poffé regarding Almanij's 2000 and 2003 stock option plans. Changes thus made to these plans are purely technical in nature and are due to the fact that the plans – because of the merger between Almanij NV and the company – were not automatically assimilated to the stock option plans of the company.

Consequent on the merger of Almanij NV and the company on 2 March 2005, all of the powers granted to the Board of Directors of Almanij NV under the regulations governing Almanij's 2000 and 2003 stock option plans accrue to the Board of Directors of the company.
The Board of Directors consequently granted authority to its *ad hoc* committee, with the possibility of further delegation, to:
- take all decisions that may or must be taken under the regulations governing Almanij's 2000 and 2003 stock option plans by the Board of Directors or by an *ad hoc* committee constituted by the Board of Directors; and
- amend the regulations governing Almanij's 2000 and 2003 stock option plans and the terms thereof, provided such amendments in no way detract from the main principles of the Almanij stock option plans as laid down by Almanij NV's Board of Directors on 7 June 2000.

This delegation of authority does not detract from the powers of the Board of Directors to take the above-mentioned decisions itself, although in that case it must inform the *ad hoc* committee thereof immediately.
The Board of Directors is of the opinion that Almanij's 2000 and 2003 stock option plans are in the interest of the company, since they will enhance the motivation and commitment of the employees and the Chairman of the company. Moreover, account taken of the company's shareholders' equity and of the limited scale of Almanij's 2000 and 2003 stock option plans, the involvement on the part of the Chairman in those stock option plans will have only a negligible impact on the financial position of the company. The minimal impact on the company's financial position resulting from the allotment of stock options to the Chairman stems from the fact that the company has bought back or will buy back a number of its own shares corresponding to the number of options allotted to the Chairman, without being able to rule out the risk of incurring a loss on the shares thus repurchased if the options are not exercised by the Chairman.'

On 24 November 2005, deliberations were held on the transfer of Assurisk shares to KBC Insurance. The deliberations took place in conformity with Article 524 of the Companies Code.

Extract from the minutes:

'The Board of Directors took cognisance of the recommendation issued by the *Comité van Onafhankelijke Bestuurders* (Committee of Independent Directors), assisted by Maître Marieke Wyckaert, independent expert, on 22 November 2005, following the decision by the Board of Directors on 30 June 2005 and in conformity with Article 524 of the Companies Code. This recommendation concerned the proposed transfer of Assurisk SA shares by KBC Bank NV, CBC Banque SA and Centrinvest NV to KBC Insurance NV. This transfer is linked to a broader examination of a restructuring of the captive insurance companies in Luxembourg.
After discussing this recommendation and after deliberations:

- the Board recommended to KBC Bank NV, CBC Banque SA and Centrinvest NV that, within the framework of the current restructuring of the captive companies of the KBC group, the shares of Assurisk SA should be transferred to the insurance arm of the business (with KBC Insurance NV at its head);
- the Board authorised KBC Insurance NV to purchase the Assurisk shares at a price determined using the customary ANAV valuation based on the figures as at 30 September 2005, namely 603 445 euros per share;
- the Board decided that similar transactions regarding the captive companies of the KBC group are, in principle, acceptable, provided that a marginal evaluation *a priori* by the Committee of Independent Directors of KBC Group NV leads to the conclusion that the circumstances are comparable to the transaction regarding Assurisk SA shares and that these transactions are (*a posteriori*) notified to the Board;
- the Board, based on the analysis and observations included in the recommendation of the Committee of Independent Directors, authorises KBC Group NV's Committee of Independent Directors to investigate *a priori* all future transactions between KBC Group NV associated companies that, according to the letter of the law, fall within the scope of Article 524 of the Companies Code, but are – at the consolidated level – neutral (under property law), and to decide whether it is necessary to repeat the procedure described in Article 524. If the Committee is of the opinion that this is not the case, a simple (*a posteriori*) notification of the transaction concerned to the Board of Directors will suffice.

The statutory auditor shall issue an opinion as to the reliability of the information furnished in the recommendation of the Committee of Independent Directors, and do so under point 7 of the minutes. This opinion shall be attached, together with the aforementioned recommendation in appendix 5, to the original of these minutes. Finally, the Board confirmed that the procedure prescribed in paragraphs 2 and 3 of Article 524 of the Companies Code had been respected.'

Decision by the Committee of Independent Directors:

'1. The Committee of Independent Directors of KBC Group NV, comprising Jo Cornu, Dirk Heremans and Philippe Naert, assisted by Maître Wyckaert, independent legal expert, remunerated by KBC Group NV, after due deliberation, issued the following recommendation to the Board of Directors of KBC Group NV:
The Committee has investigated the proposed sale of Assurisk SA shares by KBC Bank NV and its subsidiaries CBC Banque SA and Centrinvest NV to KBC Insurance NV based on the criteria laid down in Article 524 of the Companies Code. In its investigation, the Committee took into account the probable future intra-group repositioning of the remaining captive companies under KBC Insurance NV.
2. The Committee came to the following conclusions:

- It is currently being examined within the KBC group whether all captive companies should be grouped together under the insurance arm of the KBC group, i.e. KBC Insurance NV (or one of its subsidiaries). The first such transfer would entail all Assurisk SA shares being transferred to KBC Insurance NV (after which KBC Insurance NV will place one share with one of its subsidiaries) at a yet-to-be determined price per share based on an ANAV calculation using the figures of 30 September 2005, namely 603 445 euros per share. The correct nature and sequence of the future planned transactions regarding the shares of the other captive companies, together with the valuation methods to be used, have not yet been established.
- Both the transaction involving the Assurisk shares and any future transactions with the other captives will probably result in the application of Article 524 of the Companies Code.
- The applicability of Article 524 of the Companies Code is however atypical, and probably the consequence of an oversight in the law to exclude from the scope of Article 524, in keeping with the intention of the legislator, transactions between subsidiaries of listed companies which are not subsidiaries of each other.
- Now that the transaction at the consolidated level has no (financial) impact, it is not necessary to carry out an extensive study of the valuation of the captive companies, it being sufficient to establish that the valuation of Assurisk SA was made in accordance with the ANAV method as per 30 September 2005. For future transactions, it will similarly suffice to use this (or an equivalent) valuation method.

- For management purposes, the transfer of the captive companies (Assurisk SA and possible future transfers) to the insurance arm of the KBC group (i.e. to KBC Insurance NV or one of its subsidiaries) has the obvious advantage that the management of these companies will be grouped logically under KBC Insurance NV, and the know-how centralised.
- The investigation also confirmed that the transfer of Assurisk shares posed no fiscal problems.
- Although, on the business-economic front, the consequences of the transfer of the remaining captive companies to KBC Insurance NV (or one of its subsidiaries) are still being examined, no significant problems are anticipated here either.
- Neither are any objections expected from the regulator in Luxembourg.

3. The Committee is therefore of the opinion that the transfer of Assurisk shares, in view of the operational advantage for KBC Group NV and its shareholders, and the consequences under property law of this for KBC Group NV, does not put KBC Group NV and its shareholders at a disadvantage, let alone constitute a clearly wrongful (*kennelijk onrechtmatig*) act in the sense of Article 524 of the Companies Code.
The Committee is also of the opinion that the planned future restructuring of the remaining captive companies of the KBC group, by bringing them all directly or indirectly under KBC Insurance NV, in view of the operational advantage for KBC Group NV and its shareholders, and also of the consequences under property law of this for KBC Group NV, insofar as this restructuring is implemented within the guidelines described above, does not put KBC Group NV and its shareholders at a disadvantage, either. This fundamental framework decision is subject to a marginal evaluation *a priori* by the Committee to determine whether the guidelines laid down have been complied with.
The Committee thus advised in favour of the proposed transactions.
4. The Committee was also of the opinion, in view of the above analysis and especially of the conclusion that, due to an oversight in the law, the procedure laid down in Article 524 of the Companies Code is also wrongly applicable to relations between associated companies of a listed parent company, where one associated company, however, is not a subsidiary of the other, that it is justified to have all future transactions which have no effect (under property law) at the consolidated level subjected to a prior evaluation by the Committee before applying the lengthy and time-consuming procedure set out in Article 524.
The Committee consequently requested authorisation from the Board of Directors of KBC Group NV to investigate *a priori* all future transactions between associated KBC group companies that, according to the letter of the law, fall within the scope of Article 524 of the Companies Code, but that are – at the consolidated level – neutral, and to judge whether it is necessary to apply the procedure set out in Article 524 of the Companies Code. If the Committee deems that this is not the case, a purely (*a posteriori*) notification of the transaction concerned to the Board of Directors (insofar as this has not yet happened) can suffice.
Done in Brussels on 22 November 2005.'

Report of the Auditor:

'We were engaged to:
- audit the financial information included in the recommendation made by the Committee of Independent Directors of 22 November 2005 to determine whether it is consistent with the supporting documents;
- audit the financial information included in the minutes of the meeting of the Board of Directors on 24 November 2005 to determine whether it is consistent with the supporting documents;
- audit the information included in the recommendation of the Committee of Independent Directors to determine whether it complies with the provisions of Article 524 of the Companies Code.

Based on our audit, we have the following to report. We note that in calculating the value of the Assurisk shares, carried out using the ANAV (adjusted net asset value) method, account has been taken of all the issued capital. However, part of the capital is not fully paid up and this was not taken into account in calculating the ANAV.
Our audit was conducted in accordance with the internationally accepted control guidelines on specific engagements. Since the above-mentioned assignment constitutes neither a full audit nor a review in line with international audit guidelines or the guidelines of the Belgian *Instituut der Bedrijfsrevisoren* (Institute of Company Auditors), we cannot express any certainty as regards the information concerned.
Had we carried out additional procedures, a full audit or a review, other matters could have come to our attention, which would have been reported to you.
Our report was drawn up within the framework of the provisions of Article 524 of the Companies Code and may not be used for any other purposes. This report only relates to information provided above and not to any other information, of whatever nature.
Brussels, 21 December 2005, Ernst & Young Bedrijfsrevisoren BCV, Statutory Auditor, represented by Jean-Pierre Romont, Partner.'

Outdoor flower market, Ljubljana, Slovenia

Tine Brišnik, NLB Vita, Slovenia: 'I've been working for NLB Vita since September. We are successfully combining our flexibility and hard work with the support of NLB's retail network, and the company has grown accordingly. It's great that we can draw on the wealth of knowledge and experience KBC has.'

Consolidated annual accounts

'Statutory auditor's report to the General Meeting of Shareholders of KBC Group NV on the consolidated financial statements for the year ended 31 december 2005

In accordance with the legal and statutory requirements, we report to you on the performance of the audit mandate which has been entrusted to us.

We have audited the consolidated financial statements for the year ended 31 December 2005, prepared in accordance with International Financial Reporting Standards, as adopted for application in the European Union, and with the legal and regulatory requirements applicable in Belgium, which show a balance sheet total of € 325.801 million and a share of the group in the profit for the year of € 2.249 million. We have also carried out the specific additional audit procedures required by law.

The preparation of the consolidated financial statements and the assessment of the information to be included in the consolidated directors' report, are the responsibility of the board of directors.

Our audit of the consolidated financial statements was carried out in accordance with the auditing standards applicable in Belgium, as issued by the *Institut des Reviseurs d'Entreprises / Instituut der Bedrijfsrevisoren*.

Unqualified audit opinion on the consolidated financial statements

The above mentioned auditing standards require that we plan and perform our audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

In accordance with those standards, we considered the group's administrative and accounting organisation, as well as its internal control procedures. Company officials have responded clearly to our requests for explanations and information. We have examined, on a test basis, the evidence supporting the amounts included in the consolidated financial statements. We have assessed the accounting policies, the consolidation principles, the significant accounting estimates made by the company and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements for the year ended 31 December 2005 give a true and fair view of the group's assets, liabilities, financial position, results of operations and cash flows, in accordance with International Financial Reporting Standards, as adopted for application in the European Union, and with the legal and regulatory requirements applicable in Belgium.

Additional certifications and information

We supplement our report with the following certifications and information which do not modify our audit opinion on the consolidated financial statements:

- The consolidated directors' report includes the information required by law and is consistent with the consolidated financial statements. We are, however, unable to comment on the description of the principal risks and uncertainties which the group is facing, and of its situation, its foreseeable evolution or the significant influence of certain facts on its future development. We can nevertheless confirm that the matters disclosed do not present any obvious contradictions with the information of which we became aware during our audit.
- As disclosed in the notes to the consolidated financial statements :
  - the 2004 figures are shown on a pro forma basis so as to reflect the merger between the KBC Bank and Insurance Holding Company and Almanij, which took place in 2005, as if the merger had taken place on 1 January 2004,
  - the 2004 figures in connection with financial instruments and insurance contracts have been prepared without applying IAS 32, IAS 39 and IFRS 4 . These figures have still been prepared in accordance with the accounting principles generally accepted in Belgium.

Brussels, 30 March 2006.

Ernst & Young Reviseurs d'Entreprises SCC
Statutory auditor
represented by

Jean-Pierre Romont
Partner

Danielle Vermaelen
Partner'

Consolidated income statement

In millions of EUR	Note	FY 2004 *pro forma*	FY 2005
Net interest income	3	3 833	4 348
Gross earned premiums, insurance	9	5 158	3 550
Dividend income	4	231	235
Net gains from financial instruments at fair value	5	725	513
Net realised gains from available-for-sale assets	6	503	458
Net fee and commission income	7	1 404	1 819
Net post-tax income from discontinued operations		0	0
Other income	8	479	574
GROSS INCOME		12 333	11 498
Operating expenses	12	-4 944	-4 914
Impairment	14	-365	-103
on loans and receivables	14	-198	-35
on available-for-sale assets	14	-150	6
on goodwill	14	0	-20
on other	14	-17	-54
Gross technical charges, insurance	9	-4 633	-3 059
Ceded reinsurance result	9	-68	-69
Share in results of associated companies	15	22	16
PROFIT BEFORE TAX		2 345	3 369
Income tax expense	16	-537	-925
PROFIT AFTER TAX		1 808	2 443
Minority interests		-193	-194
NET PROFIT, GROUP SHARE		1 615	2 249
Earnings per share (in EUR)			
Basic	17	4.48	6.26
Diluted	17	4.39	6.15

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS 32, IAS 39 and IFRS 4 have only been applied from 2005, without restatement of the 2004 figures.
Pro forma means: based on a combined 'old KBC'-Almanij entity.

Dividend: the Board of Directors will propose to the General Meeting of Shareholders that a gross dividend of 2.51 euros be paid out per share entitled to dividend.

Consolidated balance sheet

ASSETS

In millions of EUR	Note	31-12-2004 *pro forma*	31-12-2005
Cash and balances with central banks		1 553	2 061
Treasury bills and other bills eligible for rediscounting with central banks		8 078	2 649
Loans and advances to banks	19	38 463	45 312
Loans and advances to customers	20, 21	111 177	119 475
Securities	22	98 862	125 810
Derivative financial instruments	23	15 376	18 832
Portfolio hedge of interest rate risk		0	59
Investment property	29	169	313
Reinsurers' share in technical provisions, insurance	32	258	282
Accrued income		3 504	2 992
Other assets	24	2 435	2 825
Tax assets	25	671	545
current tax assets	25	199	70
deferred tax assets	25	472	475
Non-current assets held for sale		0	0
Investments in associated companies	26	1 228	989
Goodwill and other intangible assets	27, 28	1 086	1 537
Property and equipment	29	2 300	2 120
TOTAL ASSETS		285 163	325 801

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS 32, IAS 39 and IFRS 4 have only been applied from 2005, without restatement of the 2004 figures.
Pro forma means: based on a combined 'old KBC'-Almanij entity.

LIABILITIES

In millions of EUR	Note	31-12-2004 *pro forma*	31-12-2005
Deposits from banks	30	55 083	60 821
Deposits from customers and debt securities	31	157 712	171 572
Derivative financial instruments	23	17 728	24 783
Portfolio hedge of interest rate risk		0	0
Gross technical provisions, insurance	32	13 259	14 779
Liabilities under investment contracts, insurance	33	3 931	7 615
Accrued expense		2 743	2 326
Other liabilities	36	12 588	18 674
Tax liabilities	25	672	928
current tax liabilities	25	501	578
deferred tax liabilities	25	171	350
Non-current liabilities held for sale		0	0
Provisions for risks and charges	34	580	522
Subordinated liabilities	35	6 768	6 314
TOTAL LIABILITIES		271 064	308 335
Total equity		14 099	17 466
Parent shareholders' equity	38	12 328	15 751
Minority interests		1 771	1 715
TOTAL LIABILITIES AND EQUITY		285 163	325 801

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS 32, IAS 39 and IFRS 4 have only been applied from 2005, without restatement of the 2004 figures.
Pro forma means: based on a combined 'old KBC'-Almanij entity.

Consolidated statement of changes in equity

In millions of EUR	Issued and paid up share capital	Share premium	Treasury shares	Revaluation reserve (AFS investments)	Hedging reserve (cashflow hedges)	Reserves	Translation differences	Parent shareholders' equity	Minority interests	Total equity
31-12-2004 *pro forma*										
Balance at the beginning of the year	1 233	4 124	0	0	0	5 902	0	11 259	1 839	13 098
Capital increase	0	6	0	0	0	0	0	7	0	7
Net profit for the period	0	0	0	0	0	1 615	0	1 615	0	1 615
Dividends	0	0	0	0	0	-458	0	-458	0	-458
Other	0	0	0	0	0	-57	-38	-94	-68	-162
Total change	0	6	0	0	0	1 100	-38	1 069	-68	1 001
Balance at the end of the period	1 234	4 130	0	0	0	7 002	-38	12 328	1 771	14 099
31-12-2005										
Balance at the beginning of the year	1 234	4 130	0	0	0	7 002	-38	12 328	1 771	14 099
First-time application of IAS 32, IAS 39 and IFRS 4 on 01-01-2005	0	185	-291	1 415	9	-330	4	992	-	992
Capital increase	0	9	0	0	0	0	0	9	-	9
Purchases of treasury shares	0	0	-272	0	0	0	0	-272	-	-272
Sales of treasury shares	0	0	129	0	0	0	0	129	-	129
Results on (derivatives on) treasury shares	0	0	-51	0	0	176	0	126	-	126
Fair value adjustments before tax	0	0	0	960	8	0	0	968	-	968
Deferred tax on fair value changes	0	0	0	-21	-3	0	0	-24	-	-24
Transfer from revaluation reserve to net profit										
impairment losses	0	0	0	9	0	0	0	9	-	9
net gains/losses on disposal	0	0	0	-269	0	0	0	-269	-	-269
deferred income taxes	0	0	0	35	0	0	0	35	-	35
Transfer from hedging reserve to net assets										
gross amount	0	0	0	0	-18	0	0	-18	-	-18
deferred income taxes	0	0	0	0	4	0	0	4	-	4
Net profit for the period	0	0	0	0	0	2 249	0	2 249	-	2 249
Dividends	0	0	0	0	0	-672	0	-672	-	-672
Currency translation differences	0	0	0	0	0	0	160	160	-	160
Change in minority interests	-	-	-	-	-	-	-	-	-56	-56
Other	0	0	0	0	0	-5	0	-5	-	-5
Total change	0	193	-484	2 129	1	1 419	164	3 423	-56	3 367
Balance at the end of the period	1 234	4 323	-484	2 129	1	8 421	127	15 751	1 715	17 466
of which revaluation reserve for shares				1 304						
of which revaluation reserve for bonds				825						
of which revaluation reserve for other assets than bonds and shares				0						

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS 32, IAS 39 and IFRS 4 have only been applied from 2005, without restatement of the 2004 figures.
Pro forma means: based on a combined 'old KBC'-Almanij entity.

For information on the total number of shares (both ordinary shares and other equity instruments), see note 38.

Due to the retrospective application of the amended IFRS rules (see below), as well as to remarks made by the auditors and enhancements made to reporting procedures during 2005, the opening balance of equity at 1 January 2005 had to be adjusted. The relevant adjustments were made collectively in the financial statements for the year under review, and resulted in a 185-million-euro increase in the previously reported opening balance of parent shareholders' equity (13 136 million euros) to 13 321 million euros (the sum of 12 328 and 992 in the table).

Consolidated cashflow statement

In millions of EUR	**FY 2004** ***pro forma***	**FY 2005**
Profit before tax	2 345	3 369
Adjustments for:		
Depreciation, impairment and amortisation of property and equipment, intangible fixed assets, investment property and securities	570	388
Profit/Loss on the disposal of investments	36	120
Change in impairment on loans and advances	198	35
Change in gross technical provisions, insurance	2 843	2 044
Change in the reinsurers' share in the technical provisions	-38	-38
Change in other provisions	72	77
Unrealised foreign currency gains and losses and valuation differences	-380	292
Income from associated companies	-22	-16
Cashflows from operating profit before tax and before changes in operating assets and liabilities	5 623	6 269
Change in operating assets[1]	-25 162	-43 864
Change in operating liabilities[2]	17 171	32 739
Income taxes paid	-630	-852
Net cash from (used in) operating activities	-2 997	-5 708
Purchase of held-to-maturity securities	0	-5 771
Proceeds from the repayment of held-to-maturity securities at maturity	0	3 742
Acquisition of a subsidiary or a business unit, net of cash acquired/disposed of	-666	-835
Proceeds from the disposal of a subsidiary or business unit, net of cash disposed of	0	49
Purchase of shares in associated companies	-1	0
Proceeds from the disposal of shares in associated companies	52	180
Dividends received from associated companies	27	7
Purchase of investment property	-2	-10
Proceeds from the sale of investment property	11	25
Purchase of intangible fixed assets	-123	-105
Proceeds from the sale of intangible fixed assets	23	34
Purchase of property and equipment	-507	-403
Proceeds from the sale of property and equipment	467	490
Net cash from (used in) investing activities	-719	-2 596
Purchase/Sale of treasury shares	0	-17
Issue/Repayment of promissory notes and other debt securities	1 643	1 501
Proceeds from/Repayment of subordinated liabilities	-22	-453
Principal payments under finance lease obligations	0	0
Proceeds from the issuance of share capital	7	9
Proceeds from the issuance of preference shares	-315	0
Dividends paid	-512	-704
Net cash flows from (used in) financing activities	801	337
Net increase/(decrease) in cash and cash equivalents	-2 915	-7 966
Cash and cash equivalents at the beginning of the year	13 853	10 874
Effects of exchange rate changes on opening cash and cash equivalents	-64	292
Cash and cash equivalents at the end of the period	10 874	3 199
Additional information		
Interest paid	-5 825	-6 043
Interest received	9 658	10 390
Dividends received (including equity method)	258	242
Components of cash and cash equivalents	10 874	3 199
Cash and balances with central banks	1 553	2 061
Treasury bills and other bills eligible for rediscounting with central banks	8 078	2 649
Loans and advances to banks repayable on demand	5 318	4 191
Deposits from banks repayable on demand	-4 075	-5 701
of which not available	0	0

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS 32, IAS 39 and IFRS 4 have only been applied from 2005, without restatement of the 2004 figures.
Pro forma means: based on a combined 'old KBC'-Almanij entity.
1 Including loans and advances to banks, loans and advances to customers, securities (excluding securities held to maturity), derivative financial instruments and other assets.
2 Including deposits from banks, deposits from customers and debt securities, derivative financial instruments and other liabilities.

As was previously the case at KBC, cashflows from operating activities are reported using the indirect method under IFRS too. The main differences in the way the various cashflows (operating, financing and investing activities) are classified are as follows:

- the purchase of and proceeds from the repayment of held-to-maturity securities qualify as investing activities under IFRS, whereas they had previously qualified as operating activities;
- the purchase and sale of treasury shares qualify as financing activities under IFRS, whereas they had previously qualified as operating activities.

To calculate cashflows, cash and cash equivalents are defined as cash and balances with central banks, Treasury bills and other bills, deposits with and loans and advances to other banks that are repayable on demand, net of deposits from banks repayable on demand.

In 2005, acquisitions and divestments of consolidated subsidiaries (including changes in the percentage interest held) were limited (see note 47). All (material) acquisitions and divestments of group companies in 2005 were paid for in cash.

Notes on the accounting policies

Note 1a: Statement of compliance

The balance sheet and income statement were authorised for issue on 1 March 2006 by the Board of Directors of KBC Group NV.

The consolidated financial statements of the KBC group have been prepared in accordance with the International Financial Reporting Standards ('endorsed IFRSs') as adopted for use in the European Union.

The consolidated financial statements of KBC present one year of comparative information. As allowed under the IFRS 1 exemption, this comparative information does not however comply with IAS 32, IAS 39 and IFRS 4. Belgian GAAP rules apply to the comparative figures for financial instruments and insurance contracts.

The group qualifies as a first-time adopter of IFRS in 2005. The adjustments stemming from the first-time adoption of IFRS are reflected in the opening balance sheet at 1 January 2004, except for items related to IAS 32, IAS 39 and IFRS 4 (in the opening balance sheet at 1 January 2005).

The following IFRS standards were issued but not yet effective at year-end 2005:

- IFRS 7 'Financial instruments: disclosure'. This standard gives an overview of the different disclosure requirements relating to financial instruments. It replaces the disclosure requirements previously included in IAS 32. This standard will take effect on 1 January 2007.
- Amendment to IAS 1 'Presentation of Financial Statements: capital disclosures'. This amendment imposes several capital disclosure requirements. This standard will take effect on 1 January 2007.
- Amendment to IAS 19 'Employee Benefits: actuarial gains and losses, group plans and disclosures'. This amendment introduces an additional recognition option for actuarial gains and losses arising in post-employment defined benefit plans, provides clarification about multi-employer plans and about group defined benefit plans and requires additional disclosures. This standard will take effect on 1 January 2006.
- IFRIC interpretation 4 'Determining whether an Arrangement contains a Lease'. This Interpretation provides guidance for determining whether a contract that does not have the legal form of a lease is, or contains, leases that should be accounted for in accordance with IAS 17. This standard will take effect on 1 January 2006.
- Amendment to IFRS 1 'First-time Adoption of International Financial Reporting Standards' and IFRS 6 'Exploration for and Evaluation of Mineral Resources'. KBC does not fall within the scope of IFRS 6, hence this amendment is not relevant.

KBC Group NV will apply these standards as of their effective date. Due to the fact that these standards have only recently been endorsed by the European Commission, their impact, if any, has yet to be determined.

In conformity with IFRS 1, the following exceptions were made to the general principle that the opening balance sheet needs to comply with each IFRS:

- business combinations before 1 January 2004 have not been restated;
- all cumulative actuarial gains and losses on all defined benefit plans are recognised in equity at 1 January 2004, although the 'corridor approach' is used afterwards;
- cumulative translation differences per 1 January 2004 are deemed to be zero;
- share-based payment transactions before 7 November 2002 have not been restated.

Reference figures are shown *pro forma*, meaning that they were drawn up to reflect the merger between the KBC Bank and Insurance Holding Company and Almanij. Profit and loss are calculated as if the merger had taken place on 1 January 2004. *Pro forma* figures for the KBC group are based on the balance sheet and profit and loss account of Almanij for 2004. Minority interests in KBC have been transferred to the group share.

Note 1b:
Summary of significant accounting policies

a Criteria for consolidation and for inclusion in the consolidated accounts according to the equity method

All entities (including Special Purpose Entities) over which the consolidating entity exercises, directly or indirectly, exclusive control are consolidated according to the method of full consolidation.
Companies over which joint control is exercised, directly or indirectly, are consolidated according to the method of proportionate consolidation.
Investments in associates, i.e. companies over which KBC has significant influence, are accounted for using the equity method. As allowed under IAS 28, investments in associates held by venture capital organisations are classified as 'held for trading' (measured at fair value through profit and loss).

b Effects of changes in foreign exchange rates

Monetary assets and liabilities denominated in foreign currency are translated into the functional currency at the spot rate at balance sheet date.
Negative and positive valuation differences, except for those relating to the funding of shares and investments of consolidated companies in foreign currency, are recognised in profit or loss.
Non-monetary items measured at historical cost are translated into the functional currency at the historical exchange rate that existed on the transaction date.
Non-monetary items carried at fair value are translated at the spot rate of the date the fair value was determined.
Translation differences are reported together with changes in fair value.
Income and expense items in foreign currency are taken to profit or loss at the exchange rate prevailing when they were recognised.
The balance sheets of foreign subsidiaries are translated into the reporting currency (euros) at the spot rate at balance sheet date (with the exception of the capital and reserves, which are translated at the historical rate). The income statement is translated at the average rate for the financial year.

Differences arising from the use of one exchange rate for assets and liabilities, and another for net assets (together with the exchange rate differences – net of deferred taxes – on loans concluded to finance participating interests in foreign currency) are recognised in equity, commensurate with KBC's share.

c Financial assets and liabilities (IAS 39)

Financial assets and liabilities are recognised in the balance sheet when KBC becomes a party to the contractual provisions of the instruments. Regular-way purchases or sales of financial assets are recognised using settlement date accounting.

All financial assets and liabilities – including derivatives – must be recognised in the balance sheet according to the IAS 39 classification system. Each classification is subject to specific measurement rules.

The IAS 39 classifications are as follows:

- *Loans and receivables (L&R).* These include all non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.
- *Held-to-maturity assets (HTM).* These are all non-derivative financial assets with a fixed maturity and fixed or determinable payments that KBC intends and is able to hold to maturity.
- *Financial assets at fair value through profit or loss.* This category includes held-for-trading (HFT) assets and any other financial assets initially recognised at fair value through profit or loss (FIFV). Held-for-trading assets are assets held for the purpose of selling them in the short term or assets that are part of a portfolio of assets held for trading purposes. All derivatives with a positive replacement value are considered to be held for trading unless they are designated and effective hedging instruments. Other assets initially recognised at fair value through profit or loss are measured in the same way as held-for-trading assets. KBC may use this fair value option when doing so results in more relevant information, because it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The fair value option may also be used for financial assets with embedded derivatives.
- *Available-for-sale assets (AFS).* These include all non-derivative financial assets that do not come under one of the above categories. These assets are measured at fair value, with all fair value changes being recognised in equity until the assets are sold or until there is an impairment in value. In this case, the cumulative revaluation gain or loss will be recognised in income for the financial year.
- *Financial liabilities:*
  - *Held-for-trading liabilities.* These are liabilities held with the intention of repurchasing them in the short term. All derivatives with a negative replacement value are also considered to be held for trading unless they are designated and effective hedging instruments.
  - *Other liabilities initially recognised at fair value through profit or loss (FIFV).* These financial liabilities are measured in the same way as held-for-trading liabilities. This fair value option may be used under the same conditions as for 'other assets initially recognised at fair value through profit or loss'. Additionally, this classification may be used to account for (unbundled) deposit components (i.e. financial liabilities not including a discretionary participation feature) as defined in IFRS 4.
  - *Other financial liabilities.* These are all other non-derivative financial liabilities that are not classified under one of the two liability classifications above.
- *Hedging derivatives.* These are derivatives used for hedging purposes.

KBC applies the following general rules:

- *Amounts receivable.* These are classified under 'Loans and receivables'. They are measured on acquisition at fair value, including transaction costs. Loans with a fixed maturity are subsequently measured at amortised cost using the effective interest method, i.e. an interest rate is applied that exactly discounts all estimated future cashflows from the loans to the net carrying amount. This interest rate takes account of all related fees and transaction costs. Loans with no fixed maturity date are measured at amortised cost.
  Impairment losses are recognised for loans and advances for which there is evidence – either on an individual or portfolio basis – of impairment at balance sheet date. Whether or not evidence exists is determined on the basis of the probability of default. Loans and advances with a probability of default (PD) of 12 (problem loans with the highest probability of default) are individually tested for impairment (and written down on an individual basis if necessary). Loans and advances with a

PD of 10 or 11 (also considered to be problem loans) are tested either individually (significant loans) or on a statistical basis (non-significant loans). Impairment losses are posted on these loans and advances on an individual and a statistical basis, respectively. For loans with a PD lower than 10, lastly, impairment losses are recognised on a portfolio basis. Interest on loans written down as a result of impairment is recognised using the rate of interest used to measure the impairment loss.

- *Securities.* Depending on whether or not securities are traded on an active market and depending on what the intention is when they are acquired, securities are classified as loans and receivables, held-to-maturity assets, held-for-trading assets, financial assets at fair value through profit or loss, or available-for-sale assets.
  Securities classified as loans and receivables or held-to-maturity securities are initially measured at fair value, including transaction costs. They are subsequently measured at amortised cost. The difference between the acquisition cost and the redemption value is recognised as interest and recorded on an accruals basis in the income statement over the remaining term to maturity. It is taken to the income statement on an actuarial basis, based on the effective rate of return on acquisition. Individual impairment losses for securities classified as loans and receivables or held-to-maturity are recognised – according to the same method as is used for amounts receivable as described above – if there is evidence of impairment at balance sheet date.
  Held-for-trading securities are initially measured at fair value (excluding transaction costs) and subsequently at fair value, with all fair value changes being recognised in profit or loss for the financial year.
  Securities classified initially as 'Financial assets at fair value through profit or loss' that are not held for trading are measured in the same way as held-for-trading assets.
  Available-for-sale securities are initially measured at fair value (including transaction costs) and subsequently at fair value, with changes in fair value being recorded separately in equity until the sale or impairment of the securities. In this case, the cumulative fair value changes are transferred from equity to profit or loss for the financial year. Impairment losses are recognised if evidence of impairment exists on the balance sheet date. For listed equity and other variable-yield securities, evidence of impairment is determined on the basis of a set of coherent indicators and the impairment is calculated based on an assessment of the recoverable amount of the acquisition cost of the packages of shares in portfolio. For fixed-income securities, impairment is measured on the basis of the recoverable amount of the acquisition cost. Impairment losses are taken to the income statement for the financial year. For equity and other variable-yield securities, impairment is reversed through a separate equity heading. Reversals of impairment on fixed-income securities occur through profit or loss for the financial year.
- *Derivatives.* All derivatives are classified as being held-for-trading unless they are designated and effective hedging instruments. Held-for-trading derivatives are measured at fair value, with fair value changes being recognised in profit or loss for the financial year. Held-for-trading derivatives with a positive replacement value are recorded on the asset side of the balance sheet; those with a negative replacement value on the liabilities side.
- *Amounts owed.* Liabilities arising from advances or cash deposits received are recorded in the balance sheet at amortised cost. The difference between the amount made available and the nominal value is reflected on an accruals basis in the income statement. It is recorded on a discounted basis, based on the effective rate of interest.
- *Embedded derivatives.* Derivatives contained in financial instruments that are measured on an accruals basis (held-to-maturity assets, loans and receivables, other liabilities) or at fair value, with fair value changes being recorded in equity (available-for-sale assets), are separated from the financial instrument and measured at fair value (with fair value adjustments being taken to the income statement for the financial year), if the risk relating to the embedded derivative is not closely related to the risk on the host contract.
  Financial assets with embedded derivatives are however primarily classified as financial instruments at fair value through profit or loss, making it unnecessary to separate the embedded derivative, since the entire financial instrument is measured at fair value, with fair value changes being taken to the income statement.
- *Hedge accounting.* KBC applies hedge accounting when all the requisite conditions (according to the hedge accounting requirements that have not been carved out in the IAS 39 version as approved by the EU) are fulfilled. These conditions are as follows: the hedge relationship must be formally designated and documented on the inception of the hedge, the hedge must be expected to be highly effective and this effectiveness must be able to be measured reliably, and the measurement of hedge effectiveness must take place on a continuous basis during the reporting period in which the hedge can be considered to be effective.
  For fair value hedges, both the derivatives hedging the risks and the hedged positions are measured at fair value, with all fair value changes being taken to the income statement.
  Hedge accounting is discontinued once the hedge accounting requirements are no longer met or if the hedging instrument expires or is sold. In this case, the gain or loss recorded in equity on the hedged position (for fixed-income financial instruments) will be taken to profit or loss on an accruals basis until maturity.

Fair value hedges for a portfolio of interest rate risk are applied by KBC to hedge the interest rate risk for a portfolio of loans with interest rate swaps. The interest rate swaps are measured at fair value, with fair value changes reported in profit or loss. The hedged amount of loans is measured at fair value as well, with fair value changes reported in profit or loss. The fair value of the hedged amount is presented as a separate line item of the assets on the balance sheet. KBC makes use of the 'Carved-out' version of IAS 39, so that no ineffectiveness results from anticipated repayments, as long as underhedging exists. In case of hedge ineffectiveness, the cumulative change in the fair value of the hedged amount will be amortised through profit or loss over the remaining lifetime of the hedged assets or immediately removed from the balance sheet if the ineffectiveness is due to the fact that the corresponding loans have been derecognised.
For cashflow hedges, derivatives hedging the risks are measured at fair value, with those fair value gains or losses determined to be an effective hedge being recognised separately in equity. The ineffective portion of the hedge is recognised in income for the financial year. Hedge accounting will be discontinued if the hedge accounting criteria are no longer met. In this case, the derivatives will be treated as held-for-trading derivatives and measured accordingly.
Foreign currency funding of a net investment in a foreign entity is accounted for as a hedge of that net investment. Translation differences (account taken of deferred taxes) on the funding are recorded in equity, along with translation differences on the net investment. For acquisitions after 1 January 2004, goodwill is considered part of the net investment in a foreign entity, and therefore the amount of goodwill is included in the amount of the foreign currency funding. This form of hedge accounting is used for all investments not denominated in euros.

- *Fair value adjustments ('market value adjustments').* Fair value adjustments are recognised on all financial instruments measured at fair value, with fair value changes being taken to profit or loss. These fair value adjustments include all close-out costs, adjustments for less liquid instruments or markets, adjustments relating to 'mark-to-model' measurements and counterparty exposures.
  This methodology – already applied by KBC Financial Products for Belgian GAAP reporting purposes – differs from current Belgian GAAP methodology (applied by KBC Bank Belgium), where fair value adjustments are only recognised to cover close-out costs on trading derivatives. The value adjustments resulting from the first-time group-wide application of the new methodology are included in the opening IFRS balance sheet in equity at 1 January 2005.

d Goodwill and other intangible assets

Goodwill is defined as any excess of the cost of the acquisition over the acquirer's interest in the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. It is recognised as an intangible asset and is carried at cost less impairment losses. Goodwill is not amortised, but is tested at least once a year for impairment. An impairment loss is recognised if the carrying amount of the cash-generating unit to which the goodwill belongs exceeds its recoverable amount. Impairment losses on goodwill cannot be reversed.
If the capitalisation criteria are met, software is recognised as an intangible asset. System software is capitalised and amortised at the same rate as hardware, i.e. over three years, from the moment the software is available for use. Standard software and customised software developed by a third party is capitalised and amortised over five years according to the straight-line method from the moment the software is available for use. Internal and external development expenses for internally-generated software for investment projects are capitalised and written off according to the straight-line method over five years. Investment projects are large-scale projects that introduce or replace an important business objective or model. Internal and external research expenses for these projects and all expenses for other ICT projects concerning internally-generated software (other than investment projects) are taken to the income statement directly.

e Property and equipment (including investment property)

All property and equipment is recognised at cost (including directly allocable acquisition costs), less accumulated depreciation and impairment. The rates of depreciation are determined on the basis of the anticipated useful life of the assets and are applied according to the straight-line method from the moment the assets are available for use. Impairment is recognised if the carrying value of the asset exceeds its recoverable value (i.e. the higher of the asset's value in use or net selling price). Amounts written down can be reversed through the income statement. When property or equipment is sold, the realised gains or losses are taken directly to the income statement. If property or equipment is destroyed, the remaining amount to be written off is taken directly to the income statement.
The accounting policy outlined for property and equipment also applies to investment property.
External borrowing costs that are directly attributable to the acquisition of an asset are capitalised as part of the cost of that asset. All other borrowing costs are recognised as an expense in the period in which they are incurred. Capitalisation commences when expenses are incurred for the asset, when the borrowing costs are incurred and when activities that are necessary to prepare the asset for its intended use or sale are in progress. When development is interrupted, the capitalisation of borrowing costs is suspended. The capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the asset for its intended use or sale are complete.

f Technical provisions

Provision for unearned premiums and unexpired risks

For primary business, the provision for unearned premiums is in principle calculated on a daily basis, based on the gross premiums, net of commission.
For inward treaties, i.e. reinsurance business received, the provision for unearned premiums is calculated for each contract separately on the basis of the information communicated by the ceding undertaking and, where necessary, supplemented on the basis of the company's own experience regarding the evolution of the risk over time.
The provision for unearned premiums for the life insurance business is recorded under the provision for the life insurance group of activities.

Life insurance provision

Except for unit-linked life insurance products, this provision is calculated according to current actuarial principles, with account being taken of provisions for unearned premiums, the ageing reserves, provisions for annuities payable but not yet due, etc.
In principle, this provision is calculated separately for every insurance contract.
For accepted business, a provision is constituted for each individual contract, based on the information supplied by the ceding undertaking and supplemented, where necessary, by the company's own past experience.
Besides the rules set out below, an additional provision is set aside as required by law.

The following rules apply:

- Valuation according to the prospective method. This method is applied for the provisions for conventional non-unit-linked life insurance, modern non-unit-linked universal life insurance policies offering a guaranteed rate of interest on future premium payments and for the provision for extra-legal benefits for employees in respect of current annuities. Calculations according to prospective actuarial formulas are based on the technical assumptions made in the contracts.
- Valuation according to the retrospective method. This method is applied for the provisions for modern non-unit-linked universal life insurance policies and for the provision for extra-legal benefits for employees in respect of new supplementary premium payments. Calculations according to retrospective actuarial formulas are based on the technical assumptions made in the contracts, though no account is taken of future payments.

Provision for claims outstanding

For claims reported, the provision is in principle measured separately in each case, taking into account the known facts in the claims file, on the basis of the amounts still due to the injured parties or beneficiaries, plus external costs of settling claims. Where benefits have to be paid in the form of an annuity, the amounts to be set aside for that purpose are calculated using recognised actuarial methods.
For 'claims incurred but not reported' at balance sheet date, an IBNR (Incurred But Not Reported) provision is set aside. In the primary business, this IBNR provision is based on a lump sum per class of insurance depending upon past experience and the trend in the insured portfolio. For extraordinary events, additional amounts are added to the IBNR provision.
For 'claims incurred but not enough reserved' at balance sheet date, an IBNER (Incurred But Not Enough Reserved) provision is set aside if the adequacy procedures demonstrate that the other claims provisions are insufficient to meet future liabilities. This provision contains amounts for claims which have already been reported but which, for technical reasons, could not yet be recorded in the claims file. Where appropriate, a provision is set aside on a prudent basis for possible liabilities arising for claims files already closed.
A provision for the internal cost of settling claims is calculated at a percentage that is based on past experience.
Additional provisions are also constituted as required by law, such as supplementary workmen's compensation provisions.

Provision for bonuses related to participation features and rebates

This heading includes the provision for bonuses related to participation features that have been allocated but not yet awarded at the end of the financial year for both the group of life insurance activities and the group of non-life insurance activities.

Liability adequacy test

A liability adequacy test is performed to evaluate current liabilities, detect possible deficiencies and recognise them in profit or loss.

Ceded reinsurance and retrocession

The effect of reinsurance business ceded and retrocession is entered as an asset and calculated for each contract separately, supplemented where necessary by the company's own past experience regarding the evolution of the risk over time.

g Insurance contracts measured in accordance with IFRS 4 – phase 1

Deposit accounting rules apply to financial instruments that do not include a discretionary participation feature (DPF), and to the deposit component of unit-linked insurance contracts. This means that the deposit component and insurance component are measured separately. In deposit accounting, the portion of the premiums relating to the deposit component is not taken to the income statement, nor is the resulting increase in the carrying amount of the liability. Management fees and commissions are recognised immediately in the income statement.

When the value of unit-linked investments fluctuates subsequently, both the change on the asset side and the resulting change on the liabilities side are taken to the income statement immediately. Therefore, after initial recognition, the deposit component is measured at fair value through profit or loss. This fair value is determined by multiplying the number of units by the value of the unit, which is based upon the fair value of the underlying financial instruments. Settlements relating to the deposit component are not recorded in the income statement, but will result in a decrease in the carrying amount of the liability.

Financial instruments with a discretionary participation feature and the insurance component of unit-linked contracts are treated as non-unit-linked insurance contracts (see f Technical provisions), and are not unbundled into a deposit component and an insurance component. On the balance sheet date, the liabilities resulting from these financial instruments or insurance contracts are tested to see if they are adequate, according to the liability adequacy test. If the carrying amount of these liabilities is lower than their estimated future discounted cashflows, the deficiency will be recognised in the income statement against an increase in the liability.

h Pension liabilities

Pension liabilities are included under the 'Other liabilities' item and relate to obligations for retirement and survivor's pensions, early retirement benefits and similar pensions or annuities.

Defined benefit plans are those under which KBC has a legal or constructive obligation to pay extra contributions to the pension fund if this last has insufficient assets to settle all the obligations to employees resulting from employee service in current and prior periods.

The pension obligations under these plans for employees are calculated according to IAS 19, based on the projected-unit-credit method, with each period of service granting additional entitlement to pension benefits.

Actuarial gains and losses are recognised according to the 'corridor approach'. The portion of actuarial gains and losses exceeding 10% of the greater of the fair value of plan assets or the gross pension obligation will be recognised as income or expense, spread over a period of five years.

i Tax liabilities

This heading includes current and deferred tax liabilities.

Current tax for the period is measured at the amount expected to be paid, using the rates of tax in effect for the balance sheet date.

Deferred tax liabilities are recognised for all taxable temporary differences between the carrying amount of an asset or liability and its tax base. They are measured using the tax rates in effect on realisation of the assets or settlement of the liabilities to which they relate. Deferred tax assets are recognised for all deductible temporary differences between the carrying value of assets and liabilities and their tax base, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

j Provisions

Provisions are recognised in the balance sheet:

- if an obligation exists on the balance sheet date that stems from a past event, and
- it is probable that an outflow of resources is required to settle the obligation, and
- if the amount of the obligation can be estimated reliably.

k Equity

Equity is the residual interest in the net assets after all liabilities have been deducted.

Equity instruments have been differentiated from financial instruments in accordance with the IAS 32 rules:

- Bonds redeemable in KBC Group NV shares (MCB 1998-2008) are classified as equity instruments.
- The acquisition cost of KBC Group NV treasury shares is deducted from equity. On the sale, issuance or cancellation of treasury shares, gains or losses are reported directly in equity.
- Transactions in derivative financial instruments on KBC treasury shares are likewise reported in equity, save in the event of net cash settlement.
- Written stock options on treasury shares subject to IFRS 2 are measured at fair value on the grant date. This fair value is recognised in the income statement as a staff expense over the period of service, against a separate entry under equity. The 2000-2002 stock option plans are not covered by the scope of IFRS 2.
- The revaluation reserve for available-for-sale assets is included in equity until disposal or impairment of the assets. At that time, the cumulative gain or loss is transferred to profit or loss for the period.

l Exchange rates used

	Exchange rate at 31-12-2005		Exchange rate average in 2005	
	1 EUR = ... CURR	Change from 31-12-2004 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)	1 EUR = ... CURR	Change relative to average in 2004 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)
CZK	29.00	5%	29.86	7%
GBP	0.685	3%	0.684	-1%
HUF	252.9	-3%	248.3	1%
PLN	3.860	6%	4.031	13%
USD	1.180	15%	1.246	0%

m Changes made to accounting policies in 2005

As KBC group opted to apply (retroactively and for the whole of 2005) the fair value option for liabilities and fair value hedge accounting for a portfolio hedge of interest rate risk, as described in the carved-out version of IAS 39, the accounting policies have been amended accordingly.

Note 1c: Reconciliation IFRS – Belgian GAAP

Reconciliation, Belgian GAAP – IFRS excluding IAS 32, IAS 39 and IFRS 4

In millions of EUR

Below, the figure for net profit (FY 2004) and equity (opening balance at 01-01-2004 and balance at 31-12-2004) under IFRS (excluding IAS 32, IAS 39 and IFRS 4) is reconciled with the comparable figure under Belgian GAAP.

Profit	**FY 2004** ***pro forma***
Profit, group share according to Belgian GAAP	1 682
Amortisation of goodwill	89
Employee benefits	-35
Tangible/Intangible fixed assets	3
Provisions for risks and charges	-97
Leasing	0
Deferred taxes	2
Other	-30
Profit, group share according to IFRS (excl. IAS 32, IAS 39 and IFRS 4)	1 615

Parent shareholders' equity	**01-01-2004** ***pro forma***	**31-12-2004** ***pro forma***
Parent shareholders' equity according to Belgian GAAP	11 005	11 902
Employee benefits	-414	-450
Tangible/Intangible fixed assets	78	81
Provisions for other risks and charges	111	14
Deferred taxes	7	11
Leasing	8	9
Goodwill	-9	80
Profit appropriation	458	674
Other	15	7
Parent shareholders' equity according to IFRS (excl. IAS 32, IAS 39 and IFRS 4)	11 259	12 328

Reconciliation, IFRS excluding IAS 32, IAS 39 and IFRS 4 – IFRS including IAS 32, IAS 39 and IFRS 4

In millions of EUR

Below, the figures for equity and some selected balance sheet items (at 31-12-2004) under IFRS excluding IAS 32, IAS 39 and IFRS 4 are reconciled with the comparable figures under IFRS including IAS 32, IAS 39 and IFRS 4.

Parent shareholders' equity	**31-12-2004** ***pro forma***
Parent shareholders' equity according to IFRS (excl. IAS 32, IAS 39 and IFRS 4)	12 328
Treasury shares	-292
Allocation of mandatorily convertible bonds to equity	185
Loan loss provisioning	-237
Effective yield (capitalisation of transaction costs)	-34
Impairment on shares, insurance	-139
Other fair valuing of financial instruments	1 676
IFRS 4 (mainly equalisation reserve)	186
Deferred taxes	-309
Minority interests on the above items	-42
Parent shareholders' equity according to IFRS (incl. IAS 32, IAS 39 and IFRS 4)	13 320

Selected balance sheet items	**31-12-2004** ***pro forma*** **excl. IAS 32, IAS 39 and IFRS 4**	**31-12-2004** ***pro forma*** **incl. IAS 32, IAS 39 and IFRS 4**	**Explanation of main differences (refer to text below)**
Loans and advances to customers	111 177	110 743	j
Securities	98 862	100 601	h, l
Derivative financial instruments (assets)	15 376	17 313	l
Derivative financial instruments (liabilities)	17 728	20 524	l
Gross technical provisions, insurance	13 259	13 068	m
Parent shareholders' equity	12 328	13 320	see above

A summary is provided below of the main differences in accounting and valuation principles between the IFRS and Belgian GAAP.

Main differences between IFRS and Belgian GAAP (excluding IAS 32, IAS 39 and IFRS 4)

a Amortisation of goodwill

Goodwill cannot be amortised under IFRS 3. An impairment test has to be performed annually, even if there is no indication of impairment. Under the Belgian GAAP, goodwill is amortised. An impairment loss is recognised if there is any lasting impairment.

b Employee benefits

Obligations under defined benefit plans are calculated using the projected-unit-credit method. The calculation takes into account different assumptions concerning inflation, increases in pay and pensions, etc. Future cash outflows are discounted using the long-term interest rate. Any excess or deficit pension obligations have to be recognised on the balance sheet. Belgian GAAP does not lay down detailed rules about calculating long-term pension commitments. Excess or deficit pension obligations are not recognised on the balance sheet.

c Tangible/Intangible fixed assets

Intangible assets (such as software developed in-house) should be recognised as assets if it is probable that the future economic benefits that are attributable to the assets will flow to the enterprise and if the cost of the assets can be measured reliably. Internal software development costs are capitalised under IFRS, whereas they are recorded as a cost under Belgian GAAP.

d Provisions for risks and charges

Provisions can only be recognised pursuant to IAS 37 when an enterprise has a present obligation as a result of a past event at balance sheet date, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.
Belgian GAAP rules do not require a present obligation to recognise provisions: they can be recognised to cover clearly defined future losses or costs that are probable or certain at balance sheet date but the amount of which cannot be determined exactly. Therefore, certain provisions recognised under Belgian GAAP cannot be maintained under IFRS.

e Leasing

As in the Belgian GAAP, IAS 17 makes a distinction between finance leases and operating leases. A lease is considered to be a finance lease for IFRS purposes, if it transfers substantially all the risks and rewards relating to the underlying asset to the lessee. All other leases are considered to be operating leases. Given the broader criteria under IAS 17 for considering a lease to be a finance lease, many of the leases that used to be recognised as operating leases will be reclassified as finance leases. Operating leases are presented as rentals in the financial statements, while finance leases are treated as loans.

f Deferred taxes

IAS 12 requires recognition of all deferred tax liabilities due to taxable temporary differences. Deferred tax assets can be recognised for the carryforward of unused tax losses and unused tax credits if it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised. Under Belgian GAAP, deferred tax assets and liabilities can only be booked under specific circumstances.

g Other changes

A significant change relates to the scope of consolidation: all entities controlled by KBC or in which KBC has significant influence should be included in the scope of consolidation pursuant to IAS 27, IAS 28 and SIC 12 (when they exceed the materiality limits). Therefore, special purpose entities, certain venture capital companies and certain investment property companies must be included in the scope of consolidation. Under Belgian GAAP, special purpose entities or entities to be sold in the future are not included in the scope of consolidation.
Another significant change relates to profit appropriation: under IFRS, equity is presented before profit appropriation, whereas under Belgian GAAP, equity is presented after profit appropriation.

Main differences between IFRS and Belgian GAAP where IAS 32, IAS 39 and IFRS 4 are concerned

h Treasury shares

Treasury shares have to be deducted from equity under IFRS. Treasury share derivatives have to be reported in equity as well. Treasury shares are classified as either trading assets or investments under Belgian GAAP depending on the enterprise's intention at acquisition. Any results from treasury shares are reported directly in equity under IFRS instead of in net profit or loss for the financial year.

i Allocation of mandatorily convertible bonds to equity

IAS 32 requires a clear distinction to be made between equity instruments and debt instruments on the basis of several criteria. Certain financial instruments that are considered to be debt instruments under Belgian GAAP (such as mandatorily convertible bonds) are classified as equity instruments under IFRS. Any results from these financial instruments are reported directly in equity instead of net profit or loss for the financial year.

j Loan loss provisioning

Specific as well as portfolio-based impairment can be recognised under IAS 39 if there is any indication of impairment at balance sheet date. Any indications of impairment have to be assessed on an individual basis for all significant loans. Loans for which there is no indication of impairment on an individual level have to be included in a portfolio of loans with similar risk characteristics and impairment then has to be assessed on a portfolio basis.

A specific loan loss impairment has to be calculated as the difference between a loan's carrying value and its recoverable amount (i.e. the present value of estimated future cashflows). Under Belgian GAAP, no discount factor is taken into account to calculate specific loan impairment losses. Furthermore, Belgian GAAP does not require portfolio-based impairment to be recognised on the same basis as IAS 39.

k Effective yield

When calculating the amortised cost of financial instruments, the effective interest method must be applied under IFRS. The effective interest rate is the rate that exactly discounts the expected stream of future cash payments through maturity or the next market-based repricing date to the current net carrying amount of the financial asset or financial liability. That computation includes all fees, transaction costs and points paid or received between parties to the contract. The main difference with Belgian GAAP is that commissions paid to brokers for the distribution of financial instruments are included in the effective yield under IFRS and taken directly to profit and loss under Belgian GAAP.

l Fair value of financial instruments

● Fixed-income securities – investment portfolio

IAS 39 makes a distinction between held-to-maturity (HTM) investments and available-for-sale (AFS) investments. Furthermore, under IAS 39, any financial asset can be designated as being at 'fair value through profit or loss' (FIFV). HTM investments are measured at amortised cost. AFS and FIFV investments are measured at fair value. Fair value changes in AFS investments are reported in equity until the disposal or impairment of the investments, in which case the cumulative revaluation result will be reported in net profit or loss. Fair value changes in FIFV investments are reported in net profit or loss. Under Belgian GAAP, no such distinction exists in the investment portfolio. Fixed-income investments in the investment portfolio are measured at amortised cost.

● Shares – investment portfolio

Shares in the investment portfolio can be designated as being at fair value through profit or loss (FIFV) or available-for-sale (AFS) investments and both are measured at fair value. Unrealised gains or losses on AFS shares are reported in equity until the disposal or impairment of the shares, in which case the cumulative revaluation result will be reported in net profit or loss for the financial year. Unrealised gains or losses on FIFV shares are reported in net profit or loss for the financial year. Under Belgian GAAP, shares in the banking investment portfolio are measured at cost unless their market value at balance sheet date is lower, in which case they are measured at market value (LoCoM principle). Shares in the insurance investment portfolio are reported at cost. Impairment losses are recognised on the basis of specific impairment rules. The impairment rules used for Belgian GAAP reporting differ significantly from the impairment rules under IAS 39.

● Derivatives not held for trading purposes

IAS 39 presumes that all derivatives are trading derivatives unless they are designated and effective hedging instruments. IAS 39 requires hedging derivatives to be measured at fair value. For fair value hedges, the resulting fair value changes have to be reported in net profit. For cashflow hedges, only the ineffective portion of the hedging instrument needs to be taken to net profit; the effective portion is recognised in equity.
Under Belgian GAAP, these derivatives are measured at cost.

● Hedging

Where a hedge relationship exists, both the hedged item and the hedging instrument are valued on an accruals basis under Belgian GAAP. Under IFRS, however, the valuation depends on the kind of hedge (fair value hedge versus cashflow hedge). See the accounting policies in note 1.

m IFRS 4

● Equalisation reserves.

IFRS 4 prohibits provisions for possible claims under contracts that are not in existence at the reporting date (such as the equalisation reserve), which are allowed under Belgian GAAP. IFRS 4 makes a distinction between insurance contracts and investment contracts with DPF and without DPF, whereas Belgian GAAP does not. Insurance contracts and investment contracts with DPF will continue to be recognised according to Belgian GAAP rules. However, investment contracts without DPF are measured using deposit accounting rules under IFRS 32 and IFRS 39. See the accounting policies.

● Liability adequacy test.

In addition to Belgian GAAP, the adequacy of debts regarding insurance contracts or investment contracts with DPF have to be measured using the liability adequacy test. Any deficit needs to be recognised immediately in profit and loss.

Notes on segment reporting

Note 2a: Reporting by business segment

In millions of EUR	Banking	Insurance	Asset management	European private banking	Gevaert	Holding-company activities	Inter-segment eliminations	KBC group
INCOME STATEMENT FY 2004 *pro forma*								
Net interest income	3 253	463	3	181	-19	-55	6	3 833
Gross earned premiums, insurance	0	5 158	0	0	0	0	0	5 158
Dividend income	103	85	13	10	5	15	0	231
Net gains from financial instruments at fair value	632	5	10	75	3	0	0	725
Net realised gains from available-for-sale assets	307	121	3	55	15	1	0	503
Net fee and commission income	1 042	-340	333	375	0	0	-7	1 404
Net post-tax income from discontinued operations	0	0	0	0	0	0	0	0
Other income	243	75	2	50	121	469	-481	479
GROSS INCOME	5 581	5 566	364	747	126	430	-481	12 333
Operating expenses*	-3 646	-511	-54	-632	-103	-479	481	-4 944
Impairment	-220	-162	2	15	2	-3	0	-365
on loans and receivables	-199	-2	0	3	0	0	0	-198
on available-for-sale assets	-7	-160	2	9	8	-3	0	-150
on goodwill	0	0	0	0	0	0	0	0
on other	-14	0	0	3	-6	0	0	-17
Gross technical charges, insurance	0	-4 633	0	0	0	0	0	-4 633
Ceded reinsurance result	0	-68	0	0	0	0	0	-68
Share in results of associated companies	35	20	0	2	-35	0	0	22
PROFIT BEFORE TAX	1 750	213	312	132	-10	-52	0	2 345
Income tax expense	-320	-86	-84	-38	-2	-8	0	-537
PROFIT AFTER TAX	1 430	127	228	94	-12	-59	0	1 808
Minority interests	-167	-5	0	-21	0	0	0	-193
NET PROFIT, GROUP SHARE	1 263	122	228	74	-12	-59	0	1 615
* of which, non-cash expenses	-311	-71	-2	-7	-5	-79	0	-474
Depreciation and amortisation of fixed assets	-223	-71	-1	-35	-2	-70	0	-402
Other	-88	0	-1	28	-3	-9	0	-72
INCOME STATEMENT FY 2005								
Net interest income	3 624	548	10	226	1	-54	-7	4 348
Gross earned premiums, insurance	0	3 550	0	0	0	0	0	3 550
Dividend income	107	107	7	12	3	0	0	235
Net gains from financial instruments at fair value	459	1	19	8	24	2	0	513
Net realised gains from available-for-sale assets	122	264	1	32	40	0	0	458
Net fee and commission income	1 234	-269	410	447	0	-2	-2	1 819
Net post-tax income from discontinued operations	0	0	0	0	0	0	0	0
Other income	387	56	2	57	70	491	-489	574
GROSS INCOME	5 933	4 257	450	782	137	437	-498	11 498
Operating expenses*	-3 668	-523	-67	-563	-70	-519	498	-4 914
Impairment	-34	-30	0	23	-62	0	0	-103
on loans and receivables	-27	-1	0	-3	-3	0	0	-35
on available-for-sale assets	-4	-19	0	28	1	0	0	6
on goodwill	0	-10	0	-2	-8	0	0	-20
on other	-2	0	0	0	-52	0	0	-54
Gross technical charges, insurance	0	-3 059	0	0	0	0	0	-3 059
Ceded reinsurance result	0	-69	0	0	0	0	0	-69
Share in results of associated companies	28	0	0	3	-15	0	0	16
PROFIT BEFORE TAX	2 259	575	383	244	-10	-83	0	3 369
Income tax expense	-609	-118	-97	-53	-22	-26	0	-925
PROFIT AFTER TAX	1 650	456	286	191	-32	-109	0	2 443
Minority interests	-191	5	-1	-7	0	0	0	-194
NET PROFIT, GROUP SHARE	1 459	462	286	184	-32	-109	0	2 249
* of which, non-cash expenses	-270	-53	-1	-69	-1	-71	0	-466
Depreciation and amortisation of fixed assets	-228	-53	-1	-35	-1	-71	0	-389
Other	-42	0	0	-34	0	0	0	-77

In millions of EUR	Banking	Insurance	Asset manage-ment	European private banking	Gevaert	Holding-company activities	Inter-segment eliminations	KBC group
BALANCE SHEET 31-12-2004 *pro forma*								
Cash and balances with central banks	1 373	1	0	179	0	0	-	1 553
Treasury bills and other bills eligible for rediscounting with central banks	2 160	0	0	5 918	0	0	-	8 078
Loans and advances to banks	26 560	128	63	11 591	104	18	-	38 463
Loans and advances to customers	106 248	140	123	4 628	30	8	-	111 177
Securities	72 966	17 316	388	7 668	250	274	-	98 862
Derivative financial instruments	15 365	1	10	0	0	0	-	15 376
Investment property	17	141	0	11	0	0	-	169
Reinsurers' share in technical provisions, insurance	0	258	0	0	0	0	-	258
Accrued income	2 639	268	27	551	4	16	-	3 504
Other assets	1 044	643	9	451	288	0	-	2 435
Tax assets	411	152	0	102	7	0	-	671
Non-current assets held for sale	0	0	0	0	0	0	-	0
Investments in associated companies	509	106	0	6	608	0	-	1 228
Goodwill and other intangible assets	298	203	1	288	8	290	-	1 086
Property and equipment	1 537	204	3	320	197	38	-	2 300
Total assets	231 126	19 562	623	31 713	1 496	643	-	285 163
Deposits from banks	42 071	4	0	12 913	95	0	-	55 083
Deposits from customers and debt securities	141 181	0	4	15 449	0	1 078	-	157 712
Derivative financial instruments	17 727	0	1	0	0	0	-	17 728
Gross technical provisions, insurance	0	13 259	0	0	0	0	-	13 259
Liabilities under investment contracts, insurance	0	3 931	0	0	0	0	-	3 931
Accrued expense	2 376	2	3	345	2	15	-	2 743
Other liabilities	11 129	559	41	592	138	129	-	12 588
Tax liabilities	443	70	38	94	7	20	-	672
Non-current liabilities held for sale	0	0	0	0	0	0	-	0
Provisions for risks and charges	404	54	1	101	9	13	-	580
Subordinated liabilities	5 644	9	0	1 113	2	0	-	6 768
Total liabilities	220 975	17 887	88	30 607	252	1 255	-	271 064
BALANCE SHEET 31-12-2005								
Cash and balances with central banks	1 188	3	0	869	0	0	-	2 061
Treasury bills and other bills eligible for rediscounting with central banks	1 470	0	0	1 179	0	0	-	2 649
Loans and advances to banks	35 220	97	73	9 907	15	0	-	45 312
Loans and advances to customers	115 107	131	41	3 997	171	27	-	119 475
Securities	94 100	23 950	527	7 181	38	14	-	125 810
Derivative financial instruments	18 495	4	10	324	0	0	-	18 832
Portfolio hedge of interest rate risk	59	0	0	0	0	0	-	59
Investment property	158	140	0	10	6	0	-	313
Reinsurers' share in technical provisions, insurance	0	282	0	0	0	0	-	282
Accrued income	1 764	481	7	741	-2	1	-	2 992
Other assets	1 383	704	3	717	3	16	-	2 825
Tax assets	427	31	1	81	7	-2	-	545
Non-current assets held for sale	0	0	0	0	0	0	-	0
Investments in associated companies	482	1	0	9	497	0	-	989
Goodwill and other intangible assets	325	164	1	434	0	613	-	1 537
Property and equipment	1 440	190	4	316	128	41	-	2 120
Total assets	271 617	26 178	666	25 766	864	710	-	325 801

In millions of EUR	Banking	Insurance	Asset management	European private banking	Gevaert	Holding-company activities	Inter-segment eliminations	KBC group
Deposits from banks	52 746	10	0	7 983	82	0	-	60 821
Deposits from customers and debt securities	155 302	0	0	15 176	2	1 091		171 572
Derivative financial instruments	24 367	0	0	411	4	0	-	24 783
Portfolio hedge of interest rate risk	0	0	0	0	0	0	-	0
Gross technical provisions, insurance	0	14 779	0	0	0	0	-	14 779
Liabilities under investment contracts, insurance	0	7 615	0	0	0	0	-	7 615
Accrued expense	1 732	6	3	562	2	20	-	2 326
Other liabilities	16 445	1 101	43	947	26	112	-	18 674
Tax liabilities	444	239	45	157	9	35	-	928
Non-current liabilities held for sale	0	0	0	0	0	0	-	0
Provisions for risks and charges	396	20	0	96	10	0	-	522
Subordinated liabilities	5 237	10	0	1 068	0	0	-	6 314
Total liabilities	256 669	23 781	92	26 400	133	1 259	-	308 335

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS 32, IAS 39 and IFRS 4 have only been applied from 2005, without restatement of the 2004 figures.
Pro forma means: based on a combined 'old KBC'-Almanij entity.

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

- Banking (KBC Bank and its subsidiaries);
- Insurance (KBC Insurance and its subsidiaries);
- Asset management (KBC Asset Management and its subsidiaries);
- European private banking (KBL EPB; Kredietbank SA Luxembourgeoise and its subsidiaries);
- Gevaert (Gevaert and its subsidiaries);
- Holding-company activities (KBC Group NV on a non-consolidated basis, KBC Exploitatie and Kredietcorp);
- Intersegment transactions are transactions conducted between the different primary segments at arm's length. As a number of items are reported on a net basis (e.g., net interest income), the balance of the intragroup transactions for these items is immaterial. Intersegment transfers are measured on the basis actually used to price the transfers.

The figures for the holding-company activities also include the 'cost-sharing structure', which comprises a number of common support services such as marketing, logistics, IT and communication. Costs incurred by this cost-sharing structure are paid by the holding company and afterwards charged to the other segments. Hence, these amounts are shown both under expenses and under income (income from costs that have been passed on) in the 'holding-company activities' segment, and under expenses in the other segments.

Note 2b: Reporting by geographic segment

In millions of EUR	Belgium	Central Europe	Rest of the world	Intersegment eliminations	KBC group
FY 2004 *pro forma*					
Gross income	7 610	2 320	2 403	0	12 333
31-12-2004 *pro forma*					
Total assets	168 028	30 043	87 092	0	285 163
Total liabilities	153 802	29 199	88 063	0	271 064
Acquisition of fixed assets	370	171	90	0	631
FY 2005					
Gross income	6 385	2 693	2 420	0	11 498
31-12-2005					
Total assets	192 213	35 067	98 521	0	325 801
Total liabilities	175 515	33 615	99 205	0	308 335
Acquisition of fixed assets	218	251	48	0	517

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS 32, IAS 39 and IFRS 4 have only been applied from 2005, without restatement of the 2004 figures.
Pro forma means: based on a combined 'old KBC'-Almanij entity.

The IFRS secondary segment reporting format is based on geographic areas, and reflects KBC's focus on its two home markets – Belgium and Central Europe (Poland, Czech and Slovak Republics, Hungary and Slovenia) – and its selective presence in other countries ('rest of the world', i.e. mainly Western Europe excluding Belgium, the US and Southeast Asia).
The geographic segmentation is based on the location where the services are rendered. Since at least 95% of the customers are local customers, the location of the branch or subsidiary determines the geographic breakdown of both the balance sheet and income statement.
More detailed geographic segmentation figures for balance sheet items are provided in the various notes to the balance sheet. The breakdown here is made based on the geographic location of the counterparty.

Notes to the income statement

Note 3: Net interest income

In millions of EUR	FY 2004 *pro forma*	FY 2005
Total	3 833	4 348
Interest income	9 658	10 390
Loans and advances to banks	1 194	1 428
Loans and advances to customers	4 747	5 180
Deposits with ceding companies	5	4
Fixed-income securities not measured at fair value through profit and loss	3 007	2 220
Subtotal, interest income from financial assets not measured at fair value through profit and loss	*8 953*	*8 832*
of which interest income on impaired loans	*0*	*43*
Financial assets at fair value through profit and loss	705	1 558
Interest expense	-5 825	-6 043
Deposits from banks	-1 971	-1 864
Deposits from customers	-2 667	-2 967
Debt securities	-805	-878
Subordinated liabilities	-383	-333
Investment contracts at amortised cost	0	0

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS 32, IAS 39 and IFRS 4 have only been applied from 2005, without restatement of the 2004 figures.
Pro forma means: based on a combined 'old KBC'-Almanij entity.

Note 4: Dividend income

In millions of EUR	FY 2004 *pro forma*	FY 2005
Total	231	235
Available-for-sale shares	162	148
Shares held for trading	68	78
Other shares measured at fair value through profit and loss	0	10

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS 32, IAS 39 and IFRS 4 have only been applied from 2005, without restatement of the 2004 figures.
Pro forma means: based on a combined 'old KBC'-Almanij entity.

Note 5: Net gains from financial instruments at fair value

In millions of EUR	FY 2004 *pro forma*	FY 2005
Total	725	513
Trading instruments (including derivatives)	433	209
Other financial instruments at fair value	0	-95
Portfolio hedge of interest rate risk	0	0
Foreign exchange trading	292	399

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS 32, IAS 39 and IFRS 4 have only been applied from 2005, without restatement of the 2004 figures.
Pro forma means: based on a combined 'old KBC'-Almanij entity.

Net gains from financial instruments at fair value include:

- net (realised and unrealised) gains from trading instruments (as of 2005, these include the negative net interest result from ALM derivatives; this was included under net interest income in 2004);
- net (realised and unrealised) gains from financial instruments at fair value;
- foreign exchange gains and losses.

Total foreign exchange gains and losses excluding those recognised on financial instruments at fair value through profit and loss came to a positive 28 million euros for 2005 (included in the 399 million euros shown in the table).

The overall change in fair value taken to the income statement in 2005, where the fair value was based on estimates rather than market prices, comes to 201 million euros.

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

In millions of EUR	FY 2004 *pro forma*	FY 2005
Total	503	458
Fixed-income securities	142	99
Shares	361	360

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS 32, IAS 39 and IFRS 4 have only been applied from 2005, without restatement of the 2004 figures.
Pro forma means: based on a combined 'old KBC'-Almanij entity.

Note 7: Net fee and commission income

In millions of EUR	FY 2004 *pro forma*	FY 2005
Total	1 404	1 819
Fee and commission income	2 205	2 693
Securities and asset management (including from investment contracts)	1 395	1 800
Commitment credit	130	135
Payments	371	405
Other	309	352
Fee and commission expense	-801	-874
Acquisition costs	-377	-382
Other	-425	-492

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS 32, IAS 39 and IFRS 4 have only been applied from 2005, without restatement of the 2004 figures.
Pro forma means: based on a combined 'old KBC'-Almanij entity.

Note: commissions related to the insurance business (investment contracts) are shown on a gross basis (before ceded reinsurance).

Note 8: Other income

In millions of EUR	FY 2004 *pro forma*	FY 2005
Total	479	574

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS 32, IAS 39 and IFRS 4 have only been applied from 2005, without restatement of the 2004 figures.
Pro forma means: based on a combined 'old KBC'-Almanij entity.

The amount reported under 'Other income' includes income from operating leases, amounts recovered under guarantees, rental income, realised gains on property and equipment and investment property, and amounts recovered on loans that have been written off in full.

Note 9: Technical accounts, insurance

In millions of EUR	Insurance contracts, life	Insurance contracts, non-life	Insurance contracts, total	Investment contracts with DPF, life	Investment contracts without DPF, life	Non-technical account	TOTAL
FY 2004 *pro forma*							
Gross earned premiums	3 615	1 543	5 158	-	-	0	5 158
Gross technical charges	-3 975	-965	-4 940	-	-	0	-4 940
Gross claims paid	-1 259	-838	-2 097	-	-	0	-2 097
Gross provision for claims outstanding	-17	-77	-94	-	-	0	-94
Bonuses and rebates	-8	-1	-9	-	-	0	-9
Other technical provisions	-2 692	-28	-2 720	-	-	0	-2 720
Other technical income and charges	1	-21	-20	-	-	0	-20
Investment income and charges	714	219	933	-	-	-210	723
Investment income	0	0	0	-	-	825	825
Value adjustments	226	0	226	-	-	-164	62
Investment charges	0	0	0	-	-	-147	-147
Other income and charges (non-technical)	0	0	0	-	-	-17	-17
Allocation to the technical accounts	488	219	707	-	-	-707	0
General administrative expenses	-185	-495	-681	-	-	0	-681
Net acquisition costs	-141	-369	-510	-	-	0	-510
Administrative expenses	-44	-126	-171	-	-	0	-171
Impairment of goodwill	0	0	0	-	-	0	0
Share in results of associated companies	0	0	0	-	-	20	20
Ceded reinsurance result	-4	-59	-63	-	-	-5	-68
Technical charges	0	38	38	-	-	0	38
Fee and commission expense	1	18	19	-	-	0	19
Interest expense, deposits from reinsurers	0	0	0	-	-	-5	-5
Earned premiums	-5	-115	-120	-	-	0	-120
PROFIT BEFORE TAX	164	243	407	-	-	-195	213

In millions of EUR	Insurance contracts, life	Insurance contracts, non-life	Insurance contracts, total	Investment contracts with DPF, life	Investment contracts without DPF, life	Non-technical account	TOTAL
FY 2005							
Gross earned premiums	655	1 650	2 304	1 246	0	0	3 550
Gross technical charges	-664	-1 033	-1 696	-1 450	-445	0	-3 592
Gross claims paid	-411	-863	-1 274	- 274	-1	0	-1 548
Gross provision for claims outstanding	4	-137	-133	15	0	0	-119
Bonuses and rebates	-2	0	-2	-3	0	0	-5
Other technical provisions	-256	- 8	-263	-1 189	-563	0	-2 016
Other technical income and charges	0	-24	-24	2	119	0	96
Investment income and charges	305	185	490	252	573	165	1 480
Investment income	0	0	0	0	0	1 100	1 100
Value adjustments	0	0	0	0	573	0	573
Investment charges	0	0	0	0	0	-200	-200
Other income and charges (non-technical)	0	0	0	0	0	7	7
Allocation to the technical accounts	305	185	490	252	0	-742	0
General administrative expenses	-133	-521	-653	-56	-75	0	-784
Net acquisition costs	-89	-356	-445	-36	-68	0	-548
Administrative expenses	-44	-164	-208	-20	-8	0	-236
Impairment of goodwill	0	0	0	0	0	-10	-10
Share in results of associated companies	0	0	0	0	0	0	0
Ceded reinsurance result	-3	-63	-66	0	0	-4	-69
Technical charges	2	37	38	0	0	0	38
Fee and commission expense	1	16	17	0	0	0	17
Interest expense, deposits from reinsurers	0	0	0	0	0	-4	-4
Earned premiums	-5	-115	-121	0	0	0	-121
PROFIT BEFORE TAX	161	219	380	-8	52	151	575

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS 32, IAS 39 and IFRS 4 have only been applied from 2005, without restatement of the 2004 figures.
Pro forma means: based on a combined 'old KBC'-Almanij entity.

The presentation of the technical accounts in the table differs from the presentation in the consolidated income statement of KBC group. The main differences are as follows:

- a breakdown is provided of insurance contracts (life versus non-life), investment contracts (with and without DPF) and the non-technical account;
- technical charges include the internal cost of handling non-life claims;
- the investment income and charges include the internal cost of investment. In the group income statement, the investment income is broken down into the various lines of the income statement (net interest income, dividend income, net gains from financial instruments at fair value, net realised gains from available-for-sale assets, net fee and commission income and other income).

Note: KBC has only applied IFRS 4 since 2005. This explains why there are no reference figures (2004) for the investment contracts.

Note 10: Gross written premiums, life insurance

In millions of EUR	FY 2004 *pro forma*	FY 2005
Total	3 596	1 877
Accepted reinsurance	22	19
Primary business	3 596	1 877
Individual versus group		
Individual premiums (including unit-linked insurance)	3 419	1 683
Premiums under group contracts	177	194
Periodic versus single		
Periodic premiums	648	658
Single premiums	2 947	1 219
Non-bonus versus bonus contracts		
Premiums from non-bonus contracts	193	159
Premiums from bonus contracts	2 318	1 641
Unit-linked	1 085	77
Ceded reinsurance	-2	-2
Commissions	-92	-151

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS 32, IAS 39 and IFRS 4 have only been applied from 2005, without restatement of the 2004 figures.
Pro forma means: based on a combined 'old KBC'-Almanij entity.

Note: the significant decrease in life insurance premiums is due to the new method used to account for investment contracts without DPF. Since 1 January 2005, the 'deposit accounting method' has been used for these contracts, which basically means that the premium income (and technical charges) from these contracts is no longer recognised under the gross earned premiums (and gross technical charges) heading, but that the margins on them are reported under net fee and commission income. Investment contracts without DPF largely correspond with the unit-linked contracts, which in 2004 accounted for premium income of 1.1 billion euros and in 2005 for premium income of 4.6 billion euros.

Note 11: Overview of non-life insurance per class of business

In millions of EUR	Gross earned premiums	Gross claims incurred	Gross operating expenses	Ceded reinsurance	Total
FY 2004 *pro forma*					
Total	1 543	-916	-496	-57	75
Accepted reinsurance	269	-167	-78	-15	9
Primary business	1 275	-749	-418	-42	66
1 Accident & health (classes 1 & 2, excl. industrial accidents)	104	-64	-33	-1	6
2 Industrial accidents (class 1)	68	-43	-14	-2	9
3 Motor, third-party liability (class 10)	377	-271	-114	6	-2
4 Motor, other classes (classes 3, 7)	220	-121	-66	-1	32
5 Shipping, aviation, transport (classes 4, 5, 6, 7, 11, 12)	37	-8	-10	-13	6
6 Fire and other damage to property (classes 8, 9)	328	-136	-126	-26	40
7 General third-party liability (class 13)	87	-75	-35	1	-22
8 Credit and suretyship (classes 14, 15)	5	1	-2	-2	2
9 Miscellaneous pecuniary losses (class 16)	10	-6	-5	-3	-4
10 Legal assistance (class 17)	31	-23	-10	0	-2
11 Assistance (class 18)	8	-3	-3	-1	1
FY 2005					
Total	1 650	-1 000	-521	-63	66
Accepted reinsurance	260	-156	-64	-19	20
Primary business	1 390	-844	-456	-43	46
1 Accident & health (classes 1 & 2, excl. industrial accidents)	111	-65	-34	-1	11
2 Industrial accidents (class 1)	73	-51	-14	-2	5
3 Motor, third-party liability (class 10)	424	-317	-125	-2	-21
4 Motor, other classes (classes 3, 7)	242	-132	-73	0	37
5 Shipping, aviation, transport (classes 4, 5, 6, 7, 11, 12)	42	-12	-13	-15	2
6 Fire and other damage to property (classes 8, 9)	352	-156	-135	-26	34
7 General third-party liability (class 13)	89	-78	-37	5	-20
8 Credit and suretyship (classes 14, 15)	4	0	-2	-1	2
9 Miscellaneous pecuniary losses (class 16)	12	-9	-9	0	-5
10 Legal assistance (class 17)	33	-20	-12	0	2
11 Assistance (class 18)	8	-4	-3	-1	0

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS 32, IAS 39 and IFRS 4 have only been applied from 2005, without restatement of the 2004 figures.
Pro forma means: based on a combined 'old KBC'-Almanij entity.

Note 12: Operating expenses

In millions of EUR	FY 2004 *pro forma*	FY 2005
Total	-4 944	-4 914
Staff expenses	-2 868	-2 849
of which share-based payment (equity-settled)	0	-2
of which share-based payment (cash-settled)	-21	-34
General administrative expenses	-1 601	-1 599
Depreciation and amortisation of fixed assets	-403	-389
Provisions for risks and charges	-72	-77

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS 32, IAS 39 and IFRS 4 have only been applied from 2005, without restatement of the 2004 figures.
Pro forma means: based on a combined 'old KBC'-Almanij entity.

Operating expenses include staff expenses, depreciation and amortisation of fixed assets, changes in the provisions for risks and charges and general administrative expenses. The latter include repair and maintenance expenses, publicity expenses, rent, professional fees, various (non-income) taxes and utilities.

Share-based payments are included under staff expenses, and can be broken down as follows:

A. Main cash-settled share-based payment arrangements

KBC Financial Products established a phantom equity plan in 1999 as a means of keeping its senior executives. One million phantom shares were issued between 1999 and 2002. Since only one million shares can be issued under the plan, all new participants must acquire shares from existing members of the plan. The shares are valued, based on the profit before tax of the KBC Financial Products group. The plan was terminated in 2005 and all employees will be paid out over a four-year period ending in March 2009.

B. Main equity-settled share-based payments

Since 2000, the KBC Bank and Insurance Holding Company NV (which has since merged with Almanij to form KBC Group NV) has launched share option plans at different points in time. The share options have been granted to members of staff of the KBC Bank and Insurance Holding Company NV and subsidiaries in Belgium and abroad. There were share option plans for all members of staff and plans reserved for particular members of staff. The share options were granted free to the members of staff, who only had to pay the relevant tax. The share options have a life of seven or ten years from the date they were granted to members of staff. The share options can be exercised in specific years in the months of June, September or December. Not all the options need be exercised at once. When exercising options, members of staff can either deposit the resulting shares on their custody accounts or sell them immediately on Euronext Brussels.

The KBC Bank and Insurance Holding Company NV (now KBC Group NV) took over three share option plans of KBC Peel Hunt dating from 1999 and 2000. Eligible KBC Peel Hunt staff members have obtained options on KBC Bank and Insurance Holding Company NV (KBC Group NV) shares instead of KBC Peel Hunt shares.

KBC Group NV has repurchased treasury shares in order to be able to deliver shares to staff when they exercise their options.

IFRS 2 has not been applied to 'equity-settled' option plans that predate 7 November 2002 since they are not covered by the scope of IFRS 2. The option plans postdating 7 November 2002 are limited in size.

● Number and weighted average exercise prices of share options for staff

		2004		2005
Options	**Number of options**	**Average exercise price**	**Number of options**	**Average exercise price**
Outstanding at beginning of period	6 064 751	42.74	5 014 431	42.25
Granted during period	52 150	46.45	81 650	65.21
Exercised during period	1 077 070	45.18	1 404 550	44.77
Expired during period	0	-	-	-
Forfeited during period	25 400	43.08	22 160	41.84
Outstanding at end of period*	5 014 431	42.25	3 669 371	41.81
Exercisable at end of period	2 074 079	44.92	973 729	44.22

* 2004: Range of exercise prices: 28.2 – 45.81 euros; weighted average residual term to maturity: 88 months.
2005: Range of exercise prices: 28.3 – 65.21 euros; weighted average residual term to maturity: 81 months.

KBC group employees again had the opportunity to buy shares at an attractive price when the group increased its capital in 2005. This employee benefit of 1.8 million euros was recognised as a staff expense against an entry under equity.

Note 13: Personnel

	FY 2004 *pro forma*	FY 2005
Total average number of persons employed (in full-time equivalents)	51 883	51 622
Breakdown by segment	51 883	51 622
Banking	36 423	36 037
Insurance	8 409	8 667
Asset management	319	382
European private banking	3 715	3 690
Gevaert	853	270
Holding-company activities	2 164	2 576
Geographic breakdown:	51 883	51 622
Belgium	19 091	19 016
Central Europe	26 117	26 505
Rest of the world	6 675	6 101

N.B.: *Pro forma* means: based on a combined 'old KBC'-Almanij entity.

The figures in the table show the average number of people employed during the year. For companies consolidated according to the method of proportionate consolidation, the proportionate share of the workforce is shown. This, along with a few other differences stemming from the scope of consolidation and methodology, accounts for the slight difference between these figures and the figures shown in the 'Sustainable and socially responsible business and human resources' section (where the year-end figures are shown, and no account is taken of the workforce of companies consolidated using the method of proportionate consolidation).
The average number of employees in 2005 can be divided up as follows: 1 179 senior managers (1 238 in 2004), 50 127 white-collar workers (50 599 in 2004) and 316 blue-collar workers (46 in 2004).

Note 14: Impairment (income statement)

In millions of EUR	FY 2004 *pro forma*	FY 2005
Total	-365	-103
Impairment on loans and advances		
Total	-198	-35
Breakdown by type	-198	-35
Specific impairment, on-balance-sheet lending	-212	-126
Specific impairment, off-balance-sheet credit commitments	4	2
Portfolio-based impairment*	10	89
Geographic breakdown:	-198	-35
Belgium	-33	-14
Central Europe	-72	-77
Rest of the world	-93	56
Impairment on available-for-sale assets		
Total	-150	6
Impairment on goodwill		
Total	0	-20
Impairment on other		
Total	-17	-54
Other intangible fixed assets	-1	-3
Property and equipment	-16	-2
Held to maturity	0	0
Associated companies (goodwill)	0	-49

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS 32, IAS 39 and IFRS 4 have only been applied from 2005, without restatement of the 2004 figures.
Pro forma means: based on a combined 'old KBC'-Almanij entity.
* For 2004: including provision for international loans and for country risks.

Impairment on loans and receivables. For more information on loan losses (non-performing loans, loan loss ratios, etc.), see the 'Value and risk management' section.

Impairment on available-for-sale assets. In 2005, impairment on available-for-sale assets included 18 million euros in impairment on shares, and a reversal of 24 million euros in impairment on bonds. In the reference period, impairment of 150 million euros had been recorded, primarily on shares in the insurance business. Note that the reference figures are based on Belgian GAAP, given that IAS 39 has only been applied from 2005.

Impairment of goodwill. In 2005, impairment of goodwill included 9 million euros on the investment in ČSOB Poisťovňa (Slovakia), 8 million euros on the (now sold) investment in BOFORT and a total of 3 million euros on a number of other participating interests. This impairment was recorded in the insurance, Gevaert and European private banking business segments. In each case, the impairment reflects the difference between the carrying values before impairment and the value in use.

Impairment of other. In 2005 impairment recorded on 'other' items included 49 million euros on the investment in Agfa-Gevaert (the difference between the carrying value of Agfa-Gevaert before impairment and its fair value, i.e. the market price, net of direct selling expenses). This impairment was recorded in the Gevaert business segment. Other impairment also included a total of 5 million euros for a number of tangible and other intangible fixed assets (the difference between the carrying value before impairment and the value in use of the assets in question).

Note 15: Share in results of associated companies

In millions of EUR	FY 2004 *pro forma*	FY 2005
Total	22	16
Nova Ljubljanska banka	27	20
Agfa-Gevaert	-36	-16
FBD Holdings	21	0

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS 32, IAS 39 and IFRS 4 have only been applied from 2005, without restatement of the 2004 figures.
Pro forma means: based on a combined 'old KBC'-Almanij entity.

Note: impairment on (goodwill on) associated companies is included in 'impairment'. The share in results of associated companies does not take this impairment into account.

The 'Share in results of associated companies' heading includes KBC's share in the net result of Agfa-Gevaert, but only for the first three quarters of 2005. The result for the fourth quarter of 2005 of Agfa-Gevaert – which is a listed company – is not taken into account, as Agfa-Gevaert will only publish its results for the full year 2005 after KBC Group NV. See also note 49.

Note 16: Income tax expense

In millions of EUR	FY 2004 *pro forma*	FY 2005
Total	-537	-925
Breakdown by type	-537	-925
Current taxes on income	-630	-860
Deferred taxes on income	93	-65
Tax components		
Profit before tax	2 345	3 369
Income tax at the Belgian statutory rate	33.99%	33.99%
Income tax calculated	-797	-1 145
Plus/minus tax effects attributable to		
Differences in tax rates, Belgium – abroad	102	142
Tax-free income[1]	263	316
Adjustments related to prior years	0	3
Adjustments, opening balance of deferred taxes due to change in tax rate	-1	-1
Unused tax losses and unused tax credits	24	39
Other (mainly non-deductible expenses)	-127	-280
Aggregate amount of temporary differences associated with investments in subsidiaries, branches and associated companies and interests in joint ventures, for which deferred tax liabilities have not been recognised[2].	629	722

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS 32, IAS 39 and IFRS 4 have only been applied from 2005, without restatement of the 2004 figures.
Pro forma means: based on a combined 'old KBC'-Almanij entity.
1 Primarily gains realised on the sale of shares.
2 Reserves of joint or other subsidiaries, associated companies and branches that, at certain entities, will be taxed in full on distribution (recorded in full). For a significant number of entities, the foreign tax credit applies (5% is recorded, since 95% is definitively taxed).

For information on tax assets and tax liabilities, see note 25.

Note 17: Earnings per share

In millions of EUR	FY 2004 *pro forma*	FY 2005
Basic earnings per share		
Net profit attributable to shareholders	1 615	2 249
For 2004: minus net profit related to treasury shares and MCBs	-3	0
Net profit used to calculate EPS	1 612	2 249
Weighted average number of ordinary shares outstanding ('000 of units)	366 672	359 105
For 2004: adjusted for the number of treasury shares & MCBs ('000 of units)	-7 245	0
Weighted average number of ordinary shares for the calculation of EPS ('000 of units)	359 427	359 105
Basic earnings per share (in EUR)	4.48	6.26
Diluted earnings per share		
Net profit attributable to shareholders	1 615	2 249
Elimination of interest expense on convertible debt (net of tax effect)	14	13
For 2004: minus net profit related to treasury shares and MCBs	-3	0
Net profit used to calculate diluted EPS	1 626	2 263
Weighted average number of ordinary shares outstanding ('000 of units)	359 427	359 105
Dilutive potential ordinary shares	11 103	8 906
Weighted average number of ordinary shares for diluted earnings ('000 of units)	370 530	368 011
Diluted earnings per share (in EUR)	4.39	6.15

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS 32, IAS 39 and IFRS 4 have only been applied from 2005, without restatement of the 2004 figures.
Pro forma means: based on a combined 'old KBC'-Almanij entity.

Basic earnings per share are defined as [net profit, group share] / [average number of ordinary shares plus mandatorily convertible bonds minus treasury shares].
Diluted earnings per share are defined as [net profit, group share, adjusted for after-tax interest expense on freely convertible bonds] / [average number of ordinary shares plus mandatorily convertible bonds minus treasury shares plus the dilutive potential of options and freely convertible bonds].

Overview of dilutive instruments:

Freely convertible bonds. On 16 November 1998, the Board of Directors of the KBC Bank and Insurance Holding Company NV (now KBC Group NV) decided (as amended by the decisions of 26 November and 9 December 1998) to issue warrants entitling holders of bonds issued (for an amount of 950 million German marks, maturing on 10 December 2005, with a fixed interest rate of 2.5%) by KBC International Finance to contribute them during the life of the bonds to the capital of the KBC Bank and Insurance Holding Company NV (now KBC Group NV) at a subscription price that was initially set at 156.3204 German marks (converted, 79.93 euros) per new share to be issued. The maximum number of new KBC shares to be issued on the basis of this initial subscription price came to 6 077 261, or 2.05% of the total number of shares outstanding at the time of issue. These bonds were placed via the international capital market. The maturity date of these bonds has passed, and a total of 446 new KBC shares were created when warrants were exercised.

Options on KBC Group NV shares allocated to staff members: for more detailed information, see note 12.

Notes to the balance sheet

Note 18: Classification and fair value of financial instruments

ASSETS

In millions of EUR	Loans and receivables	*fair value*	HTM	*fair value*	AFS	HFT[1]	FIFV[2]	Total
31-12-2004 *pro forma*								
Cash and balances with central banks	-	-	-	-	-	-	-	1 553
Treasury bills and other bills eligible for rediscounting with central banks	-	-	-	-	-	-	-	8 078
Loans and advances to banks	-	-	-	-	-	-	-	38 463
Loans and advances to customers	-	-	-	-	-	-	-	111 177
Fixed-income securities	-	-	-	-	-	-	-	79 275
Equity instruments	-	-	-	-	-	-	-	19 587
Derivative financial instruments	-	-	-	-	-	-	-	15 376
31-12-2005								
Cash and balances with central banks	2 061	2 061	0	0	0	0	0	2 061
Treasury bills and other bills eligible for rediscounting with central banks	0	0	281	281	1 007	1 138	223	2 649
Loans and advances to banks	21 699	21 776	0	0	207	8 925	14 481	45 312
Loans and advances to customers	104 333	105 816	0	0	0	6 549	8 593	119 475
Fixed-income securities	2 160	2 192	10 848	11 151	45 746	18 241	12 033	89 028
Equity instruments	0	0	0	0	5 370	23 990	7 422	36 782
Derivative financial instruments	0	0	0	0	0	18 832	0	18 832

LIABILITIES

In millions of EUR	Funding		HFT[1]	FIFV[2]				Total
31-12-2004 *pro forma*								
Deposits from banks	-		-	-	-	-	-	55 083
Deposits from customers and debt securities	-		-	-	-	-	-	157 712
Derivative financial instruments	-		-	-	-	-	-	17 728
Liabilities under investment contracts	-		-	-	-	-	-	3 931
31-12-2005								
Deposits from banks	56 367		2 809	1 645				60 821
Deposits from customers and debt securities	161 080		9 324	1 168				171 572
Derivative financial instruments	0		24 783	0				24 783
Liabilities under investment contracts	0		0	7 615				7 615

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS 32, IAS 39 and IFRS 4 have only been applied from 2005, without restatement of the 2004 figures.
Pro forma means: based on a combined 'old KBC'-Almanij entity.
1 Derivatives used for trading purposes and derivatives used for hedging purposes are both classified as being held for trading.
2 Initially recognised at fair value through profit or loss.

Financial instruments are grouped into a number of categories. These categories are defined and the relevant valuation rules provided in 'Financial assets and liabilities (IAS 39)', note 1b.

As IAS 32, IAS 39 and IFRS 4 have only been applied from 1 January 2005, no reference figures for 2004 have been provided regarding the breakdown of financial instruments into the various portfolios.

Fair value. When available, published price quotations (from dealers, brokers, regulatory agencies, etc.) in well-established active markets are used to determine the fair value of financial assets or financial liabilities. Otherwise, fair value will be obtained:

- By reference to recent 'at arm's length' market transactions between knowledgeable, willing parties.
- By using a valuation technique (discounted cashflow analysis and option pricing techniques). The valuation technique incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies used for pricing financial instruments.
- By using the European Venture Capital Association (EVCA) rules for private equity.

In 2004, financial assets and liabilities were not measured according to IAS 32 and IAS 39. Trading securities outstanding at year-end 2004 came to 32 billion euros. Under Belgian GAAP, the other securities were considered investment securities; net of treasury shares, the investment securities came to 66 billion euros. Unrealised gains on these investment securities amounted to 2.6 billion euros. The outstanding balance of each category of securities as at 1 January 2005 on application of IAS 32 and IAS 39 is given in note 22.

The measurement of financial instruments that are valued at fair value (available for sale, held for trading, at fair value through profit or loss) is based in part on published prices and in part on KBC's own models. Roughly three-quarters of the revaluation recorded for assets is based on models and one-fourth on published prices. The liabilities are for the most part revalued using models.

The difference between the carrying value and the repayment price of FIFV liabilities comes to a negative 14 million euros.

Market value adjustments are recognised on all positions that are measured at fair value, with fair value changes being reported in net profit or loss, to cover close-out costs, adjustments for less liquid positions or markets, mark-to-model-linked valuation adjustments, counterparty risk, liquidity risk and operations-related costs.

Note:
- the disclosure of the fair value of funding does not take into account own credit risk (e.g., a change in KBC's ratings does not influence the fair value of funding);
- the disclosed fair value of demand and savings deposits (which both are repayable on demand) is presumed to be equal to their carrying value.

Note 19: Loans and advances to banks

In millions of EUR	**31-12-2004** ***pro forma***	**31-12-2005**
Total	38 463	45 312
Geographic breakdown	38 463	45 312
Belgium	2 589	6 330
Central Europe	14 812	8 477
Rest of the world	21 062	30 505
Breakdown according to remaining term to maturity	38 463	45 312
Repayable on demand	5 318	4 191
Not more than one year	32 230	39 910
More than one but not more than five years	806	825
More than five years	109	386
of which repos	21 196	29 559
Quality		
Gross amount outstanding	38 478	45 313
Impairment for losses on loans and advances	-15	-1
Net amount outstanding	38 463	45 312
of which trade bills eligible for refinancing at the central banks of the countries where the credit institution is established	1 291	24
Fair value of collateral accepted	18 204	29 550

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS 32, IAS 39 and IFRS 4 have only been applied from 2005, without restatement of the 2004 figures.
Pro forma means: based on a combined 'old KBC'-Almanij entity.

For more information on impairment on loans and advances, see note 21.

Note 20: Loans and advances to customers

In millions of EUR	31-12-2004 *pro forma*	31-12-2005
Total	111 177	119 475
Geographic breakdown	111 177	119 475
Belgium	50 999	55 247
Central Europe	14 253	15 957
Rest of the world	45 925	48 271
Breakdown according to remaining term to maturity	111 177	119 475
Not more than one year	51 452	60 165
More than one but not more than five years	20 409	20 608
More than five years	39 316	38 702
Breakdown by type of credit	111 177	119 475
Discount and acceptance credit	359	545
Consumer credit	1 642	2 123
Mortgage loans	27 839	34 233
Term loans	65 081	65 859
Finance leasing	5 307	5 906
Current account advances	5 924	6 437
Advances on life insurance contracts	9	8
Other (including impairment)	5 015	4 363
of which: securitised	1 057	1 038
of which: repos	17 511	14 973
Quality		
Gross amount outstanding	113 860	122 220
Impairment for losses on loans and advances	-2 683	-2 745
Net amount outstanding	111 177	119 475
of which trade bills eligible for refinancing at the central banks of the countries where the credit institution is established	66	0
Fair value of collateral accepted	20 611	14 972
Finance lease receivables		
Gross investment in finance leases, receivable	5 800	6 660
Not more than one year	1 821	2 057
More than one but not more than five years	2 790	3 170
More than five years	1 189	1 433
Unearned future finance income on finance leases	493	754
Net investment in finance leases	5 307	5 906
Not more than one year	1 719	1 835
More than one but not more than five years	2 588	2 873
More than five years	1 000	1 198
of which: non-guaranteed residual values accruing to the benefit of the lessor	15	8
Accumulated impairment for uncollectable lease payments receivable	50	42
Contingent rents recognised in income	14	12

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS 32, IAS 39 and IFRS 4 have only been applied from 2005, without restatement of the 2004 figures.
Pro forma means: based on a combined 'old KBC'-Almanij entity.

For more information on impairment on loans and advances, see note 21.

Finance leasing:

Most finance leasing is carried out via the KBC Lease group. KBC Lease offers a number of finance leasing products, ranging from equipment leasing, to real estate leasing (Belgium) and vendor finance (medium and big ticket vendor finance is offered in most European countries, small ticket leasing is concentrated in France) to car leasing (including full service car leasing in Belgium and Luxembourg).

While equipment lease is typically commercialised through the branch network of KBC Bank, vendor finance supports the vendors (suppliers) and car leasing is sold both through the branch network of KBC Bank and by an in-house sales team. Typical vendor finance transactions include EDP hardware, EDP software, medical equipment, containers and trailers.

Note 21: Impairment for loan losses (balance sheet)

In millions of EUR	31-12-2004 *pro forma*	31-12-2005
Total	2 786	2 822
Breakdown by type	2 786	2 822
Specific impairment, on-balance-sheet lending	2 529	2 471
Specific impairment, off-balance-sheet credit commitments	88	61
Portfolio-based impairment (in 2004: provision for international credit and provision for country risks).	169	290
Breakdown by counterparty	2 786	2 822
Impairment on loans and advances to banks	15	1
Impairment on loans and advances to customers	2 683	2 745
Off-balance-sheet credit commitments	88	75
Geographic breakdown	2 786	2 822
Belgium	937	996
Central Europe	1 052	1 078
Rest of the world	797	747

MOVEMENTS TABLE	Specific impairment, on-balance-sheet lending	Specific impairment, off-balance-sheet credit commitments	Portfolio-based impairment	Total
Opening balance 01-01-2004 *pro forma*	2 652	94	199	2 945
Movements with an impact on results				
Loan loss expenses	829	72	47	948
Loan loss recoveries	-615	-79	-56	-750
Movements without an impact on results				
Write-offs	-440	0	0	-440
Changes in the scope of consolidation	30	0	-7	23
Other	73	1	-14	60
Closing balance 31-12-2004 *pro forma*	2 529	88	169	2 786
Opening balance 01-01-2005	2 529	88	169	2 786
First-time application of IAS 39 on 1-1-2005	61	-18	194	237
Movements with an impact on results				
Loan loss expenses	704	49	121	874
Loan loss recoveries	-578	-51	-211	-839
Movements without an impact on results				
Write-offs	-261	0	0	-261
Changes in the scope of consolidation	0	0	0	0
Other	15	-6	16	25
Closing balance 31-12-2005	2 471	61	290	2 822

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS 32, IAS 39 and IFRS 4 have only been applied from 2005, without restatement of the 2004 figures.
Pro forma means: based on a combined 'old KBC'-Almanij entity.

Information on loan loss ratios, non-performing loans (impaired loans for which principal repayments or interest payments are more than 90 days in arrears) and coverage of these non-performing loans by various loan loss impairments is provided in the 'Value and risk management' section.

Note 22: Securities

In millions of EUR	31-12-2004 *pro forma*	31-12-2005
Total	98 862	125 810
Geographic breakdown	98 862	125 810
Belgium	36 323	46 925
Central Europe	10 010	12 286
Rest of the world	52 530	66 600
Breakdown by type and counterparty	98 862	125 810
Fixed-income securities	78 797	89 028
Government bonds	42 421	54 637
Credit institutions	13 394	17 157
Other	22 983	17 233
Equity instruments	20 065	36 782
Shares	16 133	29 699
Investment contracts	3 931	7 083
Breakdown according to remaining term to maturity		
Fixed-income securities	78 797	89 028
Not more than one year	14 711	16 230
More than one but not more than five years	36 432	34 836
More than five years	27 655	37 962
Breakdown by portfolio	98 862	125 810
Fixed-income securities	78 797	89 028
Loans and receivables	-	2 160
Held-to-maturity	-	10 848
Available-for-sale	-	45 746
Held-for-trading	-	18 241
Other financial instruments at fair value	-	12 033
Equity instruments	20 065	36 782
Available-for-sale	-	5 370
Held-for-trading	-	23 990
Other financial instruments at fair value	-	7 422

MOVEMENTS TABLE 2005	Fixed-income securities	Shares
Available-for-sale		
Gross amount outstanding		
Opening balance	0	0
First-time application of IAS 32 and IAS 39 at 01-01-2005	39 529	4 950
Purchases	27 583	1 762
Sales or at maturity	-21 964	-1 802
Accrued premiums	-73	0
Translation differences	296	11
Changes in the scope of consolidation	13	-56
Revaluation result	19	941
Other movements	365	-335
Closing balance	45 768	5 471
Impairment		
Opening balance	0	0
First-time application of IAS 32 and IAS 39 at 01-01-2005	48	86
Movements with an impact on results		
Impairment recognised	11	26
Impairment reversed	-35	-7
Movements without an impact on results		
Write-offs	0	0
Changes in the scope of consolidation	0	0
Other	-2	-3
Closing balance	22	101
Net amount	45 746	5 370

In millions of EUR		
Held-to-maturity		
Gross amount outstanding		
Opening balance	0	-
First-time application of IAS 32 and IAS 39 at 01-01-2005	8 543	-
Purchases	5 771	-
Sales or at maturity	-3 742	-
Accrued premiums	-72	-
Translation differences	349	-
Changes in the scope of consolidation	0	-
Revaluation result	0	-
Other movements	0	-
Closing balance	10 848	-
Impairment		
Opening balance	0	-
First-time application of IAS 32 and IAS 39 at 01-01-2005	0	-
Movements with an impact on results		
Impairment recognised	0	-
Impairment reversed	0	-
Movements without an impact on results		
Write-offs	0	-
Changes in the scope of consolidation	0	-
Other	0	-
Closing balance	0	-
Net amount	10 848	-
Loans and receivables		
Gross amount outstanding		
Opening balance	0	-
First-time application of IAS 32 and IAS 39 at 01-01-2005	1 970	-
Purchases	192	-
Sales or at maturity	-91	-
Accrued premiums	29	-
Translation differences	61	-
Changes in the scope of consolidation	0	-
Revaluation result	0	-
Other movements	0	-
Closing balance	2 160	-
Impairment		
Opening balance	0	-
First-time application of IAS 32 and IAS 39 at 01-01-2005	0	-
Movements with an impact on results		
Impairment recognised	0	-
Impairment reversed	0	-
Movements without an impact on results		
Write-offs	0	-
Changes in the scope of consolidation	0	-
Other	0	-
Closing balance	0	-
Net amount	2 160	-

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS 32, IAS 39 and IFRS 4 have only been applied from 2005, without restatement of the 2004 figures.
Pro forma means: based on a combined 'old KBC'-Almanij entity.

Securities are grouped into a number of categories. These categories are defined and the relevant valuation rules provided in 'Financial assets and liabilities (IAS 39)', note 1b.

As IAS 32, IAS 39 and IFRS 4 have only been applied from 1 January 2005, no reference figures for 2004 have been provided regarding the breakdown of financial instruments into the various portfolios.

Note 23: Derivative financial instruments

In millions of EUR	31-12-2004 *pro forma* Notional amounts	31-12-2005 Notional amounts	Replacement value (RV) Positive	Replacement value (RV) Negative	Remaining term to maturity of notional amounts < 1 year	1-5 years	> 5 years
Breakdown by type	942 919	1 077 429	18 585	-23 814	596 239	314 346	166 845
Interest rate contracts	706 590	776 465	10 701	-11 891	409 434	218 398	148 633
Interest rate swaps	565 047	613 568	9 905	-11 357	321 076	180 397	112 095
Forward rate agreements	22 605	30 498	15	-25	28 038	2 426	33
Futures	33 963	46 869	117	-77	42 323	4 545	0
Options	84 976	85 531	664	-431	17 996	31 030	36 504
Foreign exchange contracts	133 900	159 353	2 045	-2 361	129 561	21 217	8 575
Forward foreign exchange operations/ currency forwards	92 241	102 778	1 062	-1 084	101 665	1 096	17
Currency and interest rate swaps	28 791	38 218	892	-1 136	10 323	19 338	8 557
Futures	13	0	0	0	0	0	0
Options	12 855	18 357	91	-141	17 573	784	0
Equity contracts	102 428	141 611	5 839	-9 563	57 244	74 730	9 637
Forwards	0	0	0	0	0	0	0
Futures	41	48	1	-1	48	0	0
Options	102 387	141 563	5 838	-9 562	57 196	74 730	9 637
Breakdown by counterparty	942 919	1 077 429	18 585	-23 814	596 239	314 346	166 845
Sovereign counterparties (0% counterparty weighting)	6 183	6 097	86	-142	5 923	174	0
Banks and equivalent counterparties (20% counterparty weighting)	679 062	780 939	15 199	-18 403	409 789	252 125	119 025
Corporate and retail counterparties (50% counterparty weighting)	257 674	290 393	3 300	-5 270	180 527	62 046	47 819
Breakdown, OTC – exchange traded	942 919	1 077 429	18 585	-23 814	596 239	314 346	166 845
Over the counter (OTC) contracts	859 396	1 026 890	18 323	-23 563	549 526	310 537	166 827
Exchange-traded contracts	83 522	50 539	262	-252	46 712	3 809	18

One way in which the group's ALM department manages the interest rate risk is to conclude derivatives contracts. The accounting mismatches attributable to these hedging activities (derivatives as opposed to assets or liabilities) are dealt with in two ways:

- Fair value hedges are used for a portfolio of interest rate risk. KBC uses this technique to hedge the interest rate risk on a particular loan portfolio (term loans, home loans, instalment loans and straight loans) with interest rate swaps. The hedge is set up in accordance with the requirements of the carved-out version of IAS 39.
- Fair value option. KBC uses this option to eliminate or significantly reduce a measurement or recognition inconsistency ('an accounting mismatch' that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases). This method is used specifically to avoid other accounting mismatches relating to the loan portfolio (measured at amortised cost) and the interest rate swaps (measured at fair value) in ALM. For this purpose, a (government) bond portfolio has been classified as a financial asset at fair value through profit or loss. The fair value option is also used for CDOs with embedded derivatives. The fair value option is also used for certain financial liabilities with closely related embedded derivatives (IFIMA issues), which would otherwise give rise to an accounting mismatch with the hedging instruments.

In addition, KBC uses hedge accounting permitted under IAS 39 to limit the volatility of results in the following cases:

- Fair value hedges. This type of hedge accounting is used in certain asset-swap constructions, where KBC buys a bond on account of the credit spread. The interest rate risk of the bond is hedged by means of an interest rate swap. This technique is also applied to certain fixed-term debt instruments issued by KBC Bank.
- Cashflow hedges. This technique is used to swap floating-rate notes for a fixed rate.
- Foreign-currency funding of a net investment in a foreign entity. The exchange risk attached to foreign-currency investments is hedged by attracting funding in the currency concerned at the level of the investing entity.

Note 24: Other assets

In millions of EUR	31-12-2004 *pro forma*	31-12-2005
Total	2 435	2 825
Debtors arising out of direct insurance operations	274	274
Debtors arising out of reinsurance operations	152	123
Other debtors and called capital as yet unpaid	2	0
Deposits with ceding companies	120	125
Other	1 888	2 302

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS 32, IAS 39 and IFRS 4 have only been applied from 2005, without restatement of the 2004 figures.
Pro forma means: based on a combined 'old KBC'-Almanij entity.

Note 25: Tax assets and tax liabilities

In millions of EUR	31-12-2004 *pro forma*	31-12-2005
CURRENT TAXES		
Current tax assets	199	70
Current tax liabilities	501	578
DEFERRED TAXES	301	126
Deferred tax assets by type of temporary difference	556	828
Employee benefits	237	294
Losses carried forward	18	19
Tangible/intangible assets	17	39
Provisions for risks and charges	38	48
Impairment for losses on loans and advances	85	129
Financial instruments at fair value	10	187
Fair value adjustments, available-for-sale	0	47
Technical provisions	108	6
Other	44	59
Unused tax losses and unused tax credits*	36	20
Deferred tax liabilities by type of temporary difference	255	703
Employee benefits	0	0
Losses carried forward	0	0
Tangible/intangible assets	46	60
Provisions for risks and charges	1	25
Impairment for losses on loans and advances	15	13
Financial instruments at fair value	2	22
Fair value adjustments, available-for-sale	0	546
Technical provisions	61	5
Other	130	32
Recognised in the balance sheet as follows:		
Deferred tax assets	472	475
Deferred tax liabilities	171	350

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS 32, IAS 39 and IFRS 4 have only been applied from 2005, without restatement of the 2004 figures.
Pro forma means: based on a combined 'old KBC'-Almanij entity.
* Maturity dates for the amount shown for 2005: in 2008: 9 million euros, in 2009: 6 million euros, in 2010: 4 million euros and in 2019: 1 million euros.

Note: unused tax losses and unused tax credits concern tax losses of group companies which are not capitalised due to insufficient proof of future taxable profit.

The positive balance of deferred taxes fell by a net 176 million euros, owing to an increase in deferred tax assets and deferred tax liabilities of 272 million and 448 million euros, respectively. The decline was accounted for by a combination of:
- the first-time application of IAS 32, IAS 39 and IFRS 4 (impact: -309 million euros);
- deferred taxes being recognised in profit or loss (impact: -65 million euros);
- deferred taxes on the increased fair value of available-for-sale securities (impact: -21 million euros);
- non-recurring deferred tax liabilities due to the disposal of the revaluation reserve for available-for-sale securities and of financial instruments under the hedge reserve (impact: 39 million euros);
- deferred taxes on exchange rate differences on loans concluded to finance participating interests in foreign currency (impact: 136 million euros);
- deferred taxes owing to changes in the scope of consolidation (impact: 24 million euros);
- other reasons, including exchange rate differences (impact: 20 million euros).

Note 26: Investments in associated companies

In millions of EUR	**31-12-2004 *pro forma***	**31-12-2005**
Total	1 228	989
Overview of investments, including goodwill	1 228	989
Nova Ljubljanska banka	440	456
Agfa-Gevaert	560	495
Other	229	38
Goodwill on associated companies		
Gross amount	525	486
Accumulated impairment	0	-49
MOVEMENTS TABLE	**2004 *pro forma***	**2005**
Opening balance (1 January)	1 447	1 228
Acquisitions	2	0
Carrying value, transfers	-29	-152
Share in the result for the period	22	16
Dividends paid	-27	-7
Share of gains and losses not recognised in the income statement	0	2
Translation differences	3	0
Changes in goodwill	-178	-88
Other movements	-12	-10
Closing balance (31 December)	1 228	989

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS 32, IAS 39 and IFRS 4 have only been applied from 2005, without restatement of the 2004 figures.
Pro forma means: based on a combined 'old KBC'-Almanij entity.

Associated companies are companies on whose management KBC exerts significant influence, without having direct or indirect full or joint control. In general, KBC has a 20% to 50% shareholding in such companies.

Summary financial information on the associated companies is provided in note 46. The significant listed associated company is Agfa-Gevaert. The market value of the investment in this company – based on a share price of 15.41 euros per share – came to 526 million euros at year-end 2005.

Goodwill paid on associated companies is included in the face value of investments in associated companies shown on the balance sheet. An impairment test has been performed and the necessary impairment losses on goodwill have been recognised (see table).

Note 27: Goodwill

In millions of EUR	31-12-2004 *pro forma*	31-12-2005
Total	809	1 260
Geographic breakdown	809	1 260
Belgium	136	205
Central Europe	335	342
Rest of the world	338	713
Goodwill		
Gross amount	809	1 280
Accumulated impairment	0	-20
MOVEMENTS TABLE		
Opening balance (1 January)	454	809
Increase in percentage of capital held	235	496
Decrease in percentage of capital held	-3	0
Adjustment resulting from subsequent identification	0	0
Impairment	0	-20
Translation differences	0	-2
Other movements	123	-23
Closing balance (31 December)	809	1 260

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS 32, IAS 39 and IFRS 4 have only been applied from 2005, without restatement of the 2004 figures.
Pro forma means: based on a combined 'old KBC'-Almanij entity.

This item includes the goodwill paid on companies included in the scope of consolidation. Goodwill paid on associated companies is included in the nominal value of investments in associated companies shown on the balance sheet. An impairment test has been performed and the necessary impairment losses on goodwill have been recognised (see table).

Impairment under IAS 36 is recognised in profit or loss if the recoverable value of an investment is lower than its carrying value. The recoverable amount is defined as the higher of the value in use (calculated based on the discounted cash flow analysis, multiple-analysis, etc.) and the net selling price.

At the end of 2005, goodwill was accounted for primarily by the companies of the KBL EPB group (893 million euros), WARTA and its subsidiaries (106 million euros), ČSOB and its subsidiaries (126 million euros), and Kredyt Bank and its subsidiaries (80 million euros).

Note 28: Other intangible assets

In millions of EUR	Software developed inhouse	Software developed externally	Other	Total
2004 *pro forma*				
Acquisition cost 2004				
Opening balance	89	443	110	642
Acquisitions	23	74	25	123
Disposals	-1	-17	-6	-23
Translation differences	-1	17	0	16
Changes in the scope of consolidation	0	0	0	0
Other movements	-3	12	-44	-35
Closing balance	107	529	86	722
Accumulated amortisation and impairment 2004				
Opening balance	-31	-229	-82	-342
Amortisation	-20	-98	-15	-134
Impairment				
recognised	0	0	0	0
reversed	0	0	0	0
Disposals	0	4	3	7
Translation differences	1	-10	-1	-10
Changes in the scope of consolidation	0	0	0	0
Other movements	0	-2	37	35
Closing balance	-49	-336	-59	-444
Net carrying value 31-12-2004	58	193	27	278
2005				
Acquisition cost 2005				
Opening balance	107	529	86	722
Acquisitions	28	72	5	105
Transfers and asset retirements	0	-23	-11	-34
Translation differences	2	8	2	12
Changes in the scope of consolidation	0	11	1	11
Other movements	0	6	149	154
Closing balance	137	602	230	969
Accumulated amortisation and impairment 2005				
Opening balance	-49	-336	-59	-444
Amortisation	-22	-79	-30	-131
Impairment				
recognised	0	-3	0	-3
reversed	0	0	0	0
Disposals	0	11	2	13
Translation differences	-2	-6	-1	-9
Changes in the scope of consolidation	0	-9	3	-6
Other movements	0	9	-122	-113
Closing balance	-73	-413	-207	-693
Net carrying value 31-12-2005	65	189	23	277

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS 32, IAS 39 and IFRS 4 have only been applied from 2005, without restatement of the 2004 figures.
Pro forma means: based on a combined 'old KBC'-Almanij entity.

There are no material adjustments resulting from subsequent identification or changes in value of identifiable assets and liabilities.

Note 29: Property and equipment (including investment property)

In millions of EUR	31-12-2004 *pro forma*	31-12-2005
Property and equipment	2 300	2 120
Investment property	169	313
Rental income	19	18
Direct operating expenses from investments generating rental income	16	13
Direct operating expenses from investments not generating rental income	0	0

MOVEMENTS TABLE	Land and buildings	IT equipment	Other equipment	Total property and equipment	Investment property
2004					
Acquisition cost 2004					
Opening balance	2 409	519	1 154	4 083	288
Acquisitions	154	42	310	507	2
Disposals	-109	-27	-321	-457	-11
Translation differences	35	12	32	79	0
Changes in the scope of consolidation	117	10	76	203	20
Other movements	-38	44	-127	-122	-2
Closing balance	2 569	600	1 124	4 293	297
Accumulated depreciation and impairment 2004					
Opening balance	-783	-435	-720	-1 939	-113
Depreciation	-73	-78	-104	-255	-13
Impairment					
recognised	-20	0	0	-20	0
reversed	3	0	0	3	0
Disposals	38	24	134	196	2
Translation differences	-11	-10	-17	-38	0
Other movements	21	-1	41	62	-3
Closing balance	-826	-500	-667	-1 993	-129
Net carrying value 31-12-2004	1 744	100	457	2 300	169
of which expenditure on items in the course of construction	20	0	20	20	-
of which financial lease as a lessee	0	0	35	35	-
Fair value 31-12-2004	-	-	-	-	272
2005					
Acquisition cost 2005					
Opening balance	2 569	600	1 124	4 293	297
Acquisitions	93	40	269	403	10
Disposals	-234	-94	-150	-477	-25
Translation differences	25	6	23	54	1
Changes in the scope of consolidation	-57	4	26	-27	115
Other movements	33	66	-148	-48	53
Closing balance	2 431	623	1 144	4 197	452
Accumulated depreciation and impairment 2005					
Opening balance	-826	-500	-667	-1 993	-129
Depreciation	-94	-55	-87	-236	-22
Impairment					
recognised	-2	0	0	-2	0
reversed	0	0	0	0	0
Disposals	45	92	50	187	2
Translation differences	-7	-5	-14	-26	-1
Other movements	8	-55	40	-7	10
Closing balance	-875	-524	-678	-2 078	-139
Net carrying value 31-12-2005	1 556	98	465	2 120	313
of which expenditure on items in the course of construction	0	0	19	19	-
of which financial lease as a lessee	0	0	35	35	-
Fair value 31-12-2005	-	-	-	-	415

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS 32, IAS 39 and IFRS 4 have only been applied from 2005, without restatement of the 2004 figures.
Pro forma means: based on a combined 'old KBC'-Almanij entity.

KBC applies the following annual rates of depreciation to property, equipment and investment property:

- land and buildings: between 3% and 10%;
- IT equipment: between 30% and 33%;
- other equipment: between 10% and 33%;
- investment property: between 3% and 5%.

With the exception of the commitments on the part of ČSOB and KBC Insurance to acquire a new building for 3 550 million Czech koruna (Czech Republic) and 76 million euros (Belgium), respectively, there are no other material obligations to acquire property or equipment. Nor are there any material restrictions on title, and property and equipment pledged as security for liabilities.

Much of the investment property is held as an investment in the insurance business and valued by an independent expert, primarily according to the following valuation rules:

- based on the capitalisation of the estimated rental value;
- based on unit prices of similar real property, with account being taken of all the market parameters available on the date of the assessment (including location and market situation, type of building and construction, state of repair, use, etc).

Note 30: Deposits from banks

In millions of EUR	**31-12-2004** ***pro forma***	**31-12-2005**
Total	55 083	60 821
Geographic breakdown	55 083	60 821
Belgium	4 078	4 633
Central Europe	2 559	2 735
Rest of the world	48 445	53 454
Breakdown according to remaining term to maturity	55 083	60 821
Repayable on demand	4 075	5 701
Not more than one year	49 017	53 473
More than one but not more than five years	1 695	1 234
More than five years	296	413
of which repos	23 769	23 319
Assets pledged as collateral	23 892	23 783

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS 32, IAS 39 and IFRS 4 have only been applied from 2005, without restatement of the 2004 figures.
Pro forma means: based on a combined 'old KBC'-Almanij entity.

Note 31: Deposits from customers and debt securities

In millions of EUR	31-12-2004 *pro forma*	31-12-2005
Total	157 712	171 572
Geographic breakdown	157 712	171 572
Belgium	69 404	72 302
Central Europe	22 948	26 879
Rest of the world	65 360	72 391
Breakdown according to remaining term to maturity	157 712	171 572
Not more than one year	140 812	155 922
More than one but not more than five years	13 006	11 280
More than five years	3 894	4 371
Breakdown by type	157 712	171 572
Demand deposits	29 700	33 383
Time deposits	47 218	49 639
Savings deposits	29 244	30 872
Special deposits	3 707	4 215
Other deposits	17 350	17 869
Savings certificates	4 700	3 528
Bonds	9 259	10 760
Certificates of deposit	16 535	21 305
of which repos	11 594	13 221
Assets pledged as collateral	11 632	13 221

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS 32, IAS 39 and IFRS 4 have only been applied from 2005, without restatement of the 2004 figures.
Pro forma means: based on a combined 'old KBC'-Almanij entity.

Note 32: Technical provisions

In millions of EUR	31-12-2004 *pro forma*	31-12-2005
Gross technical provisions	13 259	14 779
Insurance contracts	13 259	8 097
Provisions for unearned premiums and unexpired risk	437	454
Life insurance provision	9 563	4 234
Provision for claims outstanding	2 912	3 094
Provision for bonuses and rebates	44	20
Equalisation provision	191	0
Other technical provisions	112	294
Investment contracts with DPF	-	6 683
Life insurance provision	-	6 655
Provision for claims outstanding	-	0
Provision for bonuses and rebates	-	27
Reinsurers' share	258	282
Insurance contracts	258	282
Provisions for unearned premiums and unexpired risk	23	32
Life insurance provision	7	7
Provision for claims outstanding	227	243
Provision for bonuses and rebates	0	0
Other technical provisions	1	0
Investment contracts with DPF	-	0
Life insurance provision	-	0
Provision for claims outstanding	-	0
Provision for bonuses and rebates	-	0

In millions of EUR

MOVEMENTS TABLE, 2005

Insurance contracts	Gross	Reinsurance
Life		
Opening balance	9 725	15
First-time application of IFRS 4 at 01-01-2005	-5 611	0
Net payments received/premiums receivable	465	0
Gross payments made	-384	0
(Theoretical) risk premiums	-61	0
Accretion of interest	129	0
Attributed profit-sharing	22	0
Purchase/sale of portfolio	0	0
Exchange differences	27	0
Other movements	210	0
Closing balance	4 522	15
Non-life		
Total opening balance	3 534	244
First-time application of IFRS 4 at 01-01-2005	-191	0
Payments regarding claims of previous years	-340	-20
Surplus/shortfall of claims provision in previous years	-125	-3
New claims	509	39
Purchase/sale of portfolio	9	0
Transfers	0	0
Exchange differences	39	7
Other movements	140	0
Closing balance	3 575	267
Investment contracts with DPF		
Opening balance	0	0
First-time application of IFRS 4 at 01-01-2005	5 501	0
Net payments received/premiums receivable	1 188	0
Gross payments made	-273	0
(Theoretical) risk premiums	-40	0
Accretion of interest	313	0
Attributed profit-sharing	46	0
Purchase/sale of portfolio	0	0
Exchange differences	1	0
Other movements	-54	0
Closing balance	6 683	0

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS 32, IAS 39 and IFRS 4 have only been applied from 2005, without restatement of the 2004 figures.
Pro forma means: based on a combined 'old KBC'-Almanij entity.

Technical provisions relate to insurance contracts and investment contracts with a discretionary participation feature (DPF). Liabilities under investment contracts without DPF have to be valued according to IAS 39 (deposit accounting); these liabilities concern mainly the unit-linked contracts.

Comments on the movements table: applying IFRS 4 for the first time to life insurance contracts (-5 611 million euros) has resulted primarily in a shift to investment contracts with DPF (5 501 million euros) and a transfer from the technical provisions for employee insurance schemes (so-called 'employee benefits') to social liabilities (82 million euros).

Note 33: Liabilities under investment contracts

In millions of EUR	**31-12-2004 *pro forma***	**31-12-2005**
Total	3 931	7 615
Unit-linked	3 931	7 604
Insurance bond without death rider	0	0
Other	0	11

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS 32, IAS 39 and IFRS 4 have only been applied from 2005, without restatement of the 2004 figures.
Pro forma means: based on a combined 'old KBC'-Almanij entity.

See note 32.

Note 34: Provisions for risks and charges

In millions of EUR	Provision for restructuring	Provision for taxes and pending legal disputes	Other	Subtotal	Impairment, off-balance-sheet credit commitments	Total
2004 *pro forma*						
Opening balance 01-01-2004	34	219	141	393	94	487
Movements with an impact on results						
Amounts allocated	15	130	230	375	72	447
Amounts reversed	-16	-108	-179	-303	-79	-382
Other movements	-2	4	24	26	1	27
Closing balance 31-12-2004	30	245	216	491	88	580
2005						
Opening balance 01-01-2005	30	245	216	491	88	580
Movements with an impact on results						
Amounts allocated	41	44	73	159	63	222
Amounts reversed	-17	-31	-34	-82	-62	-144
Other movements	-10	1	-113	-122	-14	-136
Closing balance 31-12-2005	44	260	143	446	75	522

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS 32, IAS 39 and IFRS 4 have only been applied from 2005, without restatement of the 2004 figures.
Pro forma means: based on a combined 'old KBC'-Almanij entity.

Restructuring provisions were set aside mainly for restructuring in a number of companies in the KBL EPB group (26 million euros) and, to a lesser extent, in a number of Central European subsidiaries of KBC Bank (an aggregate 13 million euros) and KBC Insurance (5 million euros). The provisions for legal disputes are discussed below. 'Other provisions' include those set aside for miscellaneous risks and future expenditure. Specific impairment for off-balance-sheet credit commitments include impairment for guarantees, etc. For most of the provisions recorded, no reasonable estimate can be made of when they will be used.

The most significant, pending legal disputes are discussed below. Claims filed against KBC group companies are – in keeping with IFRS rules – treated on the basis of an assessment of whether they will lead to an outflow of resources (i.e. whether it is probable there will be an outflow of resources ('probable'); or whether there may, but probably will not, be an outflow of resources ('possible'); or whether the likelihood of an outflow of resources is remote ('remotely probable')).

Provisions are set aside for 'probable outflow' cases. The most significant of these are as follows:
- In 2003, a major case of fraud at K&H Equities Hungary was uncovered. Numerous customers suffered substantial losses on their securities portfolios as a result of unauthorised speculative transactions and possible misappropriations of funds. Instructions and portfolio overviews were forged or tampered with. A criminal investigation is currently being carried out. A number of claims have already been settled either amicably or following an arbitral decision. Provisions have been set aside for the claims still outstanding.
- From the end of 1995 until the beginning of 1997, KBC Bank and KB Consult were involved in the transfer of cash companies. KBC Bank and/or KB Consult were joined to proceedings in nine cases. In addition, KB Consult has been placed under suspicion by an investigating magistrate. A provision of 32 million euros has been constituted to deal with the potential impact of claims for damages in this respect. The transfer of a cash company is in principle completely legitimate. Nevertheless, it later transpired that certain purchasers were acting in bad faith since they did not make any investments at all and did not file tax returns for the cash companies they had purchased. KBC Bank and KB Consult immediately took the necessary measures to prevent any further involvement with these parties.

No provisions are constituted for 'possible outflow' cases, but information is provided in the annual accounts if such cases might have a material impact on the balance sheet (i.e. when the claim could lead to a possible outflow of more than 25 million euros). There are no such cases at present.

All other claims ('remotely probable outflow'), of whatever magnitude, that represent a minor or no risk at all do not have to be reported. Nonetheless, for reasons of transparency, KBC is providing a brief summary of recent developments relating to the two most important cases in this category:
- There has been a referral to the Belgian court in chambers as part of the inquiry instituted in mid-1996 relating to the alleged co-operation by (former) directors or members of staff of KBC Bank and Kredietbank SA Luxembourgeoise (KBL EPB) in tax evasion committed by customers of KBC Bank and KBL EPB. It will have to decide whether there is enough cause to justify committal to the competent court.
- There have been no developments of note relating to the claim filed by Nomura Principal Investment Plc (Nomura) with a Czech court against ČSOB and KBC Bank for unfair competition following ČSOB's acquisition (in 2000) of IPB (another Czech bank).

Note 35: Subordinated liabilities

In millions of EUR	**31-12-2004 *pro forma***	**31-12-2005**
Total	6 768	6 314
Breakdown according to remaining term to maturity	6 768	6 314
Not more than one year	1 664	918
More than one but not more than five years	2 516	2 378
More than five years	1 183	2 064
Perpetual	1 405	955
Breakdown by type	6 768	6 314
Convertible	281	0
Non-convertible	6 487	6 314

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS 32, IAS 39 and IFRS 4 have only been applied from 2005, without restatement of the 2004 figures.
Pro forma means: based on a combined 'old KBC'-Almanij entity.

In general, subordinated debt is issued to support the solvency ratios of the group companies. Reference is made to the notes on calculating the solvency ratios for the bank and insurance company, respectively.

Note 36: Other liabilities

In millions of EUR	**31-12-2004 *pro forma***	**31-12-2005**
Total	12 588	18 674
Retirement benefit plans or other employee benefits	1 365	1 725
Short sales of shares	6 827	9 092
Short sales of fixed-income securities	2 596	4 847
Deposits from reinsurers	82	90
Other	1 718	2 921

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS 32, IAS 39 and IFRS 4 have only been applied from 2005, without restatement of the 2004 figures.
Pro forma means: based on a combined 'old KBC'-Almanij entity.

For more information on retirement benefit plans or other employee benefits, see note 37.

Note 37: Retirement benefit obligations

In millions of EUR	31-12-2004 *pro forma*	31-12-2005
DEFINED BENEFIT PLANS		
Reconciliation of benefit obligations		
Defined benefit obligations at the beginning of the year	1 545	1 694
Service cost	114	107
Interest cost	76	69
Plan amendments	19	66
Actuarial (gain)/loss	6	69
Benefits paid	-67	-94
Currency adjustments	0	3
Other	1	8
Defined benefit obligations at the end of the year	1 694	1 922
Reconciliation of the fair value of plan assets		
Fair value of plan assets at the beginning of the year	1 104	1 267
Actual return on plan assets	113	195
Employer contributions	95	74
Plan participant contributions	15	15
Benefits paid	-67	-94
Currency adjustments	0	0
Other	7	21
Fair value of plan assets at the end of the year	1 267	1 478
of which financial instruments issued by the group	58	50
Funded status		
Plan assets in excess of benefit obligations	-426	-444
Unrecognised net actuarial gains	-50	-102
Unrecognised transaction amount	0	-1
Unrecognised past service cost	0	0
Unrecognised assets	-47	-57
Unfunded accrued/prepaid pension cost	-523	-604
Movement in net liabilities or assets		
Unfunded accrued/prepaid pension cost at the beginning of the year	-441	-523
Net periodic pension cost	-144	-156
Employer contributions	95	74
Other	-34	2
Currency adjustments	1	-1
Unfunded accrued/prepaid pension cost at the end of the year	-523	-604
Amounts recognised in the balance sheet		
Prepaid pension cost	6	6
Accrued pension liabilities	-529	-610
Unfunded accrued/prepaid pension cost	-523	-604
Amounts recognised in the income statement		
Service cost	114	107
Interest cost	76	69
Expected return on plan assets	-56	-80
Adjustments to limit prepaid pension cost	4	4
Amortisation of unrecognised prior service costs	19	66
Amortisation of unrecognised net gains/losses	-1	3
Employee contributions	-13	-14
Actuarially determined net periodic pension cost*	144	156
Actual return on plan assets (%)	10.2%	15.4%
Principal actuarial assumptions used		
Discount rate	4.8%	4.2%
Expected return on plan assets	5.8%	5.2%
Expected rate of salary increase	4.5%	4.2%
Rate of pension increase	1.1%	1.0%
DEFINED CONTRIBUTION PLANS		
Expenses for defined contribution plans	9	7

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS 32, IAS 39 and IFRS 4 have only been applied from 2005, without restatement of the 2004 figures.
Pro forma means: based on a combined 'old KBC'-Almanij entity.
* Included under staff expenses (see 'Note 12: Operating expenses').

Retirement benefit obligations include a defined benefit plan in the form of pension funds for KBC Bank (and a large number of subsidiaries), in the form of group insurance for KBC Insurance, and in both forms for KBL EPB. The assets of these first two plans are managed by KBC Asset Management.

The staff of various KBC group companies are covered by pension funds and group insurance schemes, most of which are defined benefit plans and the benefits are also dependent on the employee's years of service, as well as on his/her remuneration in the years before retirement. The annual funding requirements for these plans are determined based on actuarial cost methods.

The return on these plan assets (ROA) is calculated on the basis of the OLO rate, account taken of the plan's investment mix.
ROA = (X x rate on OLO T years) + (Y x (rate on OLO T years + 3%)) + (Z x (rate on OLO T years + 1%)), where:

- T = term of the OLO used for the discount rate;
- X = percentage of fixed-income securities;
- Y = percentage of shares;
- Z = percentage of real estate.

The risk premiums of 3% and 1%, respectively, are based on the long-term returns from shares and real estate.

At year-end 2005, the assets of the group's biggest pension plans were as follows:

- KBC Bank pension fund: 59% shares, 32% bonds, 7% real estate, and 2% cash;
- KBC Insurance group insurance scheme (including Fidea): 21% shares, 75% bonds and 4% real estate;
- KBL EPB pension plan: 15% shares, 80% bonds and 5% cash.

The following contributions are expected to be made to these plans in 2006:

- KBC Bank pension fund: 34 million euros;
- KBC Insurance group insurance scheme (including Fidea): 7 million euros;
- KBL EPB pension plan: 9 million euros.

Note 38: Parent shareholders' equity

In number of shares	**31-12-2004 *pro forma***	**31-12-2005**
Total number of shares issued and fully paid up	369 071 569	369 206 475
Ordinary shares	366 423 447	366 566 637
Other equity instruments	2 648 122	2 639 838
of which those that entitle the holder to a dividend payment	368 932 807	369 071 569
of which treasury shares	9 600 636	9 191 599

MOVEMENTS TABLE (number of shares)	**Ordinary shares**	**Other equity instruments**	**Total**
2004 *pro forma*			
Opening balance	367 747 317	2 648 990	370 396 307
Issue of shares	138 762	0	138 762
Conversion of convertible bonds into shares	868	-868	0
Other movements	-1 463 500	0	-1 463 500
Closing balance	366 423 447	2 648 122	369 071 569
2005			
Opening balance	366 423 447	2 648 122	369 071 569
Issue of shares	134 460	0	134 460
Conversion of convertible bonds into shares	8 730	-8 284	446
Other movements	0	0	0
Closing balance	366 566 637	2 639 838	369 206 475

Pro forma means: based on a combined 'old KBC'-Almanij entity.

The share capital of KBC Group NV consists of ordinary shares of no nominal value and mandatorily convertible bonds (MCBs – see 'Other equity instruments' in the table).

At 31 December 2005, there were 366 566 637 ordinary shares in circulation. All ordinary shares carry voting rights and each share represents one vote. No participation certificates or non-voting shares have been issued. The shares are quoted on Euronext Brussels and on the Luxembourg Stock Exchange. The par value per ordinary share (issued and paid up share capital per ordinary share) amounted to approximately 3.37 euros at 31 December 2005. There are no shares issued that have not been fully paid. There are no other restrictions attaching to the shares.
The authorisation to increase capital may be exercised until 17 June 2009 for an amount of 199 274 896 euros (which, based on the par value of the shares at the end of December 2005, may lead to the issue of maximum 59 132 016 new shares).
At 31 December 2005, KBC group companies held 9 191 599 KBC shares (8 898 689, excluding the shares held in the trading book of KBC Securities and KBC Financial Products), a large number of which (3 841 584) are held to meet requirements under the various employee stock option plans.

At 31 December 2005, there were 2 639 838 1998-2008 MCBs in circulation (for a nominal amount of 184 867 646 euros, with a maturity date of 30 November 2008 and a base rate of 3.5% (as of 2000, related to changes in the dividend on the KBC share)), which had not yet been converted into ordinary shares. Holders of these MCBs are entitled, until 30 November 2008, to request that their MCBs be converted according to a ratio of one KBC ordinary share for one MCB. MCBs which have not been converted by their holders will be converted automatically into ordinary shares at maturity. MCBs only carry voting rights when converted into ordinary shares.

Note: preference shares are not included in 'parent shareholders' equity', but in 'minority interests'.

At 31 December 2005, there were no freely convertible bonds outstanding.

For information on stock option plans, see note 12.

In 2006, KBC will launch a share buyback programme. In total, this programme will see 1 billion euros being spent to buy back shares on the open market. The shares that are repurchased will be cancelled. KBC estimates that around 12 million shares (3.2% of the total number) will be cancelled in this way, based on a hypothetical price of 85 euros per share, and that this will increase earnings per share by 3.4% (in view of the fact that buybacks will be spread out, the full effect of this programme will only be felt from 2007).

Other notes

Note 39: Commitments and contingent liabilities

In millions of EUR	**31-12-2004** ***pro forma***	**31-12-2005**
Total	75 079	97 668
Firm credit commitments	3 045	2 972
Commitments arising from spot purchases of securities	1 346	1 301
Undrawn margin on confirmed credit lines	36 797	37 607
Underwriting and placing commitments	61	160
Commitments as a result of open-ended sale and repurchase agreements	0	600
Non-negotiated acceptances	75	77
Guarantees in the nature of direct credit substitutes	23 880	46 127
Other guarantees	8 513	7 172
Documentary credit	1 165	1 465
Assets charged as collateral security on behalf of third parties	198	188

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS 32, IAS 39 and IFRS 4 have only been applied from 2005, without restatement of the 2004 figures.
Pro forma means: based on a combined 'old KBC'-Almanij entity.

Information on the most significant, pending legal disputes is provided in note 34.

KBC Bank irrevocably guarantees all the commitments outstanding on 31 December 2005 listed in Section 5c of the Irish Companies Amendment Act of the following Irish companies, which are consequently eligible for exemption from certain disclosure requirements, pursuant to Section 17 of the Irish Companies Amendment Act 1986.

Bencrest Properties Limited
Cluster Properties Limited
Danube Holdings Limited
Demilune Limited
Dunroamin Properties Limited
Glare Nominee Limited
Homeloans and Finance Limited
IIB Asset Finance Limited
IIB Bank Limited
IIB Commercial Finance Limited
IIB Finance Limited
IIB Homeloans and Finance Limited
IIB Homeloans Limited
IIB Leasing Limited
IIB Nominees Limited
Irish Homeloans and Finance Limited
Kalzari Limited
KBC Asset Management International Limited
KBC Asset Management Ireland Limited
KBC Asset Management Limited
KBC Financial Services (Ireland) Limited
KBC Fund Managers Limited
KBC Homeloans and Finance Limited
Khans Holdings Limited
Lease Services Limited
Linkway Developments Limited
Maurevel Investment Company Limited
Meridian Properties Limited
Monastersky Limited
Needwood Properties Limited
Perisda Limited
Quintor Limited
Staple Properties Limited
Wardbury Properties Limited

Note 40: Operating lease receivables

In millions of EUR	**31-12-2004 *pro forma***	**31-12-2005**
Future aggregate minimum rentals receivable under non-cancellable operating leases	109	84
Not more than one year	31	27
More than one but not more than five years	64	47
More than five years	15	10
Contingent rents recognised in income	0	0

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS 32, IAS 39 and IFRS 4 have only been applied from 2005, without restatement of the 2004 figures.
Pro forma means: based on a combined 'old KBC'-Almanij entity.

There are no significant cases in which KBC is the lessee in operating leases.

Note 41: Assets under management

At year-end 2005, total assets under management or advice amounted to 196 billion euros (detailed table in the 'Asset management' section).

Note 42: Related-party transactions

In millions of EUR	31-12-2004 *pro forma*	31-12-2005
WITH RELATED PARTIES EXCLUDING DIRECTORS		
Assets	884	668
Loans and advances to banks	376	365
Loans and advances to customers	299	67
Securities	208	236
Liabilities	576	76
Deposits from banks	264	1
Deposits from customers and debt securities	312	76
Income statement	17	18
Net interest income	9	10
Gross earned premiums	0	0
Dividend income	7	7
Net fee and commission income	1	1
Other income	0	0
Guarantees		
Guarantees issued by the group	52	53
Guarantees received by the group	0	0
WITH DIRECTORS	2004*	2005*
Remuneration to directors or partners of the consolidating company on the basis of their activity in that company, its subsidiaries and associated companies, including the amount of retirement pensions granted to former directors or partners on that basis	8	14
of whom members of the Executive Committee	5	7
Share options (units)		
At the beginning of the year	63 200	92 500
Granted	29 300	28 000
Exercised	0	-13 100
Changes in directors	0	-50 600
At the end of the year	92 500	56 800
Advances and loans granted to directors and partners	3	3
Post-employment benefit plans for directors	4	3

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS 32, IAS 39 and IFRS 4 have only been applied from 2005, without restatement of the 2004 figures.
Pro forma means: based on a combined 'old KBC'-Almanij entity.
* Relates to the KBC Bank and Insurance Holding Company NV in 2004 and to the KBC Bank and Insurance Holding Company NV + KBC Group NV in 2005.

The consolidating entity is KBC Group NV. All subsidiaries are consolidated and hence all intragroup transactions with subsidiaries are eliminated. Related parties consist of all associated companies (including Almancora, Cera and MRBB), the pension funds of the group and directors of the group. The main associated companies are listed in note 46, along with relevant financial information.

All related-party transactions occur 'at arm's length'.

Note 43: Solvency (KBC Bank and KBL EPB, combined)

In millions of EUR	31-12-2004 *pro forma*	31-12-2005
Regulatory capital, KBC Bank + KBL EPB (after profit appropriation)	13 690	14 669
Tier-1 capital	10 656	11 065
Parent shareholders' equity	10 022	11 462
Intangible fixed assets	-122	-114
Goodwill on consolidation	-370	-533
Preference shares/Hybrid tier-1	1 582	1 645
Minority interests	501	654
Elimination	0	-436
Mandatorily convertible bonds		
Revaluation reserve AFS	0	-830
Hedging reserve (cashflow hedges)	0	-3
Minority interests in AFS reserve and hedging reserve (cashflow hedges)	0	-8
Dividend payout	-957	-772
Tier-2 capital	3 949	4 857
Mandatorily convertible bonds	436	436
Perpetuals (incl. hybrid tier-1 not used in tier-1 capital)	844	840
Revaluation reserve AFS shares (at 90%)	0	331
Minority interests in revaluation reserve AFS shares (at 90%)	0	1
Subordinated liabilities	2 669	3 250
Tier-3 capital	7	11
Items to be deducted	-922	-1 263
Total weighted risk volume	105 768	117 730
Credit risk, investment	95 741	106 127
Credit risk, trading	3 719	3 118
Interest rate risk, trading	4 337	5 889
Trading portfolio position in equities	1 445	1 544
Foreign exchange risk	526	1 052
Solvency ratios		
Tier-1 ratio	10.07%	9.40%
CAD ratio	12.94%	12.46%

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS 32, IAS 39 and IFRS 4 have only been applied from 2005, without restatement of the 2004 figures.

The table provides solvency figures for KBC Bank and KBL EPB combined, which have been calculated based on IFRS principles and regulators' guidelines. The tier-1 ratio calculated in this way at year-end 2005 came to 9.4% (9.5% for KBC Bank and 8.8% for KBL EPB).

However, the solvency ratio calculated for regulatory purposes (i.e. which is submitted to the Belgian and Luxembourg regulatory authorities) was still based on local (i.e. Belgian and Luxembourg, respectively) GAAP principles in 2005 and the tier-1 ratio came to 9.8% and 7.3% for KBC Bank and KBL EPB, respectively. In 2006, the Belgian regulator will switch to an IFRS-based calculation.

Note 44: Solvency (KBC Insurance)

In millions of EUR	31-12-2004 *pro forma*	31-12-2005
Available capital		
Share capital	29	29
Share premium	122	122
Reserves	2 627	2 293
Revaluation reserve AFS investments	-	1 255
Translation differences	20	28
Total equity	2 798	3 726
Dividend payout, KBC Insurance	-156	-510
Minority interests	64	74
Total equity	2 706	3 290
Subordinated liabilities	18	15
Total capital resources	2 723	3 305
Intangible fixed assets	-204	-164
Available capital	2 519	3 141
Required solvency margin		
Non-life and industrial accident-legal lines	236	256
Annuities	7	7
Required solvency margin for the non-life business	244	263
Class 21	467	535
Class 23	16	17
Required solvency margin for the life business	482	552
Total required solvency margin	726	815
Solvency ratio and surplus		
Solvency ratio (%)	347.0%	385.3%
Solvency surplus (in millions of EUR)	1 793	2 326

The table shows the solvency calculated for KBC Insurance, based on IFRS principles. The solvency ratio calculated in this way at year-end 2005 came to 385%, or almost four times the regulatory minimum.

The solvency ratio calculated for regulatory purposes, however, still has to be based on local (i.e. Belgian) GAAP principles and when calculated in this way came to 417% for KBC Insurance (389% at 31 December 2004). In this calculation, account was taken of unrealised gains and losses on the investment portfolio.

Note 45: Risk management

For information on risk management (credit risk, market risks, operational risks, insurance underwriting risks, etc.), see the 'Value and risk management' section.

Note 46: List of significant subsidiaries and associated companies

Company	Registered office	Ownership percentage at group level	Activity
BANKING			
Fully consolidated subsidiaries			
Antwerp Diamond Bank NV	Antwerp – BE	100.00	Credit institution
CBC Banque SA	Brussels – BE	100.00	Credit institution
Centea NV	Antwerp – BE	99.56	Credit institution
ČSOB a.s.	Prague – CZ	89.97	Credit institution
Fin-Force NV	Brussels – BE	85.01	Processing financial transactions
IIB Bank Limited	Dublin – IE	100.00	Credit institution
KBC Bank NV	Brussels – BE	100.00	Credit institution
KBC Bank Deutschland AG	Bremen – DE	99.76	Credit institution
KBC Bank Funding LLC & Trust (group)	New York – US	100.00	Issuance of trust preferred securities
KBC Bank Nederland NV	Rotterdam – NL	100.00	Credit institution
KBC Clearing NV	Amsterdam – NL	100.00	Clearing
KBC Finance Ireland	Dublin – IE	100.00	Lending
KBC Financial Products (group)	Various locations	100.00	Equities and derivatives trading
KBC Internationale Financieringsmaatschappij NV	Rotterdam – NL	100.00	Issuance of bonds
KBC Lease (group)	Various locations	100.00	Leasing
KBC Peel Hunt limited	London – GB	99.99	Stock exchange broker/corporate finance
KBC Private Equity NV (ex-KBC Investco NV)	Brussels – BE	100.00	Private equity
KBC Securities NV	Brussels – BE	100.00	Stock exchange broker/corporate finance
K&H Bank Rt.	Budapest – HU	59.47	Credit institution
Kredyt Bank SA	Warsaw – PL	85.53	Credit institution
Patria Finance a.s.	Prague – CZ	100.00	Stock exchange broker/corporate finance
Proportionately consolidated subsidiaries			
International Factors NV	Brussels – BE	50.00	Factoring
Orbay NV	Utrecht – NL	49.00	Administration of securities transactions
Associated companies			
Bank Card Company NV	Brussels – BE	21.55	Credit cards
Banksys NV	Brussels – BE	20.55	Credit cards
Nova Ljubljanska banka d.d.	Ljubljana – SI	34.00	Credit institution
INSURANCE			
Fully consolidated subsidiaries			
ADD NV	Heverlee – BE	100.00	Insurance company
Assurisk SA	Luxembourg – LU	100.00	Insurance company
ČSOB Pojišťovna a.s. (Czech Republic)	Pardubice – CZ	97.49	Insurance company
ČSOB Poisťovňa a.s. (Slovak Republic)	Bratislava – SK	87.30	Insurance company
Fidea NV	Antwerp – BE	100.00	Insurance company
K&H Életbiztosító Rt. (K&H Life)	Budapest – HU	79.74	Insurance company
K&H General Insurance (ex-Argosz Insurance Corporation Limited)	Budapest – HU	98.76	Insurance company
KBC Insurance NV	Leuven – BE	100.00	Insurance company
Maatschappij voor Brandherverzekering CV	Leuven – BE	90.55	Insurance company
Secura NV	Brussels – BE	95.04	Insurance company
VITIS Life Luxembourg SA	Luxembourg – LU	99.85	Insurance company
VTB-VAB NV	Zwijndrecht – BE	64.80	Automobile assistance
TUiR WARTA SA	Warsaw – PL	75.13	Insurance company
Proportionately consolidated subsidiaries			
NLB Vita d.d.	Ljubljana – SI	50.00	Insurance company
ASSET MANAGEMENT			
Fully consolidated subsidiaries			
KBC Asset Management NV	Brussels – BE	100.00	Asset Management
KBC Asset Management Limited	Dublin – IE	100.00	Asset Management
KBC Towarzystwo Funduszy Inwestycyjnych sa	Warsaw – PL	88.20	Asset Management

Company	Registered office	Ownership percentage at group level	Activity
EUROPEAN PRIVATE BANKING			
Fully consolidated subsidiaries			
Banco Urquijo SA	Madrid - ES	97.06	Credit institution
Brown, Shipley & Co Limited	London - GB	97.32	Credit institution
KBL Bank Ireland	Dublin - IE	97.32	Credit institution
Kredietbank SA Luxembourgeoise	Luxembourg - LU	97.32	Credit institution
Kredietbank (Suisse) SA	Geneva - CH	97.31	Credit institution
Merck Finck & Co. Limited	Munich - DE	97.32	Credit institution
Puilaetco Private Bankers SA	Brussels - BE	97.32	Credit institution
Theodoor Gilissen Bankiers NV	Amsterdam - NL	97.32	Credit institution
GEVAERT			
Fully consolidated subsidiaries			
Almafin NV	Zaventem - BE	99.99	Financial services
Gevaert NV	Mortsel - BE	100.00	Holding company
Associated companies			
Agfa-Gevaert NV	Mortsel - BE	27.35	Industrial company
HOLDING-COMPANY ACTIVITIES			
Fully consolidated subsidiaries			
KBC Exploitatie NV	Mechelen - BE	100.00	Cost-sharing structure
KBC Group NV	Brussels - BE	100.00	Holding company

For a complete list of the companies included in or excluded from the scope of consolidation, as well as all associated companies, please see the appendix (after note 49).

The companies accounted for using the equity method have combined total assets, equity and a net result of 13.4 billion euros, 1.8 billion euros and -0.1 billion euros, respectively (figures for 2004).

Note 47: Main changes in the scope of consolidation

Business segment	Company	Consolidation method	Ownership percentage at group level 2004	Ownership percentage at group level 2005	Comments
Additions					
Banking	Orbay NV	Proportional	-	49.00%	Joint venture with Rabobank
European private banking	Puilaetco Private Bankers SA	Full	78.71%	97.32%	Consolidated from 1 July 2004 on
European private banking	Effectenbank Stroeve NV	Full	-	97.32%	Acquisition in 3Q 2005; merger with Theodoor Gilissen Bankiers NV
European private banking	HSBC Dewaay NV	Full	-	97.32%	Acquisition in 4Q 2005; merger with Puilaetco Private Bankers SA
Exclusions					
Insurance	FBD Limited	Equity method	-	-	Sold in 4Q 2004
Insurance	FBD Holdings PLC.	Equity method	22.75%	-	Sold in 1Q 2005
Gevaert	BOFORT NV (group)	Equity method	100.00%	-	Sold in 4Q 2005
Changes in ownership percentage					
European private banking	Kredietbank SA Luxembourgeoise	Full	78.71%	97.32%	Public bid in 1Q 2005
Banking	Fin-Force NV	Full	95.01%	85.01%	

There were no changes in the scope of consolidation in 2005 that had a material impact on the balance sheet and/or income statement.

Note 48: General information

Name	KBC Group NV
Incorporated	9 February 1935 as the Kredietbank NV, the present name dates from 2 March 2005
Country of incorporation	Belgium
Registered office	2 Havenlaan, BE-1080 Brussels
VAT	BE 0403.227.515
RLP	Brussels
Legal form	*Naamloze vennootschap* (public limited company) under Belgian law, which solicits or has solicited savings from the public; the company is a financial holding company registered with the Belgian Banking, Finance and Insurance Commission.
Life	Indefinite
Object	The company is a financial holding company which has as object the direct or indirect ownership and management of shareholdings in other companies, including - but not restricted to - credit institutions, insurance companies and other financial institutions (Article 2 of the Articles of Association).

Documents open to public inspection

The Articles of Association of the company are open to public inspection at the Registry of the Brussels Commercial Court. The annual accounts have been filed with the National Bank of Belgium. Decisions concerning the appointment and dismissal of members of the Board of Directors are published in the *Appendices to the Belgian Official Gazette*. Financial reports about the company and convening notices of general meetings of shareholders are also published in the financial press. Copies of the company's annual reports are available at its registered office. They are sent annually to the holders of registered shares and to those who have applied for a copy.

General Meeting of Shareholders

Each year, at the registered office of the company or elsewhere, as indicated in the convening notice, a general meeting is held on the last Thursday in April or, if that day is a legal holiday, on the last business day immediately preceding it, at 11 a.m. To be admitted to the General Meeting, holders of bearer shares or bonds must deposit these securities at least four business days prior to the meeting at the registered office of the company or elsewhere, as indicated in the convening notice.

The holders of registered shares or bonds are likewise required to notify the company in writing at its registered office and within the same time constraints of their intention to attend the General Meeting. Bondholders are entitled to attend the General Meeting, but they have only advisory voting capacity.

Note 49: Post-balance-sheet events

Events after balance sheet date are those events, favourable and unfavourable, that occur between the balance sheet date and the date when the financial statements are authorised for issue by the Board of Directors.

They include both adjusting events after balance sheet date (events that provide evidence of conditions that existed at the balance sheet date) and non-adjusting events after balance sheet date (events that are indicative of conditions that arose after the balance sheet date). Adjusting events in principle lead to an adjustment of the financial statements for the financial period preceding the event, whereas non-adjusting events in principle only influence the financial statements for the following period.

The main non-adjusting events after balance sheet date were:

- K&H Bank. In keeping with its strategy of buying out minority interests in Central Europe when possible, KBC signed an agreement at the end of 2005 under which KBC Bank acquired ABN AMRO's 40% stake in the Hungarian K&H Bank (for around 510 million euros). At the time, the deal still required the approval of certain supervisory authorities. It will enable KBC to step up its stake in K&H Bank from 59.4% to 99.6%. Provided the Hungarian authorities give their approval, the increased stake in K&H Bank will be recognised in KBC group income from 1 January 2006 and make a positive contribution to group profit.
- Dictaphone. At the beginning of 2006, KBC Bank decided to sell its stake in speech technology company Dictaphone to Nuance Communications. KBC had acquired this participating interest after Lernout & Hauspie Speech Products' had failed to pay off its debts. A capital gain of roughly 68 million euros will be realised on this sale (relative to the carrying value after the deduction of provisions booked previously) in the first half of 2006.
- WARTA. KBC reached agreement with Kulczyk Holding in the first quarter of 2006 on the sale of its 24.6% shareholding in WARTA to KBC Insurance (for around 104 million euros). This move fits in with KBC's general strategy of buying out minority shareholders, where possible, in Central European group companies. Following the buyout of the remaining minority shareholders in WARTA (0.3%), KBC will gain full ownership of WARTA. The increased stake in WARTA will probably (depending on the date the deal is finalised) be reflected in the results of the KBC group as of the second quarter of the year.
- Agfa-Gevaert: in March 2006, Gevaert's 27% stake in Agfa-Gevaert was sold. The selling price came to 15.75 euros per share, and KBC's total gain realised on this sale (compared with the carrying value less impairment) came to some 43 million euros (before charges) in the first quarter of 2006.

Appendix: complete list of companies included in or excluded from the scope of consolidation and the associated companies

Name	Registered office	VAT number or national identification number	Share of capital held (%)
KBC Bank: subsidiaries that are fully consolidated			
KBC Bank NV	Brussels – BE	0462.920.226	100.00
Almafin Real Estate NV	Brussels – BE	0403.355.494	100.00
Immo Arenberg NV	Brussels – BE	0471.901.337	100.00
Antwerp Diamond Bank NV	Antwerp – BE	0404.465.551	100.00
Banque Diamantaire (Suisse) SA	Geneva – CH	–	100.00
CBC Banque SA	Brussels – BE	0403.211.380	100.00
CENTEA NV	Antwerp – BE	0404.477.528	99.56
Československá obchodní banka a.s. (ČSOB)	Prague – CZ	–	89.97
Auxilium a.s.	Prague – CZ	–	89.97
Bankovni Informacni Technologie s.r.o.	Prague – CZ	–	89.97
Business Center s.r.o.	Bratislava – SK	–	89.97
Českomoravská Hypotecni Banka a.s.	Prague – CZ	–	89.83
ČSOB Asset Management a.s.	Prague – CZ	–	97.93
ČSOB Asset Management a.s.	Bratislava – SK	–	89.97
ČSOB Distribution a.s.	Prague – CZ	–	89.97
ČSOB d.s.s. a.s.	Bratislava – SK	–	89.97
ČSOB Investicni Spolecnost	Prague – CZ	–	89.97
ČSOB Investment Banking Service a.s.	Prague – CZ	–	89.97
ČSOB Leasing a.s.	Prague – CZ	–	89.97
ČSOB Leasing Pojisťovaci Maklér s.r.o.	Prague – CZ	–	89.97
ČSOB Leasing a.s.	Bratislava – SK	–	89.97
ČSOB Leasing Poisťovaci Maklér s.r.o.	Bratislava – SK	–	89.97
ČSOB Penzijní fond Progres a.s.	Prague – CZ	–	89.97
ČSOB Penzijní fond Stabilita a.s.	Prague – CZ	–	85.68
ČSOB Stavebni Sporitelna a.s.	Bratislava – SK	–	89.97
ČSOB Vynopovy a.s.	Prague – CZ	–	89.97
Hornicky Penzijni Fond Ostrava a.s.	Ostrava – CZ	–	89.97
Motokov a.s.	Prague – CZ	–	62.17
Fin-Force NV	Brussels – BE	0472.725.639	85.01
IIB Bank Limited	Dublin – IE	–	100.00
Bencrest Properties Limited	Dublin – IE	–	100.00
Maurevel Investment Company Limited	Dublin – IE	–	100.00
Danube Holdings Limited	Dublin – IE	–	100.00
Dunroamin Properties Limited	Dublin – IE	–	100.00
Glare Nominee Limited	Dublin – IE	–	100.00
Homeloans and Finance Limited	Dublin – IE	–	100.00
IIB Capital Plc.	Dublin – IE	–	100.00
IIB Finance Limited	Dublin – IE	–	100.00
IIB Asset Finance Limited	Dublin – IE	–	100.00
IIB Commercial Finance Limited	Dublin – IE	–	100.00
IIB Leasing Limited	Dublin – IE	–	100.00
Khans Holdings Limited	Dublin – IE	–	100.00
Lease Services Limited	Dublin – IE	–	100.00
IIB Homeloans and Finance Limited	Dublin – IE	–	100.00
Cluster Properties Company	Dublin – IE	–	100.00
Demilune Limited	Dublin – IE	–	100.00
IIB Homeloans Limited	Dublin – IE	–	100.00
Proactive Mortgages Limited	Dublin – IE	–	100.00
KBC Homeloans and Finance Limited	Dublin – IE	–	100.00
Premier Homeloans Limited	Surrey – GB	–	100.00
Staple Properties Limited	Dublin – IE	–	100.00
IIB Nominees Limited	Dublin – IE	–	98.00
Intercontinental Finance	Dublin – IE	–	100.00
Irish Homeloans and Finance Limited	Dublin – IE	–	100.00
Kalzari Limited	Dublin – IE	–	100.00

Name	Registered office	VAT number or national identification number	Share of capital held (%)
KBC Asset Management Ireland Limited	Dublin – IE	–	60.00
Linkway Developments Limited	Dublin – IE	–	100.00
Meridian Properties Limited	Dublin – IE	–	100.00
Merrion Commercial Leasing Limited	Surrey – GB	–	100.00
Merrion Equipment Finance Limited	Surrey – GB	–	100.00
Merrion Leasing Assets Limited	Surrey – GB	–	100.00
Merrion Leasing Finance Limited	Surrey – GB	–	100.00
Merrion Leasing Industrial Limited	Surrey – GB	–	100.00
Merrion Leasing Limited	Surrey – GB	–	100.00
Merrion Leasing Services Limited	Surrey – GB	–	100.00
Monastersky Limited	Dublin – IE	–	100.00
Needwood Properties Limited	Dublin – IE	–	100.00
Perisda Limited	Dublin – IE	–	100.00
Quintor Limited	Dublin – IE	–	100.00
Rolata Limited	Douglas – IM	–	100.00
Wardbury Properties Limited	Dublin – IE	–	100.00
IIB Finance Ireland	Dublin – IE	–	100.00
KBC Finance Ireland	Dublin – IE	–	100.00
Immo Lux-Airport II SA	Luxembourg – LU	–	100.00
KBC Bank Deutschland AG	Bremen – DE	–	99.76
KBC Bank Funding LLC II	New York – US	–	100.00
KBC Bank Funding LLC III	New York – US	–	100.00
KBC Bank Funding LLC IV	New York – US	–	100.00
KBC Bank Funding Trust II	New York – US	–	100.00
KBC Bank Funding Trust III	New York – US	–	100.00
KBC Bank Funding Trust IV	New York – US	–	100.00
KBC Bank Nederland NV	Rotterdam – NL	–	100.00
Westersingel Holding BV	Rotterdam – NL	–	100.00
KBC Bank (Singapore) Limited	Singapore – SG	–	100.00
KBC Clearing NV	Amsterdam – NL	–	100.00
KBC Dublin Capital Plc.	Dublin – IE	–	100.00
KBC Financial Holding Inc.	Wilmington – US	–	100.00
KBC Financial Products (Cayman Islands) Limited	George Town – KY	–	100.00
KBC Financial Products International Limited	George Town – KY	–	100.00
KBC FP International VI Limited	George Town – KY	–	100.00
KBC Financial Products USA Inc.	New York – US	–	100.00
KBC FP Cayman Finance Limited	George Town – KY	–	100.00
KBC Statistical Arbitrage Fund Limited	George Town – KY	–	100.00
KBC Financial Products UK Limited	London – GB	–	100.00
Atomium Funding Corporation SPV	Dublin – IE	–	100.00
KBC Financial Products Hong Kong Limited	Hong Kong – HK	–	100.00
KBC Financial Products Trading Hong Kong Limited	Hong Kong – HK	–	100.00
Picaros Funding Plc	Dublin – IE	–	100.00
Picaros Purchasing no.3 Limited	Dublin – IE	–	100.00
KBC International Portfolio SA	Luxembourg – LU	–	99.98
KBC Internationale Financieringsmaatschappij NV	Rotterdam – NL	–	100.00
CERINVEST NV	Rotterdam – NL	–	100.00
KBC International Finance NV	Rotterdam – NL	–	100.00
KBC Investments Hong Kong Limited	Hong Kong – HK	–	100.00
KBC Investments Cayman Islands Limited	George Town – KY	–	100.00
KBC Investments Cayman Islands V Limited	George Town – KY	–	100.00
Seoul Value Trust	Seoul – KR	–	100.00
KBC Investments Limited	London – GB	–	100.00
KBC Lease Holding NV	Diegem – BE	0403.272.253	100.00
KBC Autolease NV	Diegem – BE	0422.562.385	100.00
KBC Lease Belgium NV	Leuven – BE	0426.403.684	100.00
KBC Lease France SA	Lyon – FR	–	100.00
KBC Bail France sas	Lyon – FR	–	100.00
KBC Lease (Nederland) BV	Bussum – NL	–	100.00
Cathar BV	Bussum – NL	–	100.00
Gooieen BV	Bussum – NL	–	100.00

Name	Registered office	VAT number or national identification number	Share of capital held (%)
Hospiveen BV	Bussum – NL	–	100.00
Impla NV	Bussum – NL	–	100.00
Mercala 1 BV	Bussum – NL	–	100.00
Mercala 2 BV	Bussum – NL	–	100.00
KBC Lease Polska Sp z.o.o.	Warsaw – PL	–	100.00
KBC Lease (UK) Limited	Surrey – GB	–	100.00
KBC Lease (Deutschland) GmbH & Co. KG	Kronberg – DE	–	91.94
KBC Autolease (Deutschland) GmbH	Kronberg – DE	–	91.94
KBC Immobilienlease (Deutschland) GmbH	Kronberg – DE	–	91.94
KBC Lease (Deutschland) Vermietungs GmbH	Kronberg – DE	–	91.94
KBC Vendor Lease (Deutschland) Service GmbH	Kronberg – DE	–	91.94
KBC Vendor Finance (Deutschland) GmbH	Kronberg – DE	–	91.94
KBC Vendor Lease (Deutschland) GmbH	Kronberg – DE	–	91.94
Protection One Service GmbH	Kronberg – DE	–	91.94
SCS Finanzdienstleistungs GmbH	Kronberg – DE	–	91.94
KBC Lease (Deutschland) Verwaltungs GmbH	Kronberg – DE	–	75.94
KBC Lease (Luxembourg) SA	Strassen – LU	–	100.00
KBC Vendor Lease NV	Diegem – BE	0444.058.872	100.00
KBC Peel Hunt Limited	London – GB	–	99.99
KBC Peel Hunt Incorporated	London – GB	–	99.99
Peel Hunt Nominees Limited	London – GB	–	99.99
P.H. Nominees Limited	London – GB	–	99.99
P.H. Trustees Limited	London – GB	–	99.99
Rhine Securities Limited	London – GB	–	99.99
KBC Pinto Systems NV	Brussels – BE	0473.404.540	60.00
KBC Private Equity NV	Brussels – BE	0403.226.228	100.00
Mezzafinance NV	Brussels – BE	0453.042.260	100.00
KBC Securities NV	Brussels – BE	0437.060.521	100.00
KBC Securities France SA	Paris – FR	–	100.00
Ligeva NV	Mortsel – BE	0437.002.519	100.00
Patria Finance a.s.	Prague – CZ	–	100.00
Patria Finance CF a.s.	Prague – CZ	–	100.00
Patria Online a.s.	Prague – CZ	–	100.00
Patria Direct a.s.	Prague – CZ	–	100.00
KBC Vastgoedinvesteringen NV	Brussels – BE	0455.916.925	99.00
Kereskedelmi és Hitelbank Rt. (K&H Bank)	Budapest – HU	–	59.47
Fordat Kft	Budapest – HU	–	59.47
Giro Bankkártya Rt	Budapest – HU	–	44.35
K & H Alkusz Kft	Budapest – HU	–	59.47
K & H Csoportszolgáltató Kft	Budapest – HU	–	59.47
K & H Equities Rt.	Budapest – HU	–	59.47
K & H Ertékpapir Befektetési Alapkezelö Rt	Budapest – HU	–	59.47
K & H Lízingadminisztrációs Rt	Budapest – HU	–	59.47
K & H Eszközfinanszirozó Rt	Budapest – HU	–	59.47
K & H Eszközlizing Gép-és Thrgj. Bérleti Kft	Budapest – HU	–	59.47
K & H Pannonlizing Rt	Budapest – HU	–	59.47
K & H Autófinanszirozó Pénzügyl Szolgátató Rt	Budapest – HU	–	59.47
K & H Autópark Bérleti és Szolg Kft	Budapest – HU	–	59.47
K & H DLH Lizing Kft	Budapest – HU	–	59.47
K & H Lizing Rt.	Budapest – HU	–	59.47
K & H Lizingház Rt.	Budapest – HU	–	59.47
Kvantum Követeléskezelõ és Befektetési Rt.	Budapest – HU	–	59.47
MHB Work Out Kft	Budapest – HU	–	59.47
Talentum Tanácsadó Rt	Budapest – HU	–	59.47
Kirchberg Offices I SA	Luxembourg – LU	–	100.00
Kirchberg Offices II SA	Luxembourg – LU	–	100.00
Kredyt Bank SA	Warsaw – PL	–	85.53
Kredyt International Finance BV	Rotterdam – NL	–	85.53
Kredyt Lease SA	Warsaw – PL	–	85.53
Kredyt Trade Sp z.o.o.	Warsaw – PL	–	85.53
Victoria Development Sp z.o.o.	Warsaw – PL	–	85.53

Name	Registered office	VAT number or national identification number	Share of capital held (%)
Żagiel SA	Warsaw – PL	–	85.53
Poelaert Invest NV	Zaventem – BE	0478.381.531	75.00
Vastgoed Ruimte Noord NV	Brussels – BE	0863.201.515	100.00
KBC Bank: subsidiaries that are not fully consolidated[1]			
Aldersgate Finance Limited	Jersey – GB	–	100.00
Almafin Real Estate Services NV	Zaventem – BE	0416.030.525	100.00
Apitri NV	Diegem – BE	0469.889.873	99.98
Atomium Funding LLC	Delaware – US	–	100.00
Bankowa Polana Sp z.o.o.	Warsaw – PL	–	57.30
Bankowy Fundusz Inwestycyjny Serwis Sp z.o.o.	Warsaw – PL	–	85.53
Broad Street Finance Plc	Dublin – IE	–	100.00
Brussels North Distribution NV	Brussels – BE	0476.212.887	99.05
Celestimmo NV	Zaventem – BE	0472.628.441	100.00
CENTRINVEST NV	Leuven – BE	0442.800.248	100.00
Chiswell Street Finance Limited	Jersey – GB	–	100.00
Clifton Finance Street Limited	Jersey – GB	–	100.00
Cluster Park NV	Brussels – BE	0438.007.854	100.00
Cygnus Finance 2001 – 1 Plc	Dublin – IE	–	100.00
Dala Beheer BV	Amsterdam – NL	–	100.00
Dala XV	Amsterdam – NL	–	100.00
Distienen NV	Zaventem – BE	0452.312.285	100.00
Dorlick Vastgoedmaatschappij NV	Zaventem – BE	0434.885.345	100.00
Etrasoft NV	Antwerp – BE	0472.030.902	100.00
Finsbury Finance Plc	Dublin – IE	–	100.00
Fulham Road Finance Limited	Jersey – GB	–	100.00
Gie Groupe KBC Paris	Paris – FR	–	100.00
Holborn Finance Limited	Jersey – GB	–	100.00
Hyporeal Praha a.s.	Prague – CZ	–	89.97
Immo-Accent NV[2]	Brussels – BE	0465.538.335	99.99
Immo-Antares NV[2]	Brussels – BE	0456.398.361	95.00
Immo-Basilix NV[2]	Brussels – BE	0453.348.801	95.00
Immo-Beaulieu NV[2]	Brussels – BE	0450.193.133	50.00
Immobilière Distri–Land NV[2]	Brussels – BE	0436.440.909	87.52
Immo-Duo NV	Zaventem – BE	0435.573.154	100.00
Immo Genk-Zuid NV	Zaventem – BE	0464.358.497	100.00
Immo Kolonel Bourgstraat NV[2]	Brussels – BE	0461.139.879	50.00
Immolease-Trust NV	Zaventem – BE	0406.403.076	100.00
Immo-Llan NV [2]	Brussels – BE	0448.079.820	99.56
Immo Lux-Airport SA [2]	Luxembourg – LU	–	66.64
Immo Marcel Thiry NV [2]	Brussels – BE	0450.997.441	95.00
Immo-North Plaza NV[2]	Brussels – BE	0462.118.688	99.99
IMMO PARIJSSTRAAT NV	Leuven – BE	0439.655.765	100.00
Immo-Plejaden NV [2]	Brussels – BE	0461.434.344	99.99
Immo-Quinto NV	Zaventem – BE	0466.000.470	100.00
Immo-Regentschap NV [2]	Brussels – BE	0452.532.714	75.00
Immo-Tetra NV	Zaventem – BE	0465.975.132	100.00
Immo-Tres NV	Zaventem – BE	0465.755.990	100.00
Immo Zenobe Gramme NV [2]	Brussels – BE	0456.572.664	100.00
IPB Leasing a.s.	Prague – CZ	–	89.97
K & H Ingatlanlizing Rt	Budapest – HU	–	59.47
KB-Consult NV	Brussels – BE	0437.623.220	100.00
KBC Bail Immobilier France sas	Paris – FR	–	100.00
KBC Financial Services (Ireland) Limited	Dublin – IE	–	100.00
KBC Lease (Hungary)	Budapest – HU	–	100.00
KBC Leverage Pacific Fund of Funds	George Town – KY	–	100.00
KBC North American Finance Corporation	Delaware – US	–	100.00
KBC Pacific Market Neutral Fund of Funds	George Town – KY	–	100.00
KBC Pacific Market Leverage Neutral Fund of Funds	George Town – KY	–	100.00
KBC Structured Finance Limited	Sydney – AU	–	100.00
KB Zarzadzanie Aktywami a.s.	Warsaw – PL	–	85.53

Name	Registered office	VAT number or national identification number	Share of capital held (%)
Kredietfinance Corporation (June) Limited	Surrey – GB	–	100.00
Kredietfinance Corporation (September) Limited	Surrey – GB	–	100.00
Kredietlease (UK) Limited	Surrey – GB	–	100.00
LIZAR Sp z.o.o.	Warsaw – PL	–	85.53
Loan Invest NV	Brussels – BE	0472.081.776	19.79
Luxembourg North Distribution	Luxembourg – LU	–	99.11
Luxembourg Offices Securitisations SA	Luxembourg – LU	–	90.09
Mechelen City Center NV	Heffen – BE	0471.562.332	100.00
Net Banking Sp z.o.o.	Warsaw – PL	–	85.53
Ogenblik Finance Limited	Jersey – GB	–	100.00
Oxford Street Finance Limited	Jersey – GB	–	100.00
Palladium Series Fund LLC	Delaware – US	–	100.00
Piac és Pénz Kiado Kft	Budapest – HU	–	59.47
Picaros Funding LLC	Delaware – US	–	100.00
Picaros Purchasing No. 1 Limited	Dublin – IE	–	100.00
Picaros Purchasing No. 2 Limited	Dublin – IE	–	100.00
Prague Real Estate NV	Zaventem – BE	–	50.00
PTE Kredyt Banku a.s.	Warsaw – PL	–	100.00
Real Estate Administration a.s.	Prague – CZ	–	60.00
Risk Kft.	Budapest – HU	–	59.47
SM Berchem NV	Zaventem – BE	0425.859.692	100.00
SM Vilvoorde NV	Zaventem – BE	0425.859.197	100.00
Sydney Finance Street	Jersey – GB	–	100.00
Tee Square Limited	Virgin Islands – VG	–	89.88
Threadneedle Finance Limited	Jersey – GB	–	100.00
Trelo NV	Zaventem – BE	0414.914.728	100.00
Trustimmo NV	Zaventem – BE	0413.954.626	100.00
Vastgoedmaatschappij Manhattan-Kruisvaarten NV	Zaventem – BE	0419.336.938	100.00
Vedas SA	Sint-Gillis – BE	0463.169.060	100.00
Vermögensverwaltungsgesellschaft Merkur mbH	Bremen – DE	–	99.73
Wetenschap Real Estate NV	Zaventem – BE	0871.247.565	50.00
Weyveld Vastgoedmaatschappij NV	Zaventem – BE	0425.517.818	100.00
Willowvale Company	Dublin – IE	–	100.00
KBC Bank: joint subsidiaries that are proportionately consolidated			
Buelens Real Estate NV	Zaventem – BE	0473.018.817	50.00
Immobilière Royal Rogier NV	Brussels – BE	0437.901.847	25.00
Omegalux Immobilière SA	Luxembourg – LU	–	25.00
Société Agricole des Grands Lacs SA	Luxembourg – LU	–	50.00
Romarin Real Estate sas	Lille – FR	–	50.00
Českomaravská Stavebni Sporitelna a.s.	Prague – CZ	–	49.43
Covent Garden Real Estate NV	Zaventem – BE	0872.941.897	50.00
International Factors NV	Brussels – BE	0403.278.488	50.00
O.B. Heller a.s.	Prague – CZ	–	44.94
O.B. Heller Factoring a.s.	Bratislava – SK	–	44.94
Orbay NV	Utrecht – NL	–	49.00
KBC Bank: joint subsidiaries that are not proportionately consolidated[1]			
Eurincasso s.r.o.	Prague – CZ	–	44.99
FM–A Invest NV	Diegem – BE	0460.902.725	50.00
Immocert t'Serclaes NV	Zaventem – BE	0433.037.989	50.00
Jesmond Amsterdam NV	Amsterdam – NL	–	50.00
Miedziana Sp z.o.o.	Warsaw – PL	–	47.75
Panton Kortenberg Vastgoed NV "Pako Vastgoed"	St.-Niklaas – BE	0437.938.766	50.00
Amdale Holdings Limited NV	Diegem – BE	0452.146.563	49.99
Pakobo NV	Diegem – BE	0474.569.526	49.99
Rumst Logistic NV	Machelen – BE	0862.457.583	49.99
Resiterra NV	Zaventem – BE	0460.925.588	50.00
KBC Bank: companies accounted for using the equity method			
ABN AMRO International Treasury Service Szolg. Kft	Budapest – HU	–	29.14
Bank Card Company NV	Brussels – BE	0468.380.237	21.55

Name	Registered office	VAT number or national identification number	Share of capital held (%)
Banksys NV	Brussels – BE	0418.547.872	20.55
Budatrend III. Ingatlanhasznositó Rt	Budapest – HU	–	20.42
Giro Elszámolásforgáltátó Rt	Budapest – HU	–	12.48
HAGE Hajdúsági Agráripari Résvényatársaság	Budapest – HU	–	14.87
Isabel NV	Brussels – BE	0455.530.509	25.33
Justinvest Antwerp NV	Antwerp – BE	0476.658.097	33.33
K & H Altalános Tanácsadó Rt	Budapest – HU	–	59.47
K & H Eletbiztosito Rt	Budapest – HU	–	29.73
K & H Vagyonkezelési Holding Kft	Budapest – HU	–	59.47
Nova Ljubljanska banka d.d.	Ljubljana – SI	–	34.00
Prague Stock Exchange	Prague – CZ	–	24.39
Rabot Invest NV	Antwerp – BE	0479.758.733	25.00
KBC Bank: associated companies not accounted for using the equity method[1]			
Bedrijvencentrum Noordoost-Antwerp NV	Antwerp – BE	0455.474.485	21.18
Bedrijvencentrum Rupelstreek NV	Aartselaar – BE	0427.329.936	33.33
Bedrijvencentrum Zaventem NV	Zaventem – BE	0426.496.726	12.62
Czech Banking Credit Bureau a.s.	Prague – CZ	–	17.99
De Beitel NV	Mechelen – BE	0869.799.196	20.00
Prvni Certifikacni Autorita a.s.	Prague – CZ	–	20.92
Transportbeton GmbH	Delmenhorst – DE	–	25.93
KBC Insurance: subsidiaries that are fully consolidated			
KBC Insurance NV	Leuven – BE	0403.552.563	100.00
ADD NV	Heverlee – BE	0406.080.305	100.00
Assurisk SA	Luxembourg – LU	–	100.00
ČSOB Pojišťovna a.s.	Pardubice – CZ	–	97.49
ČSOB Poisťovňa a.s.	Bratislava – SK	–	87.30
Fidea NV	Antwerp – BE	0406.006.069	100.00
Delphi NV	Antwerp – BE	0400.013.647	100.00
Groep VTB-VAB NV	Zwijndrecht – BE	0456.920.676	64.80
Car Dent Benelux NV	Zwijndrecht – BE	0460.861.351	64.80
Interassistance NV	Zwijndrecht – BE	0439.707.928	64.15
VTB-VAB NV	Zwijndrecht – BE	0436.267.594	64.80
VDB Fleet Services	Zwijndrecht – BE	0866.583.053	45.21
K & H Life Rt.	Budapest – HU	–	79.74
K & H General Insurance Limited	Budapest – HU	–	98.76
KBC Life Fund Management SA	Luxembourg – LU	–	99.72
KBC Life Fund Management Ireland Limited	Dublin – IE	–	99.00
Maatschappij voor Brandherverzekering CV	Leuven – BE	0403.552.761	90.55
Secura NV	Brussels – BE	0403.293.336	95.04
Securlux SA	Luxembourg – LU	–	94.94
TUiR WARTA SA	Warsaw – PL	–	75.13
Powszechne Towarzystwo Emerytalne Dom SA	Warsaw – PL	–	75.13
Tun'Z WARTA VITA SA	Warsaw – PL	–	70.67
TUwRiG'Z Agropolisa SA	Warsaw – PL	–	75.13
WARTA Cultus Sp. z.o.o.	Warsaw – PL	–	75.13
WARTA Investment Sp. z.o.o.	Warsaw – PL	–	75.13
WARTA-Inwestycje Sp. z.o.o.	Warsaw – PL	–	75.13
WARTA Nieruchomosci Sp. z.o.o.	Warsaw – PL	–	75.13
VITIS Life Luxembourg SA	Luxembourg – LU	–	99.85
Data Office NV	Leuven – BE	0413.719.252	94.32
WARTA Holding BV	Amsterdam – NL	–	100.00
WARTA Investments BV	Amsterdam – NL	–	100.00
KBC Insurance: subsidiaries that are not fully consolidated[1]			
Almarisk NV	Merelbeke – BE	0420.104.030	100.00
Almarisk (UK) Limited	Surrey – GB	–	100.00
Concert Noble NV	Brussels – BE	0431.304.164	100.00
Fundacja WARTA	Warsaw – PL	–	75.13
Geverass NV	Rijkevorsel – BE	0418.174.918	100.00
Gdynia America Shipping Lines (London) Limited	London – GB	–	55.36

Name	Registered office	VAT number or national identification number	Share of capital held (%)
KBC Zakenkantoor NV	Leuven – BE	0462.315.361	100.00
Omnia CVBA	Leuven – BE	0413.646.305	100.00
Secura Reprecentacao Ltda.	São Paolo – BR	–	100.00
WARTA Nawigator Sp.z.o.o.	Szczawnica – PL	–	75.13
WARTA Tourism Sp.z.o.o.	Warsaw – PL	–	75.13
KBC Insurance: joint subsidiaries that are proportionately consolidated			
NLB Vita d.d.	Ljubljana – SI	–	50.00
KBC Insurance: joint subsidiaries that are not proportionately consolidated[1]			
Pericles Invest NV	Zaventem – BE	0871.593.005	50.00
KBC Insurance: companies accounted for using the equity method			
Centrum Zamek Sp.z.o.o.	Warsaw – PL	–	36.80
Procar SA	Wielun – PL	–	17.77
KBC Insurance: associated companies not accounted for using the equity method[1]			
AIA-Pool CVBA	Brussels – BE	0453.634.752	22.00
Assurcard NV	Leuven – BE	0475.433.127	25.00
EUROSTANDARD Sp. z.o.o.	Warsaw – PL	–	25.34
KBC Asset Management: subsidiaries that are fully consolidated			
KBC Asset Management NV	Brussels – BE	0469.444.267	100.00
Bemab NV	Brussels – BE	0403.202.670	100.00
KBC Access Fund Conseil Holding SA	Luxembourg – LU	–	100.00
KBC Alternative Investment Management Limited	London – GB	–	100.00
KBC Asset Management Limited	Dublin – IE	–	100.00
KBC Asset Management International Limited	Dublin – IE	–	100.00
KBC Asset Management (UK) Limited	London – GB	–	100.00
KBC Fund Managers Limited	London – GB	–	100.00
KBC Bonds Conseil Holding SA	Luxembourg – LU	–	100.00
KBC Cash Conseil Holding SA	Luxembourg – LU	–	100.00
KBC Districlick Conseil Holding SA	Luxembourg – LU	–	100.00
KBC Fund Partners Conseil Holding SA	Luxembourg – LU	–	100.00
KBC Invest Conseil Holding SA	Luxembourg – LU	–	100.00
KBC Life Invest Fund Conseil Holding SA	Luxembourg – LU	–	100.00
KBC Money Conseil Holding SA	Luxembourg – LU	–	100.00
KBC Renta Conseil Holding SA	Luxembourg – LU	–	100.00
KBC Conseil Service SA	Luxembourg – LU	–	100.00
KBC Life Opportunity Fund SA	Luxembourg – LU	–	100.00
KBC Towarzystwo Funduszy Inwestycyjnych SA	Warsaw – PL	–	88.20
KBC Asset Management: subsidiaries that are not fully consolidated[1]			
KBC Alternative Investment Management (USA) Inc.	Wilmington – US	–	100.00
KBC Frequent Click Conseil Holding	Luxembourg – LU	–	100.00
KBC Institutional Gestion SA	Luxembourg – LU	–	100.00
KBC Asset Management: joint subsidiaries that are proportionately consolidated			
None			
KBC Asset Management: joint subsidiaries that are not proportionately consolidated[1]			
E.M.I. Advisory Company SA	Luxembourg – LU	–	33.33
KBC Asset Management: companies accounted for using the equity method			
None			
KBC Asset Management: associated companies not accounted for using the equity method[1]			
None			
KBL EPB: subsidiaries that are fully consolidated			
Kredietbank SA Luxembourgeoise SA	Luxembourg – LU	–	97.32
Banco Urquijo SA	Madrid – ES	–	97.06
Promotora Negocios y Representacion SA	Madrid – ES	–	97.06
Urquijo Correduria de Seguros SA	Madrid – ES	–	63.09

Name	Registered office	VAT number or national identification number	Share of capital held (%)
Urquijo Gestion de Pensiones E.G.F.P. SA	Madrid – ES	–	97.06
Urquijo Gestion SGIIC SA	Madrid – ES	–	97.06
Urquijo Servicios Patrimoniales SA	Madrid – ES	–	97.06
Brown, Shipley & Co. Limited	London – GB	–	97.32
Brown, Shipley Holding (Jersey) Limited	Channel Islands – JE	–	97.32
KBL Brown Shipley (Jersey) Limited	Channel Islands – JE	–	97.32
Solen Trust Company (Jersey) Limited	Channel Islands – JE	–	97.32
Brown, Shipley Trust Company (Jersey) Limited	Channel Islands – JE	–	97.32
BST Corporate Services Limited	London – GB	–	97.32
Cawood Smithie & Co	London – GB	–	97.32
Fairmount Group Nominees Limited	Leatherhead – GB	–	97.32
Fairmount Pension Trustee Limited	London – GB	–	97.32
Fairmount Trustee Services Limited	Leatherhead – GB	–	97.32
Founders Court Nominees Limited	London – GB	–	97.32
The Brown Shipley Pension Portfolio Limited	London – GB	–	97.32
KBL Investment Funds Limited	London – GB	–	97.32
Slark Trustee Company	Leatherhead – GB	–	97.32
White Rose Nominee Limited	London – GB	–	97.32
Ceres SA	Luxembourg – LU	–	97.32
Fidef Ingénierie Patrimoniale SA	La Rochelle – FR	–	97.32
Financière et Immobilière SA	Luxembourg – LU	–	97.32
Financière Groupe Dewaay	Luxembourg – LU	–	97.32
Puilaetco Dewaay Private Bankers SA	Luxembourg – LU	–	97.32
Banca KBL Fumagalli Soldan SIM spa	Milan – IT	–	97.32
KB Lux Immo SA	Luxembourg – LU	–	97.32
Centre Europe SA	Luxembourg – LU	–	97.32
Plateau Real Estate Limited	Isle of Man – IM	–	97.32
sci KB Luxembourg Immo II (Monaco)	Monaco – MC	–	97.32
KB Luxembourg (Monaco) SA	Monaco – MC	–	97.32
Sci KB Luxembourg Immo I (Monaco)	Monaco – MC	–	97.32
KBL Bank Ireland	Dublin – IE	–	97.32
KBL Beteiligungs AG	Mainz – DE	–	97.32
Modernisierungsgesellschaft Lübecker Str.	Mainz – DE	–	76.94
Merck Finck & Co	Munich – DE	–	97.32
Merck Finck Invest Kapitalanlagegesellschaft mbH	Munich – DE	–	97.32
Merck Finck Pension Fund	Munich – DE	–	97.32
Merck Finck Treuhand AG	Munich – DE	–	97.32
Merck Finck Vermögensbetreuungs AG	Munich – DE	–	91.24
Unterstützung. U. Einrichtung der Bank	Munich – DE	–	97.32
KBL France SA	Paris – FR	–	97.32
KBL France Gestion	Paris – FR	–	97.28
Michaux Gestion SA	Lyon – FR	–	97.32
Kredietbank Informatique GIE	Luxembourg – LU	–	97.32
Kredietbank (Suisse) SA	Geneva – CH	–	97.31
Privagest SA	Geneva – CH	–	87.58
Kredietrust Luxembourg SA	Luxembourg – LU	–	97.32
Puilaetco Private Bankers SA	Brussels – BE	–	97.32
Banque Puilaetco Luxembourg SA	Luxembourg – LU	–	97.32
DL Quality Asset Management SA	Luxembourg – LU	–	97.32
Puilaetco Dewaay Luxembourg SA	Luxembourg – LU	–	97.32
Renelux SA	Luxembourg – LU	–	97.32
Rocher Limited	Isle of Man – IM	–	97.32
sci KB Luxembourg Immo III (Monaco)	Monaco – MC	–	97.32
Theodoor Gilissen Bankiers NV	Amsterdam – NL	–	97.32
Administratiekantoor Interland BV	Amsterdam – NL	–	97.32
Administratiekantoor voor Handel en Nijverheid BV	Amsterdam – NL	–	97.32
Administratiekantoor Gebr. Boissevain en Texeira BV	Amsterdam – NL	–	97.32
Administratiekantoor Gebr. Boissevain en Kerkhoven BV	Amsterdam – NL	–	97.32
Administratiekantoor van Theodoor Gilissen NV	Amsterdam – NL	–	97.32
Pacific Administratiekantoor BV	Amsterdam – NL	–	97.32
Trust- en Administratiekantoor Mij. Interland BV	Amsterdam – NL	–	97.32

Name	Registered office	VAT number or national identification number	Share of capital held (%)
Avocet Holding BV	Amsterdam – NL	–	97.32
Lange Voorbehout BV	Amsterdam – NL	–	97.32
Lechia BV	Amsterdam – NL	–	97.32
Neufvilles BV	Amsterdam – NL	–	97.32
Onafhankelijk Vermogensbeheer Gravenhage BV	The Hague – NL	–	97.32
Stroeve Asset Management BV	Amsterdam – NL	–	97.32
Stroeve Breda & Co. NV	Amsterdam – NL	–	97.32
TG Derivatives vof	Amsterdam – NL	–	63.26
TG Fund Management BV	Amsterdam – NL	–	97.32
TG Ventures BV	Amsterdam – NL	–	97.32
Theodoor Gilissen Global Custody BV	Amsterdam – NL	–	97.32
Theodoor Gilissen Trust BV	Amsterdam – NL	–	97.32
Van Kollem en Broekman Effecten BV	Amsterdam – NL	–	97.32
Wereldeffect BV	Amsterdam – NL	–	97.32
Westhouse Securities LLP	London – GB	–	63.26
KBL EPB: subsidiaries that are not fully consolidated[1]			
Asia Oceania Management SA	Luxembourg – LU	–	100.00
Grundstückgesellschaft Lübeckerstrasse 28/29 Berlin GmbH	Mainz – DE	–	100.00
Merck Finck Beteiligungs GmbH	Munich – DE	–	100.00
Merck Finck Fund Managers Luxembourg SA	Munich – DE	–	100.00
Merck Finck Venture Capital Treuhand und Verwaltungs GmbH	Munich – DE	–	100.00
SNC Malesherbes Courtages	Paris – FR	–	99.00
Steubag G Betriebswirtschafts und Bankendienstleistungsberatung in Rheinland-Pfalz mbH	Mainz – DE	–	100.00
KBL EPB: joint subsidiaries that are proportionately consolidated			
Ixis Urquijo SA	Madrid – ES	–	47.56
Cogere SA	Luxembourg – LU	–	48.66
Gécalux sarl	Munsbach – LU	–	48.65
KBL EPB: joint subsidiaries that are not proportionately consolidated[1]			
None			
KBL EPB: companies accounted for using the equity method			
Axel Urquijo sl	Madrid – ES	–	29.12
Dish SA	Madrid – ES	–	97.06
Gaviel SA	Barcelona – ES	–	48.53
Nisa GAV SA	Barcelona – ES	–	48.53
EFA Partners SA	Luxembourg – LU	–	51.29
European Fund Administration SA	Luxembourg – LU	–	51.29
KBL EPB: associated companies not accounted for using the equity method[1]			
TVM GmbH	Grünwald – DE	–	31.25
TVM KG	Grünwald – DE	–	21.46
TVM Management Limited Partnership	Massachusetts – US	–	23.67
TVM Management LLC	Delaware – US	–	25.00
Damsigt scp	Utrecht – NL	–	24.50
Gevaert: subsidiaries that are fully consolidated			
Gevaert NV	Mortsel – BE	0461.526.889	100.00
Almafin NV	Zaventem – BE	0404.040.632	99.99
Dala Property Holding III BV	Amsterdam – NL	–	99.99
Dala XX BV	Amsterdam – NL	–	99.99
Sicalis BV	Amsterdam – NL	–	99.99
Orim NV	Zaventem – BE	0459.182.558	99.99
Origo Belgium NV	Zaventem – BE	0435.778.735	99.99
Almaloisir & Immobilier sas	Nice – FR	–	99.99
Alma Plantation 18 sas	Paris – FR	–	99.99
Alma Reinsurance SA	Luxembourg – LU	–	99.99
City Hotels NV	Zaventem – BE	0416.712.394	85.51
City Hotels International NV	Zaventem – BE	0449.746.735	85.51
CH Corp	Rockville – US	–	85.51

Name	Registered office	VAT number or national identification number	Share of capital held (%)
City Hotels USA Inc.	Rockville – US	–	85.51
Renthotel Berkeley LLC	Berkeley – US	–	85.51
Renthotel Dayton LLC	Dayton – US	–	85.51
Renthotel Detroit LLC	Romulus – US	–	85.51
Renthotel Florida Inc.	Kissimmee – US	–	85.51
Renthotel Singer LLC	Singer Island – US	–	85.51
Renthotel Tulsa LLC	Tulsa – US	–	85.51
Renthotel Utah LC	Rockville – US	–	85.51
Parnasse Square Invest NV	Zaventem – BE	0472.573.112	85.51
Renthotel Brussels NV	Zaventem – BE	0465.055.711	85.51
Renthotel Paris sas	Paris – FR	–	85.51
Fitraco NV	Antwerp – BE	0425.012.626	99.99
General Buiding Lease NV	Zaventem – BE	0445.312.548	99.99
Securitas sam	Nandrin – MC	–	99.99
Gebema NV	Mortsel – BE	0461.454.338	100.00
Gevafin SA	Luxembourg – LU	–	72.99
Royal Oak sah	Luxembourg – LU	–	100.00

Gevaert: subsidiaries that are not fully consolidated[1]

None

Gevaert: joint subsidiaries that are proportionately consolidated

None

Gevaert: joint subsidiaries that are not proportionately consolidated[1]

None

Gevaert: companies accounted for using the equity method

Etoiles d'Europe sas	Paris – FR	–	45.00
Gran Dorado Port Zélande BV	Amsterdam – NL	–	32.00
Gran Dorado Zandvoort BV	Amsterdam – NL	–	32.00
Agfa-Gevaert NV	Mortsel – BE	0404.021.727	27.35

Gevaert: associated companies not accounted for using the equity method[1]

None

KBC Group NV: subsidiaries that are fully consolidated

KBC Group NV	Brussels – BE	0403.227.515	100.00
Gevaert NV	Mortsel – BE	0461.526.889	100.00
KBC Asset Management NV	Brussels – BE	0469.444.267	100.00
KBC Bank NV	Brussels – BE	0462.920.226	100.00
KBC Exploitatie NV	Brussels – BE	0465.746.488	100.00
KBC Insurance NV	Leuven – BE	0403.552.563	100.00
Kredietbank SA Luxembourgeoise	Luxembourg – LU	–	97.32
Kredietcorp SA	Luxembourg – LU	–	99.99

KBC Group NV: subsidiaries that are not fully consolidated[1]

Fidabel NV	Antwerp – BE	0417.309.044	100.00
ValueSource NV	Brussels – BE	0472.685.453	100.00
ValueSource Technologies Private Limited	Alwarpet – IN	–	99.99

KBC Group NV: joint subsidiaries that are proportionately consolidated

None

KBC Group NV: joint subsidiaries that are not proportionately consolidated[1]

None

KBC Group NV: companies accounted for using the equity method

None

KBC Group NV: associated companies not accounted for using the equity method[1]

None

1 Insignificant, unless otherwise indicated (see footnote 2).
2 Real estate certificates.

Flower market, Munich, Germany

Axel Bartsch, KBC Bank Deutschland, Germany: 'KBC Deutschland is not exactly the biggest company in the KBC group, but from a geographic angle, it does lie at its heart. We're right in between the two big KBC networks in Belgium and in Central Europe, and 2005 brought that home to us. Co-operation with our Central European colleagues is getting better and better, though we've also established closer ties with our colleagues in Asia Pacific.'

Company annual accounts

Background

The company annual accounts of KBC Group NV are presented here in abridged form. As required by law, the company annual accounts, the report of the Board of Directors and the auditor's report are filed with the National Bank of Belgium. These documents are available free of charge on request from:

KBC Group NV
Investor Relations – IRO
2 Havenlaan
BE-1080 Brussels

The auditor has delivered an unqualified audit opinion on the company annual accounts of KBC Group NV.

The company annual accounts have been prepared according to Belgian accounting standards (B-GAAP) and are, therefore, not comparable with the figures prepared in accordance with IFRS in the other sections of this annual report. Unless stated otherwise, the figures for 2004 relate to the KBC Bank and Insurance Holding Company. As KBC Bank and Insurance Holding Company NV and Almanij NV merged on 2 March 2005 through the acquisition of Almanij by the KBC Bank and Insurance Holding Company, this last company has remained in existence, though under a different name ('KBC Group NV').

Company balance sheet, profit and loss account, and profit appropriation (B-GAAP)

Company balance sheet after profit appropriation, according to B-GAAP

In millions of EUR	31-12-2004	31-12-2005
Fixed assets	6 225	8 787
IV Financial fixed assets	6 225	8 787
A Associated companies	6 225	8 775
1 Participating interests	5 975	8 474
2 Amounts receivable	250	301
B Companies linked by participating interests	0	12
1 Participating interests	0	2
2 Amounts receivable	0	10
Current assets	446	805
VII Amounts receivable within one year	55	43
A Trade debtors	21	28
B Other amounts receivable	34	15
VIII Investments	196	668
A Own shares	196	154
B Other investments	0	515
IX Cash at bank and in hand	181	82
X Deferred charges and accrued income	14	11
Total assets	6 671	9 592
Capital and reserves	4 919	7 070
I Capital	608	1 234
A Subscribed capital	608	1 234
II Share premium account	2 168	4 138
IV Reserves	1 902	622
A Legal reserve	61	123
B Reserves not available for distribution	197	155
C Untaxed reserves	190	190
D Reserves available for distribution	1 454	154
V Profit brought forward	241	1 076
Provisions and deferred taxes	13	13
VII Provisions for liabilities and charges	13	13
Creditors	1 740	2 509
VIII Amounts payable at more than one year	299	849
A Financial debts	299	849
1 Non-subordinated bonds	0	101
2 Credit institutions	299	240
3 Other loans	0	507
IX Amounts payable within one year	1 369	1 574
A Amounts payable at more than one year falling due within the year	339	59
B Financial debts	600	521
2 Other loans	600	521
C Trade debts	4	1
E Amounts owed because of taxation, remuneration and social security charges	40	57
1 Taxes	0	10
2 Remuneration and social security charges	40	47
F Other creditors	386	936
X Accrued charges and deferred income	71	87
Total liabilities	6 671	9 592

Profit and loss account, according to B-GAAP

In millions of EUR		31-12-2004	31-12-2005
Charges			
A	Interest and other debt charges	85	96
B	Other financial charges	0	1
C	Services and sundry goods	17	29
D	Remuneration, social security charges and pensions	185	198
F	Depreciation, amortisation, amounts written down and provisions for liabilities and charges	11	5
G	1) Write-downs on financial fixed assets	0	129
	2) Write-downs on current assets	0	15
I	Losses on sale of financial fixed assets	0	3
K	Taxes	6	26
L	Profit for the period	539	1 645
Total charges		843	2 147
N	Profit for the period available for appropriation	539	1 705
Income			
A	Income from financial fixed assets	576	1 873
B	Income from current assets	42	37
C	Other financial income	6	7
D	Other operating income	220	230
[M	Transfer from untaxed reserve]	0	61
Total income		843	2 147

Appropriation account, according to B-GAAP

In millions of EUR		31-12-2004*			31-12-2005
		KBC Bank and Insurance Holding Company NV	Almanij NV	KBC Group NV	KBC Group NV
A	Profit to be appropriated	623	457	1 080	2 002
	1 Profit for the period available for appropriation	539	447	986	1 705
	2 Profit brought forward from the previous financial year	84	10	94	296
C	Appropriations to capital and reserves	0	0	0	0
	1 To the legal reserve	0	0	0	0
	2 To other reserves	0	0	0	0
D	Profit (Loss) to be carried forward	-157	-139	-296	-1 076
F	Profit to be paid out	-382	-307	-690	926
	1 Dividends	369	305	674	911
	2 Directors' entitlements	1	2	3	1
	3 Employee profit-sharing	12	0	13	13
Amount used to cancel treasury shares		-84	-10	-94	-

* The 2004 appropriation account of the KBC Bank and Insurance Holding Company and Almanij is published on page 157 of the 2004 annual report.

It will be proposed to the general meeting of shareholders that the profit for appropriation of 2 002 million euros (profit brought forward from the previous financial year in the amount of 296 million euros and profit for the period available for appropriation in the amount of 1 705 million euros) be appropriated as set out in the table (column 31-12-2005). If this proposal is approved, the gross dividend will come to 2.51 euros per KBC Group NV share entitled to dividend for the 2005 financial year. Less the withholding tax of 25%, the net dividend will come to 1.8825 euros per ordinary share. For VV shares, withholding tax amounts to 15%, and the net dividend will in this case come to 2.1335 euros. The shares issued within the framework of the capital increase for personnel in 2005 will only be entitled to dividend from the 2006 financial year.

Notes to the company annual accounts (B-GAAP)

Note 1: Financial fixed assets (B-GAAP; non-consolidated)

Financial fixed assets, according to B-GAAP

In millions of EUR	Participating interests in associated companies	Amounts receivable from associated companies	Participating interests in companies linked by participating interests	Amounts receivable from companies linked by participating interests
Carrying value at 31 Dec. 2004	5 975	250	0	0
Changes consequent on the KBC-Almanij merger	1 949	50	2	0
Acquisitions	679	1	0	10
Other changes	-129	0	0	0
Carrying value at 31 Dec. 2005	8 474	301	2	10

Prior to the merger with Almanij, 'participating interests in associated companies' comprised the shareholdings in KBC Bank NV (99.99%), KBC Insurance NV (99.99%), KBC Asset Management NV (55.25%), KBC Exploitatie NV (99.99%) and ValueSource (100%). Through the merger of the KBC Bank and Insurance Holding Company NV with Almanij NV, KBC Group NV acquired participating interests in a number of other companies, including Kredietbank SA Luxembourgeoise (KBL EPB, 65.32%), Gevaert NV (99.99%) and Kredietcorp SA (99.99%). It also stepped up its direct investment in KBL EPB to 89.85% (when account is taken of Kredietcorp's investment, the KBC group owns approximately 97% of KBL EPB). The 'other changes' relate to the impairment recorded in 2005 on the investment in Gevaert NV.

The 'amounts receivable from associated companies' were accounted for primarily by an ACB (a subordinated, automatically convertible bond loan) issued in 1999 in the amount of 250 million euros by KBC Bank NV and maturing in 2006, which was fully subscribed by the KBC Bank and Insurance Holding Company NV (now KBC Group NV). Through the merger between the KBC Bank and Insurance Holding Company NV and Almanij NV, KBC Group NV acquired the subordinated loans (each in the amount of 24.8 million euros) granted by Almanij to Almafin NV in 1998 and 2000.

The 'amounts receivable from companies linked by participating interests' are accounted for by the portion of a bond loan issued by Nova Ljubljanska banka in 2005, which KBC Group NV subscribed to.

Note 2: Changes in capital and reserves (B-GAAP; non-consolidated)

Changes in capital and reserves, according to B-GAAP

In millions of EUR	31-12-2004	Changes consequent on the KBC-Almanij merger	Capital increase for staff	Conversion of MCBs and exercise of warrants	Retained profit	Other changes	31-12-2005
Capital	608	626	0	0	0	0	1 234
Share premium account	2 168	1 962	8	1	0	0	4 138
Reserves	1 902	-1 219	0	0	0	-61	622
Profit (Loss) brought forward	241	55	0	0	780	0	1 076
Capital and reserves	4 919	1 424	8	1	780	-61	7 070

At year-end 2004, the capital and reserves of the KBC Bank and Insurance Holding Company NV (prior to the merger with Almanij NV) came to 4 919 million euros. The composition of the capital and reserves changed considerably (see table) with the merger, owing to the creation and partial cancellation of KBC shares. On balance, this resulted in total capital and reserves of 6 343 million euros.

The other main changes during 2005 were to do with the capital increase for personnel (see below), the conversion of MCBs (mandatorily convertible bonds, see below), the exercise of warrants (see below), the transfer from the untaxed reserve due to the sale of Irish Life & Permanent, and the appropriation of profit. The changes in capital and the share premium account are detailed below.

Note 3: Details of changes in capital and the share premium account (B-GAAP; non-consolidated)

Changes in capital and the share premium account in 2004 and 2005, according to B-GAAP

In EUR	Date	Capital	Share premium account	Number of shares
Contribution of 1998/2008 MCBs	30-03-2004	607 741 386	2 161 797 696	310 710 403
Contribution of 1998/2008 MCBs	29-06-2004	607 741 453	2 161 800 010	310 710 437
Contribution of 1998/2008 MCBs	30-09-2004	607 741 861	2 161 814 169	310 710 645
Capital increase for personnel	30-12-2004	608 013 834	2 168 234 687	310 849 407
Contribution of 1998/2008 MCBs	30-12-2004	608 013 874	2 168 236 048	310 849 427
Contribution of 1998/2008 MCBs	24-03-2005	1 233 728 361	4 130 235 790	366 426 420
Contribution of 1998/2008 MCBs	29-06-2005	1 233 730 605	4 130 280 186	366 427 086
Contribution of 1998/2008 MCBs	28-09-2005	1 233 733 840	4 130 344 179	366 428 046
Exercise of warrants	10-11-2005	1 233 734 699	4 130 363 702	366 428 301
Exercise of warrants	07-12-2005	1 233 735 343	4 130 378 325	366 428 492
Capital increase for personnel	28-12-2005	1 234 188 473	4 137 992 795	366 562 952
Contribution of 1998/2008 MCBs	28-12-2005	1 234 200 892	4 138 238 437	366 566 637

At year-end 2004, the capital of the KBC Bank and Insurance Holding Company (prior to the merger with Almanij) came to 608 013 874 euros, represented by 310 849 427 shares. When the merger took place, 264 362 092 new shares were issued to the holders of Almanij shares at a pre-determined exchange ratio, which led to a 625 704 468-euro increase in the share capital. KBC Group NV also acquired 208 788 072 treasury shares on the merger and subsequently cancelled them. On balance, the share capital accordingly rose to 1 233 718 342 euros, represented by 366 423 447 shares.

At year-end 2005, the company's issued share capital amounted to 1 234 200 892 euros, represented by 366 566 637 shares, 55 203 226 of which were VV shares. Of these last, 134 460 will only be entitled to dividend from the 2006 financial year. The share capital is fully paid up. During the course of the financial year, share capital increased by 626 187 018 euros.

As a result of a capital increase decided upon by the Board of Directors under its authority to raise capital, 134 460 new VV shares were issued in 2005 that were reserved exclusively for the personnel of KBC Group NV and some of its Belgian subsidiaries. Consequently, the pre-emption right of existing shareholders was suspended. The shares were issued at a price of 60 euros and will be blocked for two years. Through this capital increase, the group aims to strengthen its ties with its personnel and with the personnel of its subsidiaries. Given the limited extent of the capital increase, the financial ramifications for existing shareholders are minor.

Further, during the course of the financial year, 8 284 new shares were created through the contribution of 8 284 subordinated 1998/2008 MCBs redeemable in KBC Group NV shares. On 31 December 2005, there were a total of 2 639 838 1998-2008 MCBs in circulation (for a nominal amount of 184 867 855 euros, with a base rate of 3.5% and a maturity date of 30 November 2008) that had not yet been contributed to the capital of KBC Group NV. The holders of these bonds have the right until 30 November 2008 to request that their MCBs be converted according to a ratio of one new KBC Group NV share for one MCB. MCBs that have not been contributed by their holders will be converted automatically into new KBC Group NV shares at maturity. This will result in the number of VV shares increasing by 2 639 838.

On 16 November 1998, the Board of Directors of the KBC Bank and Insurance Holding Company passed a resolution (as amended by the resolutions of 26 November and 9 December 1998) to issue warrants entitling holders of bonds issued (for an amount of 950 000 000 German marks, maturing on 10 December 2005) by KBC International Finance (Curaçao) to contribute them during the life of the bonds to the capital of the KBC Bank and Insurance Holding Company (now KBC Group NV) at a subscription price that was initially set at 156.3204 German marks (the equivalent of 79.93 euros) per new share to be issued. The maximum number of new KBC Bank and Insurance Holding Company (now KBC Group NV) shares to be issued on the basis of this initial subscription price came to 6 077 261, or 2.05% of the total number of shares outstanding at the time of issue. These bonds were placed via the international capital market. In the meantime, the warrants have expired and may no longer be exercised; at year-end 2005, a total of 446 new KBC Group NV shares were created on the exercise of warrants.

The authorisation to increase capital may be exercised until 17 June 2009 for an amount of 199 274 896 euros.

Note 4: Shareholders

As appears from the notifications received pursuant to the Act of 2 March 1989 on the disclosure of significant participations in listed companies and the regulation of public takeover bids, and to Articles 631 and 632 of the Companies Code, the shareholder structure is as follows:

Act of 2 March 1989

Shareholder structure on 02-03-2005[1] (notification in accordance with the Act of 2 March 1989)

	Address	Number of shares	Number of convertible bonds
Almancora Comm. VA	5 Philipssite, box 10, BE-3001 Leuven	75 815 338	0
Cera CBVA	5 Philipssite, box 10, BE-3001 Leuven	23 345 500	0
MRBB CVBA	40 Diestsevest, BE-3000 Leuven	42 562 665	0
Other core shareholders	P/a Ph. Vlerick, 2 Ronsevaalstraat, BE-8510 Bellegem	42 715 838	0
KBC group companies[2]	2 Havenlaan, BE-1080 Brussels	9 130 566	1 682 953 convertible DEM 1998-2005 bonds

1 29-04-2005 for KBC group companies.
2 KBC Group NV, KBC Bank NV, IIB Bank Limited, VITIS Life Luxembourg SA, Assurisk SA, Gebema NV and KBC Financial Products UK Limited.

In March 2005, Almancora, Cera, MRBB and the other core shareholders disclosed that they had a shareholding in KBC Group NV of 20.69%, 6.37%, 11.62% and 11.66%, respectively, on 2 March 2005. At that time, there were 366 423 447 KBC Group NV shares in circulation.

In May 2005, KBC Group NV – together with a number of group companies – disclosed that they had a combined shareholding in KBC Group NV of 2.49% and held 32.19% of the KBC International Finance (Curaçao) 1998-2005 convertible bonds on 29 April 2005. At that time, there were 366 426 420 KBC Group NV shares, 2 645 149 KBC Group NV 1998-2008 MCBs and 5 228 700 KBC International Finance (Curaçao) 1998-2005 convertible bonds in circulation.

Companies Code

Shareholder structure on 31-12-2005 (notification in accordance with the Companies Code)

	Address	Number of shares
Assurisk SA	8-10 avenue de la Gare, LU-1610 Luxembourg	700
IIB Bank Limited	91-93 Merrion Square, IE-Dublin 2	20 020
KBC Bank NV	2 Havenlaan, BE-1080 Brussels	5 025 585
KBC Investments Limited	111 Old Broad Street, GB-EC2N 1FP London	276 631
KBC Securities NV	12 Havenlaan, BE-1080 Brussels	16 279
VITIS Life Luxembourg SA	7 boulevard Royal, BP 803, LU-2018 Luxembourg	10 800

The notifications received pursuant to the Companies Code regarding shareholdings as at 31 December 2005 are shown in the table. Together, these holdings represent 5 350 015 shares, or 1.46% of a total of 366 566 637 shares in circulation.

KBC Group NV sold 946 090 of its own shares in 2005 at an average price of 44.87 euros per share, consequent on the exercise of options held by personnel under employee stock option plans. The average par value of the KBC share from the time of the merger until the end of 2005 came to 3.37 euros. More information is available under 'Share buyback plan and changes in the number of treasury shares held by KBC Group NV' in the 'Shareholder information' section.

Note 5: Balance sheet

'Other investments' came to 515 million euros at the end of the financial year and were mainly term investments.

On balance, 'Amounts payable at more than one year' rose by 549 million euros on account of the merger with Almanij NV (+450-million-euro loan to Kredietcorp SA), the issue in 2005 of a 2005/2015 bond loan (+100 million euros), the on-lending of the IFIMA Eurobond (57 million euros) and the transfer of funding for the 2000 and 2002 stock option plans (part of which expires in 2006) to 'Amounts payable within one year' (-59 million euros).

The 'Other creditors' item relates primarily to the dividends payable.

Note 6: Profit and loss account

KBC Group NV employs around 2 700 individuals on behalf of group companies participating in the cost-sharing structure under a co-operation agreement. This co-operation relates to, among other things, ICT, communication, marketing, market research and logistical services. The costs incurred for these services are not borne by the holding company, but are divided up among the participants according to objective criteria. The total costs incurred in this way on behalf of and charged to the participants in the cost-sharing structure came to 223 million euros in 2005.

KBC Group NV made a net profit of 1 705 million euros in 2005. The main income items were dividend receipts totalling 1 854 million euros from KBC Bank, KBC Insurance, KBC Asset Management, KBC Exploitatie, KBL EPB and Gevaert. The main expense items (aside from the expenses incurred for the cost-sharing structure) were debt-service charges and costs stemming from the group's acquisition activities and external communication.

Write-downs on current assets (15 million euros) were accounted for by the purchase of option rights which KBL EPB staff already owned before Almanij NV merged with the KBC Bank and Insurance Holding Company NV.

Transfer from the untaxed reserve: KBC Group NV sold its shares in Irish Life & Permanent to KBC Bank NV at market value, which resulted in a loss of 3 million euros and the transfer of 61 million euros from the untaxed reserve to the profit and loss account. Therefore, a profit of 58 million euros was made relative to the original purchase price.

Note 7: Special audit assignments

In compliance with Article 134 §§2 and 4 of the Companies Code, the total remuneration paid to Ernst & Young and the companies it works for in a professional capacity by the KBC group for special assignments carried out in 2005 is shown below:

- remuneration paid for further insurance assignments: 2 867 679 euros;
- fees paid for tax advice services: 1 785 474 euros;
- fees paid for other non-audit services: 588 479 euros.

Note 8: Conflicts of interest

Please see the 'Corporate governance' section, under 'Conflicts of interest that fall within the scope of Article 523 or 524 of the Companies Code'.

CHEESE AUCTION, ALKMAAR, NETHERLANDS.

Michiel De Boer, KBC Clearing, The Netherlands: 'From the old city centre of Amsterdam, KBC Clearing provides specialised clearing services to a diverse group of professional market participants, such as market makers, brokers and institutional customers, including of course our parent company, KBC Bank. We did not choose our location by chance: centuries ago, the world's first stock exchange was located in Amsterdam, and much more recently, Europe's first options exchange too.'

Overview of the areas of activity

Background

In addition to the breakdown by business segment for IFRS primary segment reporting purposes and by geographic area for IFRS secondary segment reporting purposes (see the 'Consolidated annual accounts' section, note 2), KBC also provides a breakdown by so-called 'area of activity'.

This reporting format is largely in line with the breakdown used in previous annual reports, and is not audited. Its sole purpose is to create a link with previous reporting formats to enhance transparency. It is not an official IFRS segment reporting format.

The different areas of activity are as follows:
- Retail and private bancassurance
- Central Europe
- Business customers
- Capital markets
- European private banking
- Gevaert
- Group item

The 'Group item' includes return on excess capital, realised and unrealised gains and losses on securities in the banking business (though not those in the trading book), income and expense that cannot be allocated directly to the areas of activity, and interest expense on leveraging by the holding company.

For the purposes of this reporting format, capital is allocated to the various areas in the banking, asset management and insurance businesses based on an 8% tier-1 ratio for the banking business and a 200% solvency ratio for the insurance business (in keeping with the group's solvency targets). In the banking business, allocated tier-1 capital consists of shareholders' equity (85%) and preference shares (15%), while in the insurance business allocated capital consists purely of shareholders' equity. To calculate return on allocated capital (ROAC), only pure equity is included in the denominator and net profit including minority interests in the numerator.

Overview

Pro forma 2004 results per area of activity

In millions of EUR	Retail and private bancassurance	Central Europe	Business customers	Capital markets	European private banking	Gevaert	Group item	Total
Banking and asset management								
Gross income	2 239	1 526	961	757	-	-	462	5 945
Operating expenses	-1 498	-1 016	-336	-464	-	-	-386	-3 700
Impairment	-33	-75	-82	-3	-	-	-25	-218
Share in results of associated companies	0	10	0	0	-	-	25	35
Income tax expense	-222	-112	-140	-72	-	-	141	-404
Minority interests	0	-56	0	0	-	-	-111	-167
Net profit, group share	487	277	402	219	-	-	106	1 491
Average allocated capital	*2 310*	*1 008*	*2 116*	*652*	-	-	-	-
Insurance								
Gross income	4 527	765	286	-	-	-	-12	5 566
Operating expenses	-309	-175	-28	-	-	-	0	-511
Impairment	-162	-4	3	-	-	-	0	-162
Gross technical charges, insurance	-3 940	-512	-201	-	-	-	20	-4 633
Ceded reinsurance result	-2	-50	-31	-	-	-	15	-68
Share in results of associated companies	21	0	0	-	-	-	0	20
Income tax expense	-71	-4	-10	-	-	-	0	-86
Minority interests	-1	-4	-1	-	-	-	1	-5
Net profit, group share	63	16	19	-	-	-	23	122
Average allocated capital	*1 049*	*218*	*88*	-	-	-	-	-
European private banking								
Gross income	-	-	-	-	747	-	-	747
Operating expenses	-	-	-	-	-632	-	-	-632
Impairment	-	-	-	-	15	-	-	15
Share in results of associated companies	-	-	-	-	2	-	-	2
Income tax expense	-	-	-	-	-38	-	-	-38
Minority interests	-	-	-	-	-21	-	-	-21
Net profit, group share	-	-	-	-	74	-	-	74
Average allocated capital	-	-	-	-	*1 276*	-	-	*1 276*
Gevaert								
Net profit, group share	-	-	-	-	-	-12	-	-12
Average allocated capital	-	-	-	-	-	*1 126*	-	*1 126*
Holding-company activities								
Net profit, group share	-	-	-	-	-	-	-59	-59
Total								
Net profit, group share	550	293	422	219	74	-12	69	1 615
Average weighted risks (banking activities)	*33 384*	*15 598*	*32 676*	*9 952*	*9 027*	-	*4 179*	*104 816*
Average allocated capital	*3 359*	*1 226*	*2 204*	*652*	*1 276*	*1 126*	*1950*	*11 794*
Share in total capital	*28%*	*10%*	*19%*	*5%*	*11%*	*10%*	*17%*	*100%*
Return on allocated capital (ROAC)	*16%*	*29%*	*19%*	*34%*	*15%*	*-1%*	-	*14%**
Share in net profit	*34%*	*18%*	*26%*	*14%*	*5%*	*-1%*	*4%*	*100%*

Pro forma means: 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 figures.
* Return on equity (ROE) of KBC group.

2005 results per area of activity

In millions of EUR	Retail and private bancassur-ance	Central Europe	Business customers	Capital markets	European private banking	Gevaert	Group item	Total
Banking and asset management								
Gross income	2 609	1 795	1 073	880	-	-	25	6 383
Operating expenses	-1 538	-1 115	-377	-508	-	-	-197	-3 735
Impairment	16	-73	32	-3	-	-	-6	-34
Share in results of associated companies	0	3	0	0	-	-	25	28
Income tax expense	-341	-99	-205	-128	-	-	67	-706
Minority interests	0	-73	-8	0	-	-	-112	-192
Net profit, group share	747	438	516	241	-	-	-196	1 745
Average allocated capital	*2 561*	*1 160*	*2 289*	*750*	-	-	-	-
Insurance								
Gross income	3 059	853	290	-	-	-	55	4 257
Operating expenses	-320	-178	-26	-	-	-	1	-523
Impairment	-19	-1	-1	-	-	-	-9	-30
Gross technical charges, insurance	-2 306	-594	-173	-	-	-	15	-3 059
Ceded reinsurance result	-12	-42	-31	-	-	-	16	-69
Share in results of associated companies	0	0	0	-	-	-	0	0
Income tax expense	-91	-8	-19	-	-	-	0	-118
Minority interests	7	-10	-1	-	-	-	9	5
Net profit, group share	318	20	38	-	-	-	86	462
Average allocated capital	*1 213*	*240*	*81*	-	-	-	-	-
European private banking								
Gross income	-	-	-	-	782	-	-	782
Operating expenses	-	-	-	-	-563	-	-	-563
Impairment	-	-	-	-	23	-	-	23
Share in results of associated companies	-	-	-	-	3	-	-	3
Income tax expense	-	-	-	-	-53	-	-	-53
Minority interests	-	-	-	-	-7	-	-	-7
Net profit, group share	-	-	-	-	184	-	-	184
Average allocated capital	-	-	-	-	*1 310*	-	-	*1 310*
Gevaert								
Net profit, group share	-	-	-	-	-	-32	-	-32
Average allocated capital	-	-	-	-	-	*913*	-	*913*
Holding-company activities								
Net profit, group share	-	-	-	-	-	-	-109	-109
Total								
Net profit, group share	1 064	458	554	241	184	-32	-220	2 249
Average weighted risks (banking activities)	*37 509*	*16 997*	*34 741*	*10 159*	*8 854*	-	*3 489*	*111 749*
Average allocated capital	*3 774*	*1 400*	*2 371*	*750*	*1 310*	*913*	*3 523*	*14 040*
Share in total capital	*27%*	*10%*	*17%*	*5%*	*9%*	*5%*	*25%*	*100%*
Return on allocated capital (ROAC)	*28%*	*39%*	*24%*	*32%*	*32%*	*-4%*	-	*18%**
Share in net profit	*47%*	*20%*	*25%*	*11%*	*8%*	*-1%*	*-10%*	*100%*

* Return on equity (ROE) of KBC group.

Commentary

Retail and private bancassurance

In retail and private bancassurance, profit for 2005 (1 064 million euros) was up by 514 million euros (+93%) on the year-earlier figure, thanks largely to the solid growth in income (mainly from investments and insurance). Moreover, a substantial impairment had been recorded on the investment portfolio in the insurance business (162 million euros) in 2004. The cost/income ratio in the banking business fell to 59%, there was a net reversal of impairment and the combined ratio in the non-life business came to 95%. The return on allocated capital rose to 28% (16% in 2004). The private banking subsegment in Belgium made a profit contribution of 70 million euros (compared to 42 million euros in 2004).

Business customers

In 2005, the profit contribution (554 million euros) from this area of activity was 132 million euros higher (+31%), on account of the increase in income and the persistently favourable ratios achieved in respect of cost management (cost/income ratio in the banking business of 35%), non-life underwriting (combined ratio of 92%) and loan loss provisions. Nearly all business lines recorded higher profit, with a pronounced increase being registered in structured finance activities and the businesses in the US. Segment return on allocated capital came to 24% (19% in 2004).

Capital markets

For 2005, profit from capital market activities came to 241 million euros, 22 million euros (+10%) more than for 2004, thanks to the improvement in profit from interest rate and currency dealing, stockbroking, equity derivatives trading and the business in structured credit products. Earnings from alternative investment management were down significantly. Return on allocated capital came to 32% (34% in 2004).

European private banking and Gevaert

Commentary on the European private banking business and Gevaert, which for practical reasons were treated as separate areas of activity in 2005, is given in the sections on European private banking and Gevaert in this annual report.

Central Europe

In the *Czech Republic and Slovakia*, the contribution (303 million euros) to profit made by the banking business rose in 2005 by 129 million euros, bolstered by sound lending growth and higher fee and commission income. In addition, non-recurring income was generated by the settlement of a loan dispute (net impact of +68 million euros in the first quarter). The cost/income ratio came to 53%, and the loan loss ratio to 0.40%. As a result, the return on capital allocated to the banking business rose to 56%. A one-off increase in the life insurance reserves had an adverse impact of 20 million euros on the profit contribution from the insurance business, which brought the results for the year to a negative 7 million euros.

In the banking business in Poland, a profit of 77 million euros was recorded, representing a 42-million-euro increase (though this also takes account of a deferred tax asset of 23 million euros). Expenses remained unchanged on an annual basis; the loan loss ratio came to -0.25% (a net reversal of impairment) and the return on allocated capital to 38%. A variety of measures were taken (including the planned opening of new branches) to expand market share. The insurance business raised its profit contribution by 13 million euros to 23 million euros (a return of 25%), thanks to the favourable trend in expenses (3%) and other factors.

In Hungary, banking income went up by 9%, but loan loss provisions also rose slightly (mainly in the second quarter) – the loan loss ratio came to 0.69% - and a provision for legal disputes was updated (in the third quarter). On balance, the profit contribution came to 38 million euros (unchanged from 2004) and return on allocated capital to 21%. Both in the area of lending and the acquisition of deposits and customer investments, market shares increased. The contribution to profit made by the insurance business amounted to 4 million euros (return of 21%).

In Slovenia (minority interest), the contribution to profit made by the banking business for 2005 amounted to 20 million euros, 2 million euros of which was contributed in the fourth quarter when a one-off value impairment (-5 million euros) was recorded for the IT systems. The life insurance business in Slovenia broke even in 2005, two years after the start of operations (profit contribution of 0.1 million euros).

The table gives more information on the results of the main Central European banking entities.

Detailed information on Central Europe as an area of activity, banking subsidiaries

In millions of EUR	ČSOB (Czech Republic and Slovakia)	K&H Bank (Hungary)	Kredyt Bank (Poland)	NLB* (Slovenia)
2004				
Net interest income	478	225	193	-
Dividend income	4	0	0	-
Net gains from financial instruments at fair value	70	76	29	-
Net realised gains from available-for-sale assets	11	2	12	-
Net fee and commission income	206	81	52	-
Other income	52	13	28	-
Gross income	821	398	314	-
Operating expenses	-480	-285	-242	-
Impairment	-33	-18	-24	-
Share in results of associated companies	0	3	7	-
Income tax expense	-90	-17	-4	-
Net profit, group total (statutory)	217	81	51	-
Allocated overheads	-2	-2	-2	-
Intragroup eliminations	0	0	0	-
Minority interests	-20	-26	-11	-
Results, capital allocation	-21	-16	-3	-
Net profit, group total (area-of-activity reporting)	174	37	35	30
2005				
Net interest income	519	227	210	-
Dividend income	2	0	0	-
Net gains from financial instruments at fair value	97	97	34	-
Net realised gains from available-for-sale assets	19	0	-5	-
Net fee and commission income	235	93	51	-
Other income	186	15	18	-
Gross income	1 058	432	309	-
Operating expenses	-564	-300	-240	-
Impairment	-44	-37	9	-
Share in results of associated companies	0	2	0	-
Income tax expense	-97	-24	23	-
Net profit, group total (statutory)	352	73	101	-
Allocated overheads	-3	-2	-2	-
Intragroup eliminations	16	0	0	-
Minority interests	-34	-26	-13	-
Results, capital allocation	-28	-7	-10	-
Net profit, group total (area-of-activity reporting)	303	38	77	20

* Accounted for using the equity method

Bookstalls on the bank of the Seine, Paris, France

Pamela Chandler Serr, KBC Securities, France: 'We've made a 180° turn since 2003. Up to that point, we had targeted mainly the big players on the stock market and now we're focusing on the smaller players. This strategy proved its worth in 2005, and 2006 has got off to a strong start.'

Additional information

Glossary of ratios used

Basic earnings per share	[net profit (group share)] / [average number of ordinary shares, plus mandatorily convertible bonds, less treasury shares].
CAD ratio (banking)	[consolidated regulatory capital of KBC Bank and KBL EPB] / [total risk-weighted volume of KBC Bank and KBL EPB]. Detailed calculations in the 'Consolidated annual accounts' section, note 43. This information is also available for KBC Bank and KBL EPB separately.
Combined ratio (non-life insurance)	[net claims incurred / net earned premiums] + [net expenses / net written premiums].
Cost/income ratio	[operating expenses of the banking business, asset management business and European private banking business] / [gross income of the banking business, asset management business and European private banking business].
Cover ratio	[individual impairment on non-performing loans] / [outstanding non-performing loans]. For a definition of 'non-performing', see 'Non-performing ratio'.
Diluted earnings per share	[net profit (group share), adjusted for interest expense (after tax) for non-mandatorily convertible bonds] / [average number of ordinary shares, plus mandatorily convertible bonds, less treasury shares, plus the potentially dilutive effect of options and non-mandatorily convertible bonds].
Dividend per share	[amount of dividend paid out] / [number of shares entitled to dividend at the end of the period]. The net dividend per share is net of withholding tax on shares.
Equity market capitalisation	[closing price of KBC share] x [number of ordinary shares].
Equity per share	[parent shareholders' equity] / [number of ordinary shares and mandatorily convertible bonds, less treasury shares (at period-end)]. The 2004 figure does not take account of IAS 32, IAS 39 or IFRS 4, and therefore only takes account of ordinary shares.
Gearing ratio	[sum of the consolidated equity of KBC Bank, KBC Insurance, KBC Asset Management, KBL EPB, Gevaert and KBC Exploitatie] / [consolidated equity of KBC group]
Loan loss ratio	[net changes in individual and portfolio-based impairment for credit risks] / [average outstanding loan portfolio]. For a definition of the loan portfolio, see the 'Value and risk management' section.
Non-performing ratio	[amount outstanding of non-performing loans (loans for which principal repayments or interest payments are more than ninety days in arrears)] / [total outstanding loan portfolio].

Return on allocated capital (for a particular area of activity)	See Return on equity. The profit and capital used for each area of activity have been calculated according to a specific method (see 'Overview of the areas of activity').
Return on assets (ROA)	[net profit (group share)] / [average total assets].
Return on equity	[net profit (group share)] / [average parent shareholders' equity, excluding the revaluation reserve for available-for-sale investments].
Solvency ratio (group)	[consolidated solvency capital available to the KBC group] / [minimum regulatory solvency capital of KBC Bank, KBC Insurance, KBC Asset Management, KBL EPB, Gevaert, and the holding-company activities combined]. See the 'Value and risk management' section, under Solvency.
Solvency ratios (insurance)	[consolidated solvency capital available to KBC Insurance] / [minimum regulatory solvency margin]. Detailed calculations in the 'Consolidated annual accounts' section, note 44.
Tier-1 ratio (banking)	[consolidated tier-1 capital of KBC Bank and KBL EPB] / [total risk-weighted volume of KBC Bank and KBL EPB]. Detailed calculations in the 'Consolidated annual accounts' section, note 43. This information is also available for KBC Bank and KBL EPB separately.

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Financial calendar

Please see the 'Shareholder information' section.

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