Annual report KBC Bank

2 0 0 7

Volume 1

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TO THE READER

Name of the company

Everywhere where mention is made of KBC, the group or KBC Bank in volume 1 of this annual report, the consolidated bank entity is meant, i.e. KBC Bank NV, including all its subsidiaries and sub-subsidiaries. Where KBC Bank NV is used, this refers solely to the non-consolidated entity. KBC Group or the KBC group refers to the parent company of KBC Bank.

Forward-looking statements

The expectations, forecasts and statements regarding future developments that are contained in this annual report are, of course, based on assumptions and are contingent on a number of factors that will come into play in the future. Consequently, the actual situation may turn out to be (substantially) different.

Glossary of ratios used

CAD ratio	[consolidated regulatory capital, KBC Bank] / [total risk-weighted volume, KBC Bank]. For detailed calculations, see the 'Value and risk management' section.
Cover ratio	[individual impairment on non-performing loans] / [outstanding non-performing loans]. For a definition of 'non-performing', see 'Non-performing ratio'. The numerator may also include individual impairment on performing loans and portfolio-based impairment.
Cost/income ratio	[operating expenses] / [total income]
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 or overdrawn)] / [total outstanding loan portfolio].
Return on equity	[profit after tax, attributable to equity holders of the parent] / [average parent shareholders' equity, excluding the revaluation reserve for available-for-sale assets].
Tier-1 ratio	[consolidated Tier-1 capital, KBC Bank] / [total risk-weighted volume, KBC Bank]. For detailed calculations, see the 'Value and risk management' section.

Publisher: KBC Group NV, 2 Havenlaan, 1080 Brussels, Belgium.

RLP 0403 227 515, bank account No. 734-0051374-70.

KBC Bank NV, CBFA Registration No. 26256

KBC Bank profile

Area of operation and activities

KBC Bank is a multi-channel bank catering mainly for retail customers, small and medium-sized enterprises and private banking clientele. Geographically, KBC focuses on Belgium and Central and Eastern Europe for its retail bancassurance and asset management activities, as well as for the provision of services to business customers, and occupies significant, even leading positions in these two home markets. Elsewhere around the globe, the group has established a presence in selected countries and regions.

Shareholders

Shareholders, 31-12-2007	Number of shares
KBC Group	412 331 793
KBC Insurance	1
Total	412 331 794

All shares carry voting rights. The shares are not listed.

Network and personnel

Network and personnel, 31-12-2007	
Bank branches	
Belgium	923
Central & Eastern Europe and Russia	1 223
Number of staff (in FTEs)	
Belgium	12 879
Central & Eastern Europe and Russia	26 479
Rest of the world	2 882
Total	42 240

Financial calendar

Financial communication is organised at KBC group level. The General Meeting of Shareholders of KBC Bank is held on 23 April 2008. KBC Bank's annual report will be available on 9 April 2008.

Financial calendar, KBC group	
2007 financial year	Earnings release: 14 February 2008
	2007 Annual Report available: 9 April 2008
	2007 Corporate Social Responsibility Report available: 18 April 2008
	AGM: 24 April 2008
	Ex-coupon date: 6 May 2008
	Dividend payment: 9 May 2008
1Q 2008	Earnings release: 15 May 2008
2Q 2008	Earnings release: 7 August 2008
3Q 2008	Earnings release: 6 November 2008
4Q 2008	Earnings release: 12 February 2009

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

Long-term credit ratings

Long-term credit ratings, 29-02-2008	
Fitch	AA-
Moody's*	Aa2
Standard & Poor's	AA-

* Negative outlook.

Key financial figures at group level

Key financial figures at group level, IFRS	2006	2007
Balance sheet, end of period (in millions of EUR)		
Total assets	275 738	309 476
Loans and advances to customers	119 188	146 710
Securities	88 366	80 437
Deposits from customers and debt securities	169 638	182 5670
Parent shareholders' equity	10 603	12 342
Income statement (in millions of EUR)		
Total income	7 158	7 576
Operating expenses	-3 872	-4 140
Impairment	-169	-212
Profit after tax, group share	2 083	2 261
Solvency		
Tier-1 ratio, KBC Bank (Basel I / Basel II)	8.5% / na	7,8% / 8,5%
CAD ratio, KBC Bank (Basel I / Basel II)	11.1% / na	10,5% / 12,2%

na: not available.

Contact details

Contact details	
Investors and analysts	
Investor Relations	Luc Cool (Director of Investor Relations), Lucas Albrecht (Financial Communications Officer)
	Sandor Szabó (Investor Relations Manager), Christel Decorte (Investor Relations Assistant)
	Ida Markvartova (Investor Relations Analyst), Marina Kanamori (CSR Communications Officer)
E-mail	investor.relations@kbc.com
Website	www.kbc.com
Address	KBC Group NV, Investor Relations Office – IRO, 2 Havenlaan, 1080 Brussels, Belgium
Press	
Press Office	Viviane Huybrecht (Head of Group Communication and the Press Office, Company Spokeswoman)
Tel.	02 429 85 45 – 32 2 429 85 45
E-mail	pressofficekbc@kbc.be
Website	www.kbc.com
Address	KBC Group NV, Group Communication – GCM, 2 Havenlaan, 1080 Brussels, Belgium

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

Discussion of the consolidated annual accounts

● Overview of the consolidated income statement for financial year 2007

Income statement, KBC Bank (consolidated, IFRS-compliant, in millions of EUR)	2006	2007
Net interest income	3 271	3 179
Dividend income	139	126
Net (un)realised gains from financial instruments at fair value through profit or loss	1 468	1 768
Net realised gains from available-for-sale assets	181	189
Net fee and commission income	1 648	1 897
Other net income	451	416
Total income	7 158	7 576
Operating expenses	-3 872	-4 140
Impairment	-169	-212
on loans and receivables	-176	-148
on available-for-sale assets	-2	-50
Share in the result of associated companies	43	59
Profit before tax	3 160	3 283
Income tax expense	-759	-750
Net post-tax income from discontinued operations	0	0
Profit after tax	2 401	2 534
attributable to minority interests	318	273
attributable to equity holders of the parent	2 083	2 261

● Analysis of the income statement

Preliminary remarks

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted for use in the European Union. As of 2007, IFRS 7 on financial instruments disclosures has been applied. This standard affects mainly the balance sheet presentation. It requires financial instruments to be classified per book (held-for-trading, at fair value through profit or loss, available-for-sale, etc.) instead of per product (loans and advances to banks, securities). The reference figures have been restated accordingly.

There were no changes in the valuation rules that had a significant effect on net profit or equity.

Compared to financial year 2006, the net impact on net profit of changes in the scope of consolidation is limited. The main changes relate to the inclusion of Absolut Bank and Economic and Investment Bank in the scope of consolidation.

The non-euro currencies most relevant for KBC fluctuated significantly in 2007. Overall, the Central and Eastern European currencies appreciated in value, while the US dollar and pound sterling depreciated in value relative to the euro.

	Exchange rate at 31-12-2007		Exchange rate average in 2007	
	1 EUR = … currency	Change from 31-12-2006 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)	1 EUR = … currency	Change relative to average in 2006 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)
CZK	26,63	3,2%	27,77	2,0%
GBP	0,733	-8,4%	0,685	-0,3%
HUF	253,7	-0,8%	251,3	5,1%
PLN	3,594	6,6%	3,785	3,1%
SKK	33,58	2,5%	33,78	10,1%
USD	1,472	-10,5%	1,373	-8,4%

The net impact on net profit of fluctuations in non-euro currencies was negligible, as macrohedging instruments were used to offset the effect of such fluctuations.

Financial highlights – 2007:

- The group's share of net profit went up by 178 million euros to 2 261 million euros (+9%).
- Total income and operating expenses went up in tandem by 6% and 7%, respectively.
- Impairment remained at a relatively low 212 million euros.

Total income includes net interest income, dividend income, net gains on financial instruments at fair value through profit or loss, net realised gains from available-for-sale assets, net fee and commission income and other net income.

There was a 3% decrease in net interest income, which accounts for 42% of gross income. This decrease was accounted for entirely by the higher cost of financing market activities. Disregarding this interest expense, net interest income went up, partly thanks to the higher volume of loans and deposits within the group. In 2007, loans and deposits grew even on an organic basis (i.e. excluding acquisitions and exchange differences). The increase in Central and Eastern Europe was particularly striking (organic growth of 23% in loans and 11% in deposits). On the other hand, Belgium was negatively affected by the shift from savings accounts to other products such as investment funds (income from which appears under other income statement items) and time deposits (which result in a lower margin for the group).

About two-thirds of dividend income was accounted for by dividends on held-for-trading securities, and came to a total of 126 million euros.

Net gains from financial instruments at fair value through profit or loss came to 1 768 million euros in 2007, a 20% increase on 2006. This growth is, however, fully explained by the results of the dealing room activities that are recognised under other income statement items (financing costs under net interest income, for instance, fees and commission paid under net fee and commission income) and by fair value adjustments of ALM hedging instruments whose underlying is not measured at fair value under IFRS. If these elements are not taken into account, the trading result was down year-on-year, partly due to the turbulence on the financial markets in the latter half of the year - which put pressure on the results of certain of the group’s capital market activities - including the lower market value of the CDOs in the group’s portfolios consequent on the mortgage crisis in the US (-103 million euros before tax and -67 million euros after tax) and value adjustments made for counterparty exposure to credit reinsurers (-39 million euros before tax and -23 million euros after tax).

Net realised gains from available-for-sale assets edged up to 189 million euros. Net realised gains on shares went up in 2007 to 335 million euros from the 147 million euros recorded for 2006. In 2007, a gain of 207 million euros was realised on the sale of the holding in Intesa Sanpaolo. On fixed-income securities, a net loss of 145 million euros was realised in 2007, whereas a net realised gain had been recognised in 2006 of 34 million euros.

Net fee and commission income went up in 2007 by 15% to 1 897 million euros. The increase is due largely to the securities trading and asset management businesses.

Other income fell from 451 million euros to 416 million euros. In 2006, this heading had included 36 million euros from the sale of buildings in the Czech Republic and 60 million euros on the sale of the stake in BCC/Banksys; in 2007, it had been accounted for by, among other things, the 35-million-euro gain on the sale of a Hungarian bank card clearing house and a refund of 43 million euros from the Belgian deposit protection scheme.

Operating expenses include both staff expenses and depreciation and amortisation charges for fixed assets, other operating expenses and provisions for liabilities and charges. Expenses remained under control in 2007, and went up more or less in tandem with gross income. Accordingly, the cost/income ratio remained virtually unchanged at 55% (54% in 2006).

Impairment losses on loans and receivables went down from 176 million euros to 148 million euros. Of this amount, 83 million euros were set aside at the Central European and Russian subsidiaries.

Impairment on available-for-sale financial assets came to 50 million euros, compared with a mere 2 million euros a year earlier, mainly on account of the deteriorating stock market climate in the latter part of 2007. In both 2006 and 2007, impairment on goodwill and other assets was limited (14 million euros in 2007, as against a net reversal of 9 million euros in 2006).

The share in the results of associated companies came to 59 million euros in 2007, and related (just as in 2006) primarily to the contribution (via the equity method) of the 34% minority interest in Nova Ljubljanska banka (NLB) in Slovenia.

Income tax expense amounted to 750 million euros. Profit after tax attributable to minority interests totalled 273 million euros, less than the previous year, mainly because of the buy-out of minority interests in ČSOB (Czech Republic).

Analysis of the balance sheet and solvency

The consolidated balance sheet total at year-end 2007 came to 309.5 billion euros, 12% more year-on-year.

As in 2006, loans and advances to customers (146.7 billion euros at the end of 2007) and securities (80.4 billion euros) were the main products on the asset side of the balance sheet. The increase in loans and advances was most marked in Central & Eastern Europe and Russia (+23%). At group level, the main credit products were term loans (73.2 billion euros) and home loans (46.8 billion euros, organic growth of 16% year-on-year). The securities portfolio (80.4 billion euros) contains both held-for-trading instruments and securities held in the bank's investment portfolio.

The main product on the liabilities side of the balance sheet was again deposits from customers and debt securities, which amounted to 182.6 billion euros at the end of 2007. Time deposits (59.6 billion euros), demand deposits (37.8 billion euros) and savings deposits (27.1 billion euros, down 9% on 2006) were the main deposit products.

On 31 December 2007, parent shareholders' equity came to 12.3 billion euros (10.6 billion euros at year-end 2006). The main changes in equity compared with year-end 2006 relate to the inclusion of profit for the financial year (+2.3 billion euros), the dividends for 2006 paid out in 2007 and the interim dividend paid in 2007 (-1.4 billion euros), the change in the revaluation reserve for available-for-sale assets (-0.6 billion euros) and the 1.5-billion-euro capital increase that was subscribed in full by KBC Group NV.
Reported according to Basel II since 2007, KBC Bank's solvency ratios (at the consolidated level) of 8.5% and 12.2% were well above the legal requirements for the tier-1 and CAD ratios, respectively.

Appropriation of 2007 profit by KBC Bank

The Board of Directors will propose to the General Meeting of Shareholders that 1 591 million euros be paid out in dividends (715 million euros of which was paid out in mid-November 2007 as an interim dividend) and 0.7 million euros in directors' emoluments.

Post-balance-sheet events

The main non-adjusting events after balance sheet date were:

- The reaching of a compromise settlement by the group with a number of insurance companies regarding a legal dispute. No additional information can be provided on this matter, as it might prejudice the group's position.

Additional information

- Repurchase of own shares: Neither KBC Bank nor its subsidiaries hold any treasury stock.
- Conflicts of interest that fall within the scope of Article 523 or 524 of the Belgian Companies Code: there were no such conflicts of interest in 2007.
- Discharge of the directors and the auditor: In compliance with the law and the articles of association, the General Meeting of Shareholders is requested to grant discharge to the directors and the auditor for the performance of their mandate in the 2007 financial year.
- Appointment**s:** Effective from the General Meeting on 23 April 2008, Mr Lode Morlion will step down as director. It will be proposed to the General Meeting that Mr Walter Nonneman be appointed to replace him. Walter Nonneman (°1948) is a professor at the Faculty of Law and the Faculty of Applied Economics at the University of Antwerp (*Universiteit Antwerpen*), where he currently teaches general and public economics, along with other subjects. He studied applied economics and management at the UFSIA and the Harvard Business School. Mr Nonneman has also worked for the cabinet of various ministers and was head of the cabinet office of the Belgian Prime Minister, Jean-Luc Dehaene (1997-1999). He is managing director of various non-profit organisations (including the *Universitair Centrum Sint Ignatius Antwerpen*), and sits on the Board of NV Cera Beheersmaatschappij.
- In compliance with the laws on the incompatibility of offices held by managers of credit institutions, listed in annex 1 are the external offices held by the executive managers and directors of KBC Bank in other companies, with the exception of those functions performed in companies within the meaning of Article 27, §3, para. three of the Act of 22 March 1993.

Annex 1

Company name	Registered office	Sector	Position	Listed (N= not)	Share of capital held (N= none)
Luc Philips, Director					
Gemma Frisiusfonds K.U. Leuven	Belgium	financial sector	Director	N	36,00%
Gemma Frisiusfonds K.U. Leuven II	Belgium	financial sector	Director	N	36,00%
Norkom Technologies Ltd	UK	technology software	Director	N	N
Norkom Alchemist Ltd	Ireland	technology software	Director	N	N
Norkom Group Ltd	Ireland	holding company	Director	ISE; AIM	N
Zinner NV	Belgium	real estate	Director	N	13,11%
Elbion NV	Belgium	biotechnology	Director	N	N
ThromboGenics NV	Belgium	biopharmaceuticals	Director	Euronext	N
Frans Florquin, executive Director					
Concert Noble NV	Belgium	conference venues	Chairman of the Board	N	100,00%
VTB-VAB	Belgium	road breakdown assistance	Director	N	N
VTB-VAB Group	Belgium	road breakdown assistance	Director	N	N
Jan Huyghebaert, Chairman					
Alcatel Bell n.v.	Belgium	technology hardware	Director	N	N
Franky Depickere, Director					
Almancora Beheersmaatschappij	Belgium	management	Executive Director	N	N
Cera Beheersmaatschappij	Belgium	management	Executive Director	N	N
Miko NV	Belgium	food/plastics	Independent Director	NYSE Euronext	N
Germain Vantieghem, Director					
Almancora Beheersmaatschappij	Belgium	management	Executive Director	N	N
Cera Beheersmaatschappij	Belgium	management	Executive Director	N	N
VTB-VAB	Belgium	road breakdown assistance	Director	N	N
VTB-VAB Group	Belgium	road breakdown assistance	Director	N	N
Guyro	Belgium	real estate	Director	N	N
Marc Wittemans, Director					
Agro - Services cvba	Belgium	temporary employment	Director	N	N
Aktiefinvest cvba	Belgium	real estate	Director	N	N
Ardo Immo	Belgium	real estate	Director	N	N
Maatschappij voor Grondbezit n.v.	Belgium	real estate	Director	N	N
SBB Accountants en Belastingconsulenten cvba	Belgium	Accountancy & consulting	Director	N	N
SBB Bedrijfsdiensten cvba	Belgium	Accountancy & consulting	Director	N	N
Guido Segers, Executive Director					
Gemma Frisiusfonds K.U. Leuven	Belgium	financial sector	Director	N	36,00%
Gemma Frisiusfonds K.U. Leuven II	Belgium	financial sector	Director	N	N
Novoli Immobiliare	Italy	real estate	Director	N	32,78%
Novoli Investors	Netherlands	real estate	Director	N	60,98%
KBC Real Estate NV	Belgium	real estate	Chairman of the Board	N	100,00%
KBC Vastgoedportefeuille België NV	Belgium	real estate	Director	N	100,00%
KBC Verzekeringen Vastgoed Nederland I BV	Netherlands	real estate	Member of the Supervisory Board	N	100,00%
KBC Real Estate Luxembourg	Luxemburg	real estate	Chairman of the Board	N	100,00%
KBC Internationale Financieringsmaatschappij NV	Netherlands	issuing company	Member of the Supervisory Board	N	100,00%
KBC International Finance NV	Curaçao	issuing company	Member of the Supervisory Board	N	100,00%
Gebema NV	Belgium	investment company	Chairman of the Board	N	100,00%
KBC Credit Investments NV	Belgium	investment company	Director	N	100,00%
Luc Gijsens, Senior General Manager					
Real Estate Participation n.v.	Belgium	property development	Director	N	50,00%
KBC Vastgoedportefeuille n.v.	Belgium	real estate	Director	N	100,00%
Immo-Basilix n.v.	Belgium	real estate	Director	N	95,00%
Immo-Marcel Thiry n.v.	Belgium	real estate	Director	N	95,00%
Immo-Regentschap n.v.	Belgium	real estate	Chairman of the Board of Directors	N	75,00%
Immo-Zenobe Gramme n.v.	Belgium	real estate	Director	N	100,00%
Immo-Plejaden	Belgium	real estate	Director	N	100,00%
Immo-Kolonel Bourgstraat n.v.	Belgium	real estate	Director	N	50,00%
Vastgoed Ruimte Noord	Belgium	real estate	Director	N	100,00%
KBC Real Estate Luxembourg	Luxemburg	real estate	Director	N	99,99%
Prague Real Estate	Belgium	real estate	Director	N	36,59%
Wetenschap Real Estate	Belgium	real estate	Director	N	86,59%
Apitri	Belgium	real estate	Chairman of the Board of Directors	N	100,00%
Brussels North Distribution	Belgium	real estate	Chairman of the Board of Directors	N	100,00%
Covent Garden Real Estate	Belgium	real estate	Director	N	50,00%
FM-A Invest	Belgium	real estate	Director	N	50,00%
Immo North-Plaza	Belgium	real estate	Chairman of the Board of Directors	N	100,00%
Immo Antares	Belgium	real estate	Director	N	100,00%
KBC Vastgoedinvesteringen	Belgium	real estate	Chairman of the Board of Directors	N	100,00%
Luxembourg North Distribution	Luxemburg	real estate	Chairman of the Board of Directors	N	100,00%
Luxembourg Offices Securitisations	Luxemburg	real estate	Chairman of the Board of Directors	N	100,00%
Mechelen City Center	Belgium	real estate	Chairman of the Board	N	73,17%
Immo Lux-Airport NV	Luxemburg	real estate	Chairman of the Board	N	48,76%
Sonja De Becker, Director					
Aktiefinvest cvba	Belgium	real estate	Executive Director	N	N
SBB Accountants en Belastingconsulenten cvba	Belgium	Accountancy & consulting	Chairman of the Board	N	N
SBB Bedrijfsdiensten cvba	Belgium	Accountancy & consulting	Executive Director	N	N
Maatschappij voor Roerend Bezit van de Belgische Boerenbond	Belgium	holding company	Director	N	N
Acerta cvba	Belgium	holding company	Director	N	N
Acerta Consult cvba	Belgium	services sector	Director	N	N
Acerta Middelenbeheer	Belgium	services	Director	N	N
Agriflora cvba	Belgium	organisation of fairs	Director	N	N
Stabo cvba	Belgium	products and services	Director	N	N
Agro - Services cvba	Belgium	temp	Director	N	N
BB-patrim	Belgium	holding company	Director	N	N
Julien De wilde, Independent Director					
Agfa Gevaert	Belgium	industry	Independent Director	Euronext	N
Bank J. Van Breda & Co	Belgium	financial sector	Independent Director	N	N
Bekaert	Belgium	industry	Director	Euronext	N
CTO Mobility	Belgium	orthopaedic products	Independent Director	N	N
Metris	Belgium	ICT	Chairman of the Board of Directors	Euronext	N
Nyrstar	Belgium	industry	Chairman of the Board of Directors	Euronext	N
Telenet Group Holding	Belgium	holding company	Independent Director	Euronext	N
Pierre Konings, Director					
BD-World SA	Belgium	distribution	Director	N	N
E-Capital II	Belgium	private equity fund	Chairman of the Board of Directors	N	N
Lode Morlion, Director					
Almond&Co NV	Belgium	food	Executive Director	N	N
Cera Beheersmaatschappij	Belgium	management	Chairman	N	N
Paul Peeters, Director					
Almancora Beheersmaatschappij	Belgium	management	Director	N	N
Cera Beheersmaatschappij	Belgium	management	Director	N	N
Gustaaf Sap, Director					
Cecan NV	Belgium	holding company	Chairman of the Board	N	N
Cecan Invest NV	Belgium	financial sector	Director	N	N
Patrick Vanden Avenne, Director					
Calibra Poultry NV	Belgium	poultry processing	Chairman of the Board	N	N
Biopower cvba	Belgium	industry	Vice-Chairman of the Board of Directors	N	N
Bens NV	Belgium	food	Executive Director	N	N
Sininvest NV	Belgium	poultry	Director	N	N
Vanden Avenne Vrieshuis NV	Belgium	holding company + refrigeration	Executive Director	N	N
Vanden Avenne - Ooigem	Belgium	compound feed	Executive Director	N	N
Lacotrans NV	Belgium	transport	Executive Director	N	N
Euro-Silo NV	Belgium	transfer and storage of grain	Director	N	N
Acta NV	Belgium	transport	Director	N	N
Isarick NV	Belgium	management	Director	N	N
Harpaca NV	Belgium	management	Director	N	N
Larinvest NV	Belgium	holding company	Director	N	N
Ispahan NV	Belgium	management	Director	N	N
Bavarco bvba	Belgium	stockbreeding	business manager	N	N
Fidex NV	Belgium	transport	Director	N	N
Dirk Wauters, Director					
VRT	Belgium	audio-visual media	Executive Director	N	N
Vlaamse Audiovisuele Regie	Belgium	advertising	Chairman of the Board of Directors	N	N

Main events

Introduction

A description is provided below of the main developments at KBC Bank over the past financial year. In view of the far-reaching co-operation between KBC Bank and its sister companies, KBC Insurance, Kredietbank SA Luxembourgeoise (KBL European Private Bankers, below, abbreviated to KBL EPB) and the holding company, KBC Group NV, developments at these companies cannot in certain cases be viewed separately from those occurring at KBC Bank, with the result that additional information may be provided on these companies in this text from time to time.

Description of the network and the main events in 2007

Retail & private bancassurance in Belgium

Facts and figures, retail & private bancassurance in Belgium	2006	2007
Customers (estimate)		
Bank customers (in millions)	3,4	3,4
Network		
Retail bank branches, KBC Bank and CBC Banque*	869	865
Private banking branches, KBC Bank and CBC Banque	25	25
Bank agencies, Centea	708	712
Assets under management (in millions of EUR)		
Investment funds for private individuals	71 481	78 940
Assets managed for private individuals	36 135	40 833
Assets managed for institutional investors	19 830	24 742
Group assets managed by KBC Asset Management	15 420	17 165
Total	142 866	161 680
Market share (estimates)		
Loans	22%	22%
Deposits	19%	18%
Investment funds	34%	35%
Cross-selling indicators		
Life insurance sold via the bank channel	82%	77%
Non-life insurance sold via the bank channel	12%	15%
E-payments indicators – Belgium		
Percentage of payment transactions via electronic channels	91%	93%
Number of KBC- and CBC-Matic ATMs	1 240	1 277
Number of cash withdrawals at KBC- and CBC-Matic ATMs per month	3.2 million	3.9 million
Active subscribers to KBC Internet and PC banking facilities	510 000	580 000
Customer satisfaction		
Percentage of customers surveyed who gave their KBC Bank branch a score of ‘good’ or ‘very good’ (min. 8/10)	69%	72%
Loan portfolio		
Amount granted (in billions of EUR)	53,9	58,1

* Excluding CBC's main branches (*succursales*), which offer services to both retail and corporate customers and which are covered in the section on merchant banking.

Network

KBC serves its retail and private banking customers in Belgium through 890 bank branches (KBC Bank in the Dutch-speaking part of the country and CBC Banque in the French-speaking part), 712 independent bank agents of the savings bank Centea, 552 tied insurance agencies of KBC Insurance, and independent insurance brokers (for Fidea products).
Additionally, the group offers its services and products through various electronic networks (see below for more information), as well as through call and contact centres. These centres will soon be regrouped and reintegrated, thus enabling them to be developed into true competency centres and fully fledged distribution and service channels.

The group serves some 3.4 million bank customers (and, together with KBC Insurance, around 1.4 million insurance customers) in Belgium through its networks.

Bancassurance co-operation

A notable feature of KBC's network in Belgium is the unique bancassurance co-operation that exists between the bank branches of KBC Bank and the tied insurance agents of KBC Insurance within a well-defined area of operation, i.e. the 'micro market'. While the insurance agents focus on selling all insurance products in this micro market, the bank branches offer retail customers standard insurance products in addition to the traditional banking products. The bank branches refer customers to the insurance agents in the same micro market for other insurance products (non-standard insurance and insurance for non-retail customers). The insurance agents handle the claims for all insurance policies, including those sold through the bank branches. There are well-defined rules in place between the bank branches and insurance agents regarding referrals and fees.

As an alternative to deposits or investment funds, life insurance is, by its nature, extremely suited to the product mix offered by bank branches. KBC Bank's branches in Belgium have therefore traditionally accounted for the vast majority (around 77% in 2007) of the life insurance premium volume of the KBC group in Belgium. Needless to say, for non-life insurance, the KBC Insurance agents and the brokers are still the main distribution channels, accounting for 64% and 21% of premium volume, although KBC Bank's network was already generating 15% of non-life insurance premium volume in Belgium in 2007.

Market position

2007 saw further volume growth in most deposit and credit products. In total, lending by the group went up by around 14% in Belgium and deposit-taking by 9%. However, there was a shift in deposit products from traditional savings accounts (where the volume outstanding fell by 9% in one year) to other deposit products (mainly time deposits) and off-balance-sheet products (mainly investment funds), although this trend was reversed to some extent in the last quarter. Since the trend affected the whole Belgian market, KBC's market share remained broadly unchanged overall compared with the previous year (a slight increase in loans, a slight decrease in deposits). The group estimated its market share for the main products at year-end 2007 at 23% for mortgage loans, 12% for instalment loans, 22% for corporate lending (see the Merchant Banking section), 18% for savings deposits and 17% for customer savings certificates.

KBC Bank's share of the market in investment funds has risen virtually without interruption in the past few years, climbing to no less than 35% in 2007, so that the group remains the leader in Belgium for this type of product. Elements contributing to KBC's extremely strong position in investment funds are its rapid response time (the group's product factories are very quick to respond to the changing needs of customers in the area of investment products), the knowledge and expertise of the savings and investment advisers who are present in all points of sale, and the highly innovative approach. To give but one example of its innovativeness: in 2007, KBC launched two new unit-linked funds with capital protection whose return in each case is linked to a single share (the KBC and the Fortis share). The group's range of funds also testifies to its particularly active involvement in socially responsible investment (SRI). For instance, figures from the Belgian Asset Managers Association show that, at the end of 2006, KBC Asset Management – with 23 SRI funds, 2.8 billion euros in managed assets and a market share of 51% – held the lead in the Belgian market.

The group continued to innovate in its private banking services, too, adding KBC PortfolioScanner® to its range of portfolio management products in 2007, for example. Thanks to the detailed PortfolioScan report, clients gain a clearer view of the risk and return potential of their portfolio, and can make the most of investment opportunities within the limits of their personal risk budget. KBC Private Banking was named best private bank for entrepreneurs in Belgium by *Euromoney* at the start of 2008.

Electronic channels

KBC Bank makes its products and services available not only via an extensive network of branches, but also through high-performance electronic channels, which are continuously enhanced and upgraded. For example, in 2007, the range of electronic banking and insurance services provided through KBC-Online (KBC's main system in Belgium for online banking and insurance) was expanded to offer customers more detailed account records, a 'remittance folder' facility for sending more than one transfer order to the bank at a time, and new, improved security in the form of a card reader.

The success of KBC's online bancassurance systems is reflected in a number of ways, such as in the continuously rising number of users. KBC-Online, CBC-Online and Centea-Online, combined, had more than 580 000 active customers at the end of 2007, 14% more than in the previous year.

The KBC website was improved in numerous ways, too. In 2007, it was for instance expanded to include a new, personalised site for private banking and a new site for young people. In addition, the website is becoming a fully fledged sales channel through which more and more products (e.g., instalment loans) can be sold. In 2007, the KBC website had around 10 million visits from some 900 000 unique visitors every month.

Customer satisfaction

Since KBC attaches a good deal of importance to customers' experience, it conducts a customer satisfaction survey annually. The results of this survey are very encouraging. In 2007, customer satisfaction with the bank branches improved again: no less than 72% of customers were very satisfied with the service (i.e. they gave the branch a score of 8 or more out of 10), an increase of three percentage points on the previous year and as much as ten percentage points on 2004.

Despite these excellent results, KBC is not planning to rest on its laurels. In 2007, for instance, initiatives were devised regarding the client approach with the aim of further improving the way customers are received in the bank branches, and various resources were developed to support relationship management.

Activities in Central & Eastern Europe and Russia

Facts and figures, Central & Eastern Europe and Russia, 31-12-2007	Czech Republic	Slovakia	Hungary	Poland	Bulgaria	Romania	Serbia[3]	Russia
Customers (estimate)								
Bank customers (in millions)	3,0	0,2	0,9	1,0	0,2	-	0,1	0,2
Network								
Bank branches[1]	251	114	223	393	126	–	45	71
Assets under management								
Total (in billions of EUR)	6,0	0,8	2,6	2,8	-	-	-	-
Market share (estimate)								
Traditional bank products (loans and deposits)	21%	8%	10%	4%	3%	-	0,7%	0,5%
Investment funds	28%	12%	17%	4%	–	-	–	–
E-payment indicators								
Number of proprietary ATMs	637	131	370	382	107	-	14	64
Active subscribers to Internet and PC banking facilities	400 000	50 000	70 000	200 000	2 000	-	1 000	10 000
Loan portfolio								
Amount granted (in billions of EUR)	26,0	See Czech Republic	8,4	6,5	0,6	-	0,1	3,0
Population and expected GDP growth								
Population, 2007 (in millions)	10,2	5,4	10,0	38,5	7,3	22,3	10,2	141,4
Expected annual real GDP growth, 2008-2010	5,1%	6,5%	3,8%	5,5%	6,0%	5,9%	5,5%	5,7%

1 Corporate branches are counted separately, even if located in a retail branch.
2 Excluding acquisition of ČSOB (recognised in full under the Czech Republic).
3 Presence via sister company, KBC Insurance.

Network

At the end of 2007, KBC had a bank network in Central and Eastern Europe and Russia comprising more than 1 200 branches. Besides selling products through its bank branches in all of these countries, the group also uses other channels, such as the more than 3 000 Czech post offices, the points of sale of Kredyt Bank's Polish consumer finance subsidiary, and of course various electronic channels.

KBC Insurance, the sister company of KBC Bank, is also a prominent player in the insurance market in this region, which is enabling the KBC group to develop its bancassurance model in its Central and East European home markets as well. At the end of 2007, the group's insurance companies had a combined network of over 14 000 tied insurance agents in the region.

In most of its Central and Eastern European home markets, the group has a considerable share of the markets in traditional bank products (see table). The increasing sophistication of this region means that off-balance-sheet products, such as investment funds, are being seen more and more as alternatives to the more traditional products such as deposits. Moreover, as is the case in Belgium, the KBC group has a share of the market in investment funds that is even greater than its share of the market for traditional bank and insurance products (see below).

Overall, the KBC group figures among the leading financial groups in Central and Eastern Europe, catering for around 5.5 million bank customers in the region.

Developments in the Czech Republic, Slovakia, Poland, Hungary and Slovenia

KBC embarked upon its policy of expansion in Central and Eastern Europe by building up a strong presence in countries included in the first wave of accession to the EU: ČSOB in the Czech Republic and Slovakia, K&H Bank in Hungary, Kredyt Bank in Poland and Nova Ljubljanska banka (minority interest) in Slovenia. In 2007, KBC completed the process of buying out minority shareholders in these companies, a process started over the past few years. The main development in 2007 was the buy-out of the remaining 2.5% in ČSOB Bank. Excluding NLB (KBC considers its 34% holding in this bank as a purely financial participation) and Kredyt Bank (in accordance with the wishes of the Polish central bank, 20% of the shares in this company must be free float), the group now has a 100% stake in all its subsidiaries in the region. In line with the policy of having a differentiated bancassurance strategy per country, ČSOB was split into a separate Czech and a separate Slovak entity with effect from 1 January 2008.

At the end of 2006, the group also started to expand the bank branch network considerably in these countries, with the aim of increasing the number of branches by around one-third. The first step in this process was taken in 2007 with the opening of some 100 new branches. At the same time, the networks of insurance agents are being optimised and expanded, which should help intensify bancassurance co-operation. The results of this co-operation are becoming apparent: in the Czech Republic, for instance, almost seven out of every ten mortgage loans granted by ČSOB Bank in 2007 were sold along with home insurance from a group company and, for the region as a whole, more than half the life insurance premiums and some 8% of the non-life insurance premiums were sold through the bank sales networks.

With market shares of 21% and 8% (the weighted average of the market share in lending and deposits), respectively, KBC is one of the top two banks in the Czech Republic and the fourth largest bank in Slovakia. In Hungary, the group is the second biggest, with a market share of 10%, and in Poland it is in the top ten, with a market share of 4%. KBC's position in the investment fund market is even stronger, with a share of over 28% in the Czech Republic, 12% in Slovakia, 17% in Hungary and 4% in Poland. All market share data is based on estimates to some extent. The intention is to achieve a market share of at least 10% for traditional bank products in all countries, with even higher targets for investment funds.

As in previous years, several KBC group companies in the region again won international awards in 2007. To point out but a few: *The Banker* named ČSOB 'Bank of the Year 2007' in the Czech Republic, while *Global Finance* awarded ČSOB 'Best Bank' in the Czech Republic in 2007 and bestowed the equivalent title on NLB in Slovenia.

Expansion into new Central and Eastern European countries and Russia

In 2007, the group also embarked upon expansion into countries included in the second wave of accession to the EU (Bulgaria and Romania) and into Serbia (this last via KBC Insurance). To safeguard long-term growth, the decision was also taken to invest in a bank in Russia. The main acquisitions carried out in 2007 are commented on below.

In December 2007, KBC Bank took an important step onto the Bulgarian banking market when it purchased a 75% stake in Economic and Investment Bank (EIB) for 0.3 billion euros. EIB has a network in Bulgaria of 126 branches – set to be extended in the years ahead – and a market share of some 3% in deposits and loans. Combined, DZI Insurance (a Bulgarian insurance company acquired by KBC Insurance in 2007) and EIB form one of the largest financial groups in Bulgaria, with an unrivalled distribution network that stretches across the entire country. Needless to say, establishing co-operation between the two companies in the field of bancassurance is one of the KBC group's top priorities in Bulgaria. The companies are already co-operating at a commercial level by, for example, jointly selling a capital-guaranteed unit-linked life insurance product.

In March 2007, KBC took over the Romanian company, Romstal Leasing, for around 70 million euros. Romstal has a share of some 4% of the Romanian leasing market and focuses on leasing cars and other rolling stock. At the same time, KBC acquired a shareholding in INK Insurance Broker in Romania and, in April, completed the acquisition of the broking house, Swiss Capital (now KBC Securities Romania). These acquisitions have provided the group with a foothold in the fast-growing Romanian market. The aim is to develop this position in the coming years through greenfield operations, organic growth or additional acquisitions.

In Serbia, KBC acquired a number of smaller securities brokers (Hipobroker and Senzal), and took a 60% shareholding in a corporate finance specialist (Bastion). KBC Insurance also acquired A Banka in Serbia for 0.1 billion euros. A Banka has a network of 45 branches, and is present in all big and mid-sized cities in Serbia.

In August 2007, KBC Bank acquired a 51% stake in Baltic Investment Company, a Latvian corporate finance boutique with offices in the Baltic states, Russia and Ukraine. This company – now called KBC Securities Baltic Investment Company – complements KBC Securities' network in Central and Eastern Europe, which has been expanded considerably in recent years. The stock brokers and corporate finance companies are incorporated in full into the results of the Merchant Banking Business Unit.

In July 2007, KBC Bank completed the acquisition of 95% of Absolut Bank in Russia for around 0.7 billion euros. IFC has retained ownership of the remaining 5%. With this acquisition, KBC is entering an emerging European market, which, as already mentioned, should open up additional growth prospects in the years ahead. Indeed, with a population of 141 million people, expected annual real GDP growth of 5 to 6% in the coming years, and proportionately very low market penetration of bank and insurance products, Russia offers considerable potential for growth. KBC believes that through Absolut Bank (one of the fastest growing banks in Russia), it will be able to capitalise on the expected growth in financial products. Accordingly, extra attention will be given to the further development of the retail and SME segment, which should account for around 45% of the total activity mix by 2010 (around 30% today). To this end, the number of branches will be increased significantly in the years ahead.

Merchant banking activities (outside Central & Eastern Europe and Russia)

Facts and figures, Merchant Banking	2006	2007
Customers (estimate)		
Corporate banking (Belgium)	19 000	19 000
Network		
KBC Bank corporate branches in Belgium, including branches catering for the social profit segment and CBC Banque *succursales*	33	33
KBC Bank branches in the rest of the world*, including representative offices	36	36
Assets under management		
Total (in billions of EUR)	0,7	2,2
Market share (estimate)		
Corporate lending (Belgium)	21%	22%
Loan portfolio		
Amount granted (in billions of EUR)	94,0	101,6

* Excluding Central and Eastern Europe, solely corporate branches of KBC Bank or its subsidiaries, KBC Bank Nederland, KBC Bank Deutschland and IIB Bank.

Corporate banking

In Belgium, the group provides services to businesses – especially larger SMEs – through its network of sixteen KBC Bank corporate branches and thirteen CBC Banque main branches (*succursales*). The group also has four branches that focus solely on public sector and social profit institutions (in the social services, health care, education and similar sectors) and a central multinationals branch that caters for around sixty multinational companies. Through this network, KBC has become one of the top three players on the Belgian corporate banking market.

Outside Belgium, the group has a select corporate banking presence through thirty-six branches, offices and subsidiaries of KBC Bank located primarily in Western Europe, but also in Southeast Asia and the US, that concentrate mainly on local midcap customers and customers that already do business with KBC's Belgian or Central and Eastern European network. Additionally, these establishments operate in certain niches, which may include government finance, health care, real estate, financial institutions, trade finance or acquisition finance.
In recent years, there have been few changes to the network abroad. In 2007, only one new branch was opened, in Spain (previously, there was only a representative office there), and in 2008 a new branch in Italy (Milan) is being considered.

Despite the fact that, outside Belgium, the group's position in most Western European countries is relatively limited, the corporate banking network outside Belgium and Central and Eastern Europe accounts for some 50% of the group's loan portfolio.

Besides providing general bank services, KBC Bank also operates in certain niche banking markets, such as acquisition finance, structured finance, real estate services and factoring, as well as finance for the diamond trade. Like the other business units, it collaborates with the Shared Services & Operations Business Unit (one of the five business units of the KBC group) in the area of payments, leasing, asset management, trade finance, etc.

Market activities

The market activities include all dealing room activities in Western Europe, the United States and the Far East, with the dealing room in Brussels accounting for the bulk of these activities. The group offers an extensive range of products to cope with interest rate and forex risks, ranging from simple products (deposits, forex spot transactions, forex and interest rate options, bonds, repos, etc.) to more exotic products, such as options, structured issues and Collateralised Debt Obligations (CDOs).
The group is also a prominent player on the primary Eurobond market, and in 2007 participated in more than 200 syndicated deals as lead, co-lead or co-manager, including deals in a number of Central and Eastern European currencies.
The group is also a major issuer on the international capital markets. For instance, in 2007, KBC raised almost 11 billion euros in cash under IFIMA's Euro Medium Term Note programme, guaranteed by KBC Bank. Moreover, the solvency of KBC Bank was strengthened by a tier-1 issue in the amount of 150 million pounds sterling.

In addition, KBC Bank engages in a variety of specialised market activities through a number of subsidiaries, viz. KBC Financial Products (trading in such instruments as convertible bonds, equities and their derivatives and credit derivatives), KBC Securities (equity trading and corporate finance), KBC Peel Hunt (a British securities house for institutional investors and one of the UK's biggest market makers in small-cap shares), KBC Clearing in Amsterdam (clearing services for professional market players), and KBC Private Equity (the group's investment company, specialising in financing buyouts and providing smaller local companies in the home markets with growth capital).

Specific acquisitions and the expansion of activities

Where opportune, KBC intends to expand its existing range of merchant banking activities by means of targeted acquisitions.

In 2007, for example, KBC Securities consolidated its position as market leader in Central and Eastern Europe by acquiring a number of brokers in the region: Swiss Capital (now KBC Securities Romania), Equitas (now KBC Securities Hungary), DZI Invest (Bulgaria), Baltic Investment Company (now KBC Securities Baltic Investment Company, with activities in the Baltic states and Russia), Indigo Capital (now KBC Securities Ukraine), Bastion (a Serbian corporate finance specialist; now KBC Securities Corporate Finance LLC), Senzal (now KBC Securities Beograd) and Hipobroker (now KBC Broker). As a result of this considerable expansion, KBC Securities was already generating around 45% of its 2007 net profit in the Central and Eastern Europe region.

In 2007, KBC also took over ING's 50% stake in International Factors Belgium, leaving the group with full ownership of this factoring company – now called KBC Commercial Finance. KBC is also starting to provide factoring services in Central and Eastern Europe, beginning with Hungary.

KBC Financial Products – which added to its range of activities in 2006 by entering the life insurance settlement business (a typically American phenomenon, where life insurance policies are bought from policyholders) – entered other new markets in 2007, including the reverse mortgage market (where loans are provided mainly to older home owners, who receive an amount or periodic payments against the value of their house and where repayment starts only when the owner of the house no longer resides there (e.g., if the house is sold or the owner dies)).

Moreover, aside from the above acquisitions, 2007 was also an exceptionally busy year for several of the existing specialised merchant banking businesses, as attested to by the following examples.

The acquisition finance teams in Brussels, London, Paris, Frankfurt, Madrid, Dublin, New York and Hong Kong again had a very good year, with new deals spread evenly across regions and sectors. KBC Private Equity continued to grow its business: at the end of 2007, the private equity portfolio contained no fewer than sixty-five direct active investments, with a combined market value of almost 500 million euros. The project finance and structured trade finance units also stepped up their activities considerably. Some notable project finance deals relate to the airport in Budapest, the new Central Criminal Courts Complex in Dublin and Alco Bio Fuel in Belgium, an interesting renewable energy project. Lastly, the real estate activities yielded significant gains on the sale of buildings in Brussels and Luxembourg, achieved growth in the real estate finance portfolios in Belgium and Central and Eastern Europe, and financed a number of large logistics parks and shopping centres in Romania.

E-services

As it does for its retail customers, KBC likewise provides e-banking and e-insurance services specifically for companies, including KBC-Online for Business, an online application for the SME market that, in addition to the facilities in KBC-Online for private individuals, also offers facilities specially designed for the self-employed and businesses. Two years after its launch, KBC-Online for Business already has almost 40 000 active subscribers.

Other e-services for companies include KBC@Isabel, an offline application developed by KBC and integrated into Isabel (a multi-bank network facilitating communication among banks and companies); KBC-Flexims, an Internet channel for sending and receiving applications for, or making changes to or payments under documentary credit, documentary collections and bank guarantees; w1se Corporate e-Banking®, an Internet-based program for companies operating internationally; KBC Deal, Internet software that enables spot, forward and swap transactions to be carried out online in a user-friendly way; and the KBC Payment Button, which guarantees safe and swift payment via the Internet.

Corporate social responsibility

Corporate social responsibility (CSR) is a long-term process which requires ongoing adaptation of and improvement in the way a company conducts its business, not only for the purpose of making a financial profit, but in response to the increasing demands for transparency and accountability placed on the company by its stakeholders (employees, customers, shareholders, suppliers, etc.) and by society as a whole.

KBC's vision on CSR is embedded in its mission statement, and more specific commitments are set out in its *Principles for Socially Responsible Business*.

As a member of local CSR organisations and signatory to national and international CSR principles (including the United Nations *Global Compact* and the Luxembourg *Charte d'entreprise pour la responsabilité sociale et le développement durable*), KBC intends to enter into a proactive commitment vis-à-vis its stakeholders.

Since 2005, the group has also been publishing an annual *Corporate Social Responsibility Report*, which deals with its vision and achievements in this area. This report provides group-wide information on CSR, including quantitative data on KBC staff and the group's ecological footprint. It is compiled in accordance with the reporting requirements set out in the Global Reporting Initiative *G3 Guidelines* and the United Nations *Global Compact* principles. Also in 2007, KBC's subsidiaries, K&H Bank in Hungary and ČSOB in the Czech Republic, published their own separate CSR reports for the first time.

More information can be found at www.kbc.com/social_responsibility and in the annual *KBC Corporate Social Responsibility Report*.

Value and risk management

Introduction

At KBC Group, a group-wide approach is taken to value and risk management, implying that the value and risk management of KBC Bank, as a subsidiary of KBC Group, is encompassed by this approach and inextricably linked to the value and risk management of other subsidiaries (such as KBC Insurance and KBP EPB). The section below focuses on the risk management of the banking activities.

Vision and principles (KBC Group)

At KBC, the essential characteristics of value and risk management are as follows:

- Value, risk and capital management are inextricably linked to one another. Every company's aim is to create value. To achieve this aim, decisions are taken and activities developed, even though there is no certainty as to where they will lead. To ensure its own continuity, a company must have adequate capital to be able to deal with any unforeseen consequences of adverse developments.
- Risk management is approached from a comprehensive, group-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 Group Value and Risk Management Directorate (WRB), operating independently of line management, performs an advisory, supporting and supervisory role.
- The group's risk governance model is also, where relevant, duplicated at the level of the business units and subsidiaries.

The information in this section has been audited by the statutory auditor only where required under IFRS, viz.:

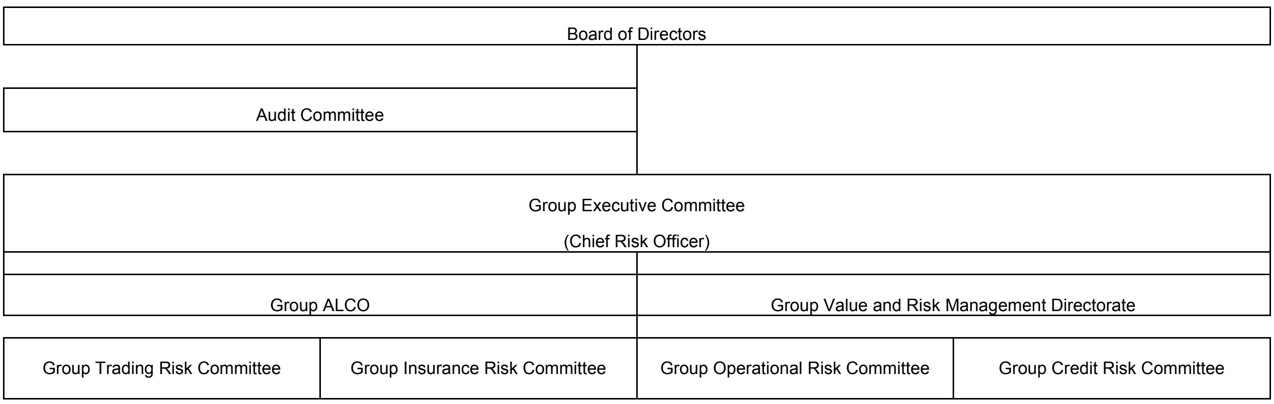
- The entire 'Vision and principles' section;
- The entire 'Risk governance model' section;
- The following parts of the 'Credit risk management' section:
    - Description
    - Managing credit risk, banking
    - The 'Loan portfolio' table and the 'Other credit exposure' table (audited parts are indicated in the footnote to the tables)
- The following parts of the 'Asset/Liability management' section:
    - Description
    - 'Managing ALM risk'
    - 'ALM in 2007: Interest rate risk' (first three paragraphs)
    - 'ALM in 2007: Foreign exchange risk'
- The entire 'Liquidity risk management' section;
- The entire 'Market risk management' section (unless otherwise indicated)
- The following parts of the 'Solvency' section:
    - Description
    - 'Managing solvency'
    - 'Solvency in 2007' (first two paragraphs and the parts of the table indicated in the footnotes)

Risk governance model (KBC Group)

KBC's risk governance model defines the responsibilities and tasks required to manage value creation and all the associated risks. The governance model is organised in different tiers:

- *The Board of Directors (assisted by the Audit Committee), the Group Executive Committee and the Group Asset/Liability Management Committee (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 Group Executive Committee is responsible for the implementation of the value, risk and capital management strategy defined by the Board of Directors and outlines the structure of such management. The Chief Financial and Risk Officer (CFRO), a member of the Group Executive Committee, supervises risk management. The Group ALCO takes the investment and funding decisions and also monitors the relevant risk exposure.
- *Specialised group risk committees*. These committees concentrate on developing a group-wide framework for one particular type of risk or cluster of activities and monitor the associated risk management process. Chaired by the CFRO, the risk committees are composed of representatives from line management and the Group Value and Risk Management Directorate. The various group committees are:
  - the Group Trading Risk Committee, which monitors all risk associated with trading activities;
  - the Group Credit Risk Committee, which supervises the composition and quality of the loan portfolio (including credit risk in respect of (re)insurance);
  - the Group Operational Risk Committee, which oversees operational risk management;
  - the Group Insurance Risk Committee, which monitors specific insurance risks.

  Depending on the materiality of specific risk types, local risk committees and local value and risk management units have been put in place at a lower level (e.g., business unit, country and subsidiary), to roll out the risk management framework.
- The Group Model Committee (GMC) uses reports drawn up by independent validation units to decide on the validity of quantitative and operational risk aspects (such as model usage, monitoring activities, etc.) of all the risk models developed and/or used within the group.
- The Group Internal Audit division is responsible for audit planning and thus audits the compliance of the risk management framework with legal and regulatory requirements, the efficiency and the effectiveness of the risk management system and its compliance with the risk management framework, as well as the way in which line management handles risks outside this formal framework.
- Line management has primary responsibility for value and risk management. It ensures that the risk management framework relating to the business is embedded in the business through policies and procedures. It is also entrusted with the task of developing transactional models.
- The Group Value and Risk Management Directorate measures risks, economic capital and value creation for all business entities and reports its findings to line management. It is also responsible for developing portfolio models, as well as for validating all models (both transactional and portfolio models). In this respect, there is a clear segregation of responsibilities within this directorate, as *validating staff* is different from *modelling staff.*



Credit risk management

Description

Credit risk is the potential shortfall relative to the value expected consequent on non-payment or non-performance by an obligor (a borrower, guarantor, counterparty to an inter-professional 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, banking

Credit risk is managed at both transactional and portfolio level. Managing credit risk at the transactional level means that there are sound procedures, processes and applications in place to estimate the risks before and after accepting individual credit exposures. Managing the risk at portfolio level encompasses periodic reporting on (parts of) the consolidated loan portfolio, monitoring limit discipline and the specific portfolio management function.

Credit risk management at transactional level

Acceptance. Credit proposals are submitted in writing by a commercial entity. Unless a small amount or a low risk is involved, a loan adviser screens the proposals and makes a recommendation. In principle, significant loan decisions are taken jointly by two or more managers. Matrices that take account of such parameters as the group risk total, the risk class and the type of counterparty (private individuals, companies, etc.) 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 (including the investment portfolios and guarantees received for exposure to other groups). The 'risk class' reflects the assessment of the risk and is determined primarily on the basis of internally developed rating models.

Supervision and monitoring. How the credit is monitored is determined primarily by the risk class, with a distinction being made based on 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 internal rating classes ranging from 1 (lowest risk) to 9 (highest risk), and this for both the EL and the PD. Loans to large corporations in this portfolio are reviewed periodically, at least once a year. Reviews of loans to small and medium-sized enterprises are based primarily on risk signals (such as a significant change in the risk class). It is not only credit that is monitored, credit decisions are too, i.e. a member of a credit committee will supervise decisions taken at the decision level immediately below, by checking whether the decision is consistent with lending policy.

Defaulting obligors are put into PD classes 10, 11 or 12. PD class 10 is for 'still performing' borrowers, i.e. borrowers with loans for which interest payments and principal repayments are not more than 90 days in arrears or overdrawn. Classes 11 and 12 are for 'non-performing' borrowers. Class 11 groups borrowers that are more than 90 days in arrears or overdrawn, while class 12 comprises borrowers whose credit has 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 Group Executive Committee every quarter.

Credit to individuals is generally granted in the local currency, except in some Central and Eastern European countries and Russia, where credit in foreign currency is very popular on account of the significant gap between interest rates in the local currency and interest rates in other currencies (mainly euros or Swiss francs). In view of the currency risk inherent in such credit, an additional buffer is required (in terms of the loan-to-value ratio, net disposable income thresholds and shorter maturities) and therefore it is closely monitored (by means of stress tests). If the remaining currency risk is still too high, it is hedged at group level.

Impairment. For credit granted to borrowers in PD classes 10, 11 and 12 (impaired loans), KBC records impairment losses based on an estimate of the net present value of the recoverable amount. In addition, for credit in PD classes 1 to 9, impairment losses are recorded on a 'portfolio basis', using a formula based on the IRB Advanced models used internally (or an alternative method if an IRB Advanced model is not yet available). This formula was introduced in the fourth quarter of 2007 in order to better comply with IFRS requirements for Incurred But Not Reported provisions. Previously, a formula based solely on credit provided to borrowers in PD classes 8 or 9 was used.

Loans can be renegotiated in order to eliminate arrears or impairment. Only marginal amounts and a limited number of loans are renegotiated. In 2007, renegotiations occurred mostly at K&H Bank (corporate and SME segment) and Kredyt Bank, where an estimated 17 million euros and 114 million euros (0.4% and 2% of their respective credit exposure) was restructured to avoid further impairment or arrears.

Credit risk management at portfolio level

Monitoring is also 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 periodic and *ad hoc* reports. Limits are in place at borrower or counterparty level, at sector level and for specific activities (such as acquisition finance) or geographic areas. Whereas some limits are still in notional terms, more advanced concepts (such as 'expected loss' and 'loss given default') are increasingly being used. Moreover, stress tests are performed on certain types of credit. For commercial real estate credit, caps are defined in terms of stressed expected loss exposure.

As part of the credit function, the portfolio management desk actively manages and monitors the loan portfolio. Using a model, this unit pinpoints risk concentrations and enhances 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 2007, there were two securitisation operations outstanding involving own loans, namely Phoenix Funding, a securitisation operation set up in 2001 and involving IIB Homeloans' mortgage loans, for an amount outstanding of 0.2 billion euros, and Home Loan Invest III, set up in 2007 for liquidity reasons and involving KBC Bank mortgage loans, for an amount outstanding of 3.5 billion euros. The underlying assets of both operations, however, continue to be included in the overview of the loan portfolio (see below).

Overview of the loan portfolio, banking

The loan portfolio (see table) includes all (committed and uncommitted) working capital credit lines, investment credit, guarantee credit, credit derivatives (protection sold) and non-government securities in the investment books of the group's banking entities. It excludes government bonds, trading book securities, interprofessional transactions (deposits with financial institutions, exchange transactions, etc.), short-term commercial transactions (e.g., documentary credit) and intragroup transactions. The loan portfolio therefore differs significantly from ‘Loans and advances to customers’ in the ‘Consolidated annual accounts’ section, Note 18 (this item, for instance, does not include loans and advances to banks, guarantee credit and credit derivatives, the undrawn portion of credit or corporate and bank bonds in the investment portfolio, but does include repurchase transactions with non-banks).

At the end of 2007, the total portfolio of credit granted came to 204 billion euros, 14% more than a year earlier.

The loan portfolio is broken down according to different criteria (see table). As regards the sector breakdown, only five sectors account for more than 5% of the portfolio of credit granted, viz.: the financial sector, private individuals (where exposure, by definition, is spread over many relatively small loans), the non-financial services and the retail and wholesale sectors (both of which group a variety of subsectors) and the commercial real estate sector (which has a broad geographic spread).

Loan portfolio	31-12-2006	31-12-2007
Total loan portfolio (in billions of EUR)		
Amount granted	182,0	204,3
Amount outstanding	135,3	159,9
Loan portfolio breakdown by area of activity (as a % of the portfolio of credit granted)		
Belgium (retail and private banking)	30%	29%
Central & Eastern Europe and Russia	19%	22%
Merchant Banking (excluding Central & Eastern Europe and Russia)	52%	50%
Total	100%	100%
Loan portfolio breakdown by credit type (as a % of the portfolio of credit granted)[1]		
Loans	88%	88%
Working capital credit lines	[1]	39%
Investment credit	[1]	49%
Mixed lines	[1]	0%
Guarantee credit	6%	5%
Corporate bonds	3%	4%
Bank bonds	4%	3%
Total	100%	100%
Loan portfolio breakdown by counterparty sector (as a % of the portfolio of credit granted)[5]		
Private individuals	27%	28%

Financial and insurance services	15%	14%
Governments	3%	4%
Corporates	55%	55%
Non-financial services	9%	10%
Retail and wholesale trade	8%	8%
Real estate	6%	7%
Construction	4%	4%
Automobile industry	3%	3%
Chemical industry	2%	2%
Electricity	3%	2%
Agriculture, stock farming and fishing	2%	2%
Food industry	2%	2%
Metals	2%	2%
Other	14%	12%
Total	100%	100%
Loan portfolio breakdown by risk class (part of the portfolio[2], as a % of Exposure at Default)[6]		
PD 1 (lowest risk, default probability ranging from 0.00% to 0.10%)	24%	25%
PD 2 (0.10% – 0.20%)	15%	15%
PD 3 (0.20% – 0.40%)	21%	14%
PD 4 (0.40% – 0.80%)	14%	17%
PD 5 (0.80% – 1.60%)	13%	17%
PD 6 (1.60% – 3.20%)	6%	7%
PD 7 (3.20% – 6.40%)	5%	4%
PD 8 (6.40% – 12.80%)	1%	2%
PD 9 (highest risk, 12.80% – 100.00%)	1%	1%
Total	100%	100%
Impaired loans[3] (PD 10 + 11 + 12; in millions of EUR or %)		
Impaired loans	3 257	3 310
Specific impairment	1 933	1 943
Portfolio-based impairment	222	185
Loan loss ratio, negative figures indicate a positive impact on profit		
Belgium (retail and private banking)	0.07%	0.13%
Central & Eastern Europe and Russia	0.58%	0.26%
Merchant Banking (excluding Central & Eastern Europe and Russia)	-0.01%	0.02%
Total	0.14%	0.11%
Non-performing (NP) loans (PD 11 + 12; in millions of EUR or %)		
Amount outstanding	2 157	2 329
Specific impairment for non-performing loans	1 488	1 456
Non-performing ratio		
Belgium (retail and private banking)	1.5%	1.6%
Central & Eastern Europe and Russia	2.4%	2.1%
Merchant Banking (excluding Central & Eastern Europe and Russia)	1.3%	1.0%
Total	1.6%	1.5%
Cover ratio		
Specific impairment for non-performing loans/outstanding non-performing loans	69%	63%
Specific and portfolio-based impairment for performing and non-performing loans/outstanding non-performing loans	100%	91%

1 The breakdown has been refined since mid-2007. Working capital credit lines include overdraft facilities and revolving facilities for working capital purposes. Investment credit incorporates term loans, mortgage loans and other non-revolving facilities and revolving facilities for investment purposes. Other credit is reported under mixed lines.

2 Since some parts of the portfolio have not yet been broken down by risk class (in particular, the loan portfolio of Absolut Bank), they have been excluded. Due to the change in the scope of consolidation, the 2006 figures have been restated. The significant shift from PD class 3 to PD classes 4 and 5 in 2007 is largely attributable to an improved PD model for the IIB Homeloans portfolio, which resulted in the majority of its loans being put into a higher PD class. Due to the fact that the loss given default for this portfolio is very low, this shift has had a negligible negative impact on the overall quality of the loan portfolio.

3 Figures differ from the figures appearing in the 'Consolidated financial accounts' section, Note 20, due to differences in scope.

4 For the Czech Republic and Slovakia, the loan loss ratio at 31 December 2007 came to 0.27%, for Hungary to 0.62%, for Poland to -0.34% and for Russia to 0.21%.
5 Audited figures.
6 Audited figures (except for the range or probability of default).

Other credit exposure

Besides the credit risks in 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. This type of credit involves export or import finance and only entails exposure to financial institutions. It includes 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 2007, commercial exposure came to 1.8 billion euros (outstanding amount). Despite the high proportion of non-investment-grade banks in this exposure (roughly 45%), losses are very low in historical terms, particularly for documentary credit. Risks associated with this activity are managed by setting limits 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 came to 3.7 billion euros at the end of 2007. KBC Financial Products (KBC FP) accounted for 0.8 billion euros of this total. At KBC FP, issuer risk is measured on the basis of the estimated loss given default by the issuer, based on the prevailing market value less the amount expected to be recovered depending on the type of issue (guaranteed or not). Moreover, only counterparty risk arising with long positions is taken into account at KBC FP, meaning that issuers in respect of which a short position exists on balance are not accounted for in credit risk reporting. The issuer risk exposure of other entities (aside from KBC FP) measured on the basis of the market value of the securities came to 2.9 billion euros. Issuer risk is curtailed through the use of limits both per issuer and per rating category. The exposures shown in the table concern the issuer risk measured in the way described in this paragraph. The exposure to asset-backed securities in the trading book is not included in this figure (see 'Credit-linked investments and subprime exposure').

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 as the sum of the (positive) current replacement value ('mark-to-market' value) of a transaction and the applicable add-on, determined according to the current exposure method under Basel II. At the end of 2007, the group's total pre-settlement risk came to some 31 billion euros. Deposits account for slightly less than 40% of this amount. The bulk 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, derivatives transactions need to be documented under ISDA-92 or ISDA-2002 Master Agreements. Repo transactions can only be netted if a GMRA has been concluded. 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 if the assets concerned are considered eligible risk-mitigants for regulatory capital calculations (Basel II). This implies, among other things, that legal comfort must have been obtained regarding the ownership of the collateral for all relevant jurisdictions.

Government securities in the investment portfolio. Exposure to governments came to 32.1 billion euros at the end of 2007 (measured in terms of book value) and is accounted for mainly by EU states (particularly Belgium), which pose a minimal credit risk. Local or regional governments account for only a fraction of the exposure (0.2 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' internal rating.

Other credit exposure[1]	31-12-2006	31-12-2007
Short-term commercial transactions		
Amount (in billions of EUR)[4]	1.3	1.8
By area of activity, %		
Belgium (retail and private banking)	3%	3%
Central & Eastern Europe and Russia	7%	6%
Merchant Banking (excluding Central & Eastern Europe and Russia)	90%	91%
Total	100%	100%
Issuer risk[2]		
Amount (in billions of EUR)[4]	2.3	3.7
By area of activity, %		
Belgium (retail and private banking)	0%	0%
Central & Eastern Europe and Russia	6%	5%
Merchant Banking (excluding Central & Eastern Europe and Russia)	94%	95%
Total	100%	100%
Counterparty risk in interprofessional transactions[3]		
Amount (in billions of EUR)[4]	22.3	31.0
By area of activity, %		
Belgium (retail and private banking)	5%	0%
Central & Eastern Europe and Russia	16%	18%
Merchant Banking (excluding Central & Eastern Europe and Russia)	79%	82%
Total	100%	100%

Government bonds in the investment portfolio		
Amount (in billions of EUR)[4]	36.6	32.1
By area of activity, %		
Belgium (retail and private banking)	8%	8%
Central & Eastern Europe and Russia	21%	28%
Merchant Banking (excluding Central & Eastern Europe and Russia)	71%	64%
Total	100%	100%

1 Figures do not include Absolut Bank and Economic and Investment Bank (except those for 'Government bonds in the investment portfolio').
2 Excluding OECD government bonds.
3 After deduction of collateral and netting benefits. The breakdown by area of activity is an approximation.
4 Audited figures.

Country risk

Country risk is managed by setting limits per country and per maturity. It 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- and long-term export credit, IFC 'B' loans and performance risks);
- bonds and shares in the investment portfolio;
- placements and (the weighted risk for) 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.

Country risk (excluding local-currency transactions)* In millions of EUR (31-12-2007)	Total	Western Europe (excl. euro area)	Central and Eastern Europe	Asia	North America	Middle East	Latin America	Africa	Oceania	International institutions
By transaction type										
IFC 'B' loans	41	2	1	26	0	0	5	1	0	6
Performance risks	1063	84	507	31	11	54	223	153	2	0
Other loans	18 708	4 976	7 791	2 271	2 566	516	287	139	135	27
Bonds and shares	8 929	3 930	2 329	531	1 473	106	322	0	76	161
Interprofessional transactions (weighted)	5 028	2 389	1 014	947	273	141	243	1	12	8
Medium- and long-term export finance	164	4	39	6	0	5	8	102	0	0
Short-term commercial transactions	1 484	42	283	415	11	529	108	95	1	0
Total	35 418	11 428	11 964	4 227	4 333	1 350	1 196	490	227	203
Breakdown by remaining tenor										
Not more than 1 year	11 918	3 074	3 959	2 661	860	683	477	112	56	35
More than 1 year	23 500	8 353	8 005	1 566	3 474	667	719	378	171	168
Total	35 418	11 428	11 964	4 227	4 333	1 350	1 196	490	227	203

* Excluding Economic and Investment Bank (Bulgaria).

Internal credit risk models and Basel II

In order to quantify credit risks, the group has developed various rating models, both for the purpose of determining how creditworthy borrowers are and to estimate the expected loss of various types of transactions. These models support credit risk management in such areas as pricing, the credit process (acceptance and monitoring) and determining portfolio-based impairment. A number of models are uniform throughout the group (for instance, the models for governments, banks, large companies and project finance), 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 have also formed 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 a switch to the 'Advanced' approach is envisaged in 2011.

The switch to the Basel II IRB Foundation approach is taking place in stages, with KBC Bank NV and most of its main subsidiaries having already switched over in 2007. A number of other material group companies (K&H Bank, Kredyt Bank, Absolut Bank, Centea and the Antwerp Diamond Bank) will switch to the standardised Basel II approach in 2008 and adopt the IRB Foundation approach in 2009-2010 (subject to regulatory approval). From 2008 on, the other (non-material) entities of the KBC group will follow the standardised approach.

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. An appropriate framework for the governance of the life cycle of risk models is thus in place, with model ownership (the credit function) being separate from responsibility for model validation (the Group Value and Risk Management Directorate). A Model Committee at group level is responsible for the final validation of all models.

Credit-linked investments and subprime exposure

KBC's credit-linked investment exposure is shown in the table and consists of:
- the 'main CDO portfolio', which contains collateralised debt obligations (CDOs) with some asset-backed securities (ABS) as the underlying in the group's books;
- the 'Atomium' portfolio, which consists of credit-linked securities of the former conduit Atomium, taken onto KBC's own balance sheet;
- 'other portfolios', containing other credit-linked instruments whose underlying assets are primarily European assets.

The subprime-related credit risk attached to the main CDO portfolio is minor, because:
- the share of US subprime mortgages in the pool of underlying assets is very limited (see table), with the bulk of the CDOs' underlying assets relating to corporate debt;
- the CDO notes held are only high-rated tranches (63% of which are super senior and 25% AAA) and have high attachment points (allowing substantial losses on subprime assets before being impacted); moreover, provisions were set aside for equity and junior notes at the time of issue;
- all CDOs in the portfolio have been originated and are actively managed by KBC Financial Products, allowing effective asset substitution when necessary.

The subprime-related credit risk attached to the 'Atomium portfolio' is also minor, as only a limited percentage of the securities relates to subprime RMBS (see table) and all securities are AAA-rated.

The 'other portfolios' have no subprime exposure.

At year-end 2007, the group had not incurred any credit losses on these portfolios. There was, however, a negative impact on net profit due to the marking to market of the 'main CDO portfolio', which contains CDOs with some ABS as the underlying (see table; since synthetic CDOs and hence embedded derivatives are involved, market valuation changes are recognised in profit and loss), and a negative impact on equity due to the marking to market of the 'Atomium portfolio' and 'other portfolios' (see table).

Credit-linked investments*, KBC group (31 December 2007)

Description	Amount (in billions of EUR)	Rating of securities held	Of which subprime RMBS	Credit losses incurred	Value adjustments due to marking-to-market of the instruments (in millions of EUR)
Main CDO portfolio	4.2	100% investment-grade	13% subprime RMBS underlying	None	In P/L: 103 (pre-tax) or 67 (after tax)
Atomium portfolio	2.0	100% investment-grade (100% AAA)	33% subprime RMBS	None	In equity: 107 (pre-tax) or 72 (after tax) **
Other portfolios	6.0	100% investment-grade	No subprime exposure	None	

* Excluding the notes held by KBC in its in-house securitisation vehicle, Home Loan Invest (set up primarily for treasury purposes).
** There was also a limited impact on the income statement (13 million euros (before tax) or 8 million euros (after tax)) where the trading book is concerned.

Exposure to credit insurers

The group has no direct counterparty exposure (i.e. straightforward credit facilities) to credit insurers (MBIA, Ambac, FSA, etc.). The indirect exposure relates to reinsurance cover written by those companies related to the CDOs, underlying exposure to those companies in the CDOs, and credit enhancement received from those companies for liquidity facilities granted by KBC to public finance and health care sector counterparties (as well as some very limited support facilities for these companies, related to the municipal business).

Provisions to the tune of 39 million euros (15% of the positive replacement value of the outstanding credit derivatives) have been set aside for the exposure related to reinsurance cover for the CDOs.

Since the underlying public finance counterparties of the liquidity facilities carry high ratings (32% AA and 68% A), their expected default frequency is very low, hence the probability of KBC having to call the guarantee provided by the credit insurers is very low.

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).

'Structural exposure' encompasses all exposure inherent in the commercial activity of KBC or the long-term positions held by the group (banking). Trading activities are consequently not included.

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 and the use of those funds (via lending, among other things);
- 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).

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 managed and monitored by the Group ALCO, which is responsible for establishing a group-wide framework for identifying, measuring and overseeing ALM activities and for taking strategic investment decisions for the entire group. At the subsidiaries outside the euro area, local ALCOs have been set up.

A team in the Group Value and Risk Management Directorate provides support to the Group ALCO and helps to develop ALM risk management; similar teams exist at the subsidiaries outside the euro area.

The ALM strategy is implemented locally by front-office units, co-ordinated by a central investment function which is responsible for co-ordinating the various ALM strategies.

The main building blocks of KBC's ALM framework are:

- a focus on 'economic value' as the cornerstone of ALM policy, with attention also being paid to criteria such as income, solvency and liquidity;
- the use of a uniform ALM measurement methodology for banking activities based on 'fair value models' that forecast the behaviour of the value of a product group under different market scenarios and that are translated into replicating portfolios (combinations of market instruments that allow the relevant product groups to be hedged with the lowest risk);
- the use of a Value-at-Risk (VAR) measurement method for the various categories of risk throughout the group for risk budgeting and limit-setting purposes. This VAR measures the maximum loss that might be sustained over a one-year time horizon with a 99% confidence level as a result of movements in interest rates and other fluctuations in market risk factors. Some risk parameters (i.e. inflation estimates and real-estate estimates, correlations linked to these risk categories) are based on expert opinion;
- the definition of an ALM VAR limit at group level and the breakdown of this limit into various types of risk and entities;
- the use of VAR, which is calculated using fair value models for non-maturing products, taking into account different embedded options and guarantees in the portfolio. However, not all these options are valued on a stochastic basis at this point in time (e.g., pre-payments in the mortgage business). The VAR is based on a variance-covariance technique and a normal distribution of risk parameters.

The group VAR limit framework is translated into pragmatic risk limits for the various group companies and individual ALM positions (see below).

KBC Bank ALM risk, by risk category (VAR 99%, 1-year time horizon, marginal contribution of various risk types to VAR)*

In billions of EUR	31-12-2006	31-12-2007
Interest rate risk	1.02	0.65
Equity risk	0.14	0.20
Real estate risk	0.02	0.03
Other risks**	0.01	0.01
Total diversified VAR (group)	1.19	0.91

* Excluding Absolut Bank and a number of small group companies.
** Foreign exchange risk, inflation risk, counterparty risk and interest rate volatility risk.

ALM in 2007: 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, and via a replicating portfolio technique – reviewed on a dynamic basis – for products without a fixed maturity date (e.g., demand and savings accounts).

The bank's capital and reserves are invested in fixed assets, strategic shareholdings and government bonds. The bank may also take interest rate positions with a view to acquiring interest income, both in a bond portfolio used for reinvesting equity and in a bond portfolio financed with short-term funds.

Two main techniques are used to measure interest rate risks: 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). BPV limits are set in such a way that interest rate positions combined with the other ALM positions remain within the overall VAR limits. Other techniques such as gap analysis, the duration approach, scenario analysis and stress-testing (both from an economic value perspective and from an income perspective) are also used.

The table shows how the bank's exposure to interest rate risk developed over the course of 2006 and 2007. Interest rate exposure was further reduced from the second quarter of 2007 onwards on account of changes in interest rate expectations.

BPV of the ALM book, KBC Bank*

In millions of EUR	
Average, 1Q 2006	75
Average, 2Q 2006	87
Average, 3Q 2006	89
Average, 4Q 2006	74
31-12-2006	67
Maximum in 2006	94
Minimum in 2006	65
Average, 1Q 2007	70
Average, 2Q 2007	54
Average, 3Q 2007	41
Average, 4Q 2007	41
31-12-2007	43
Maximum in 2007	74
Minimum in 2007	37

* Excluding Absolut Bank, Economic and Investment Bank and a number of small group companies.

In keeping with the Basel II guidelines, a 2% stress test is carried out at regular intervals. It 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 5.06% at year-end 2007 (well below the 20% threshold, where a bank is considered an ‘outlier bank’ and which leads to a higher regulatory capital charge).

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. Derivative financial instruments, which are used mainly to reduce exposure to interest rate movements, are included on the basis of their notional amount and repricing date.

Interest sensitivity gap of the ALM book (including derivatives), KBC Bank*

In millions of EUR

	≤ 1 month	1–3 months	3-12 months	1–5 years	5-10 years	> 10 years	Non-interest-bearing	Total
31-12-2006 (derivatives included in inflows and outflows)								
Cash inflows	66 219	39 924	58 902	109 792	49 133	20 506	21 517	365 994
Cash outflows	77 633	34 177	59 790	112 979	41 560	16 157	23 697	365 994
Interest sensitivity gap	-11 414	5 746	-887	-3 186	7 572	4 349	-2 180	-
31-12-2007 (derivatives reported separately)								
Cash inflows	35 952	17 181	30 396	63 168	31 162	16 179	20 803	214 841
Cash outflows	54 404	20 438	29 984	58 513	20 907	7 041	23 553	214 841
Derivatives (interest-linked)	11 498	6 843	9	-6 266	-6 158	-5 926	-	-
Interest sensitivity gap	-6 954	3 586	420	-1 611	4 097	3 212	-2 750	-

* Excluding Absolut Bank, Economic and Investment Bank and a number of small group companies.

The table illustrates the impact of a 1% increase in the yield curve, given the positions at the reporting date.

Impact of a parallel 1% increase in the yield curve for KBC Bank*

In millions of EUR

	Impact on net profit (IFRS)		Impact on economic value	
	2006	2007	2006	2007
Total	53	60	-728	-459

* Excluding Absolut Bank and a number of small group companies.

ALM in 2007: Equity risk

Equity risk is monitored using a VAR technique (99% one-sided confidence interval, one-year time horizon), with a limit being set for the total equity exposure of the group's ALM activities. The table provides an overview of the sensitivity of income and economic value to fluctuations in the equity markets. This total exposure includes the sensitivity of unlisted equity in the different portfolios.

Impact of a 10% drop in the equity markets*

In millions of EUR

	Impact on net profit (IFRS)		Impact on economic value	
	2006	2007	2006	2007
Total	-37	-45	-46	-84

* Excluding Absolut Bank and a number of small group companies. The figures for 2006 have been restated.

ALM in 2007: Real estate risk

A limited real estate investment portfolio is held by the group's real estate businesses with a view to realising capital gains over the long term.

The table provides an overview of the sensitivity of economic value to fluctuations in the property markets.

Impact of a 10% drop in real estate prices*

In millions of EUR

	Impact on economic value	
	2006	2007
Total	-70	-73

* Excluding Absolut Bank and a number of small group companies.

ALM in 2007: Foreign exchange risk

KBC pursues a prudent policy as regards its structural currency exposure, essentially seeking to avoid currency risk. FX exposures in the ALM books of banking entities with a trading book are transferred to the trading book where they are managed within the allocated trading limits. The FX exposure of banking entities without a trading book and of other entities has to be hedged, if material.

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 excluding goodwill.

Liquidity risk management

Description

Liquidity risk is the risk that an organisation may not be able to fund increases in assets or meet obligations as they fall due, unless at an unreasonable cost.

The principal objective of KBC's liquidity management is to be able to fund the group and to enable the core business activities of the group to continue to generate revenue, even under adverse circumstances.

Managing liquidity risk

The liquidity management framework and liquidity limits are set by the Group ALCO. Operational liquidity management is organised within the Group Treasury unit, which centralises collateral management and the acquisition of long-term funding. Primary responsibility for operational liquidity management lies with the respective group companies, since they know best the specific features of their local products and markets and deal directly with local regulators and other officials. However, the liquidity contingency plan requires local liquidity problems above a certain threshold to be escalated to group level. The liquidity risks are also aggregated and monitored centrally on a daily basis and are reported periodically to the Group ALCO and the Audit Committee.

During the first half of 2007, a more refined liquidity framework was set up, founded on the following pillars:

- Contingency liquidity risk:

  Contingency liquidity risk is assessed on the basis of several liquidity stress tests, which measure how the liquidity buffer of KBC group banks changes under stressed scenarios. The liquidity buffer is based on assumptions regarding liquidity outflows (e.g., retail customer behaviour, professional client behaviour, drawing of committed credit lines, etc.), as well as on assumptions regarding inflows resulting from actions to increase liquidity (e.g., 'repoing' the bond portfolio, reducing unsecured interbank lending, etc.).

  The liquidity buffer should be sufficient to cover liquidity needs (net cash and collateral outflows) over (a) a period that is required to restore market confidence in the group following a KBC-specific event and (b) a period that is required for markets to stabilise after a general market event. The overall aim of the liquidity framework is to remain sufficiently liquid in stress situations, without resorting to liquidity-enhancing actions which would entail significant costs or which would interfere with the core business of the banking group.

- Structural liquidity risk

  The group's funding structure is managed so as to maintain substantial diversification, to minimise funding concentrations, and to limit the level of reliance on wholesale funding (gross and net of repos). Therefore, the forecast structure of the balance sheet is reviewed regularly and the appropriate funding strategies and options developed and implemented. KBC's liquidity framework ensures that net funding collected from non-core sources is at all times limited by the liquidity buffer of government bonds and other ECB-eligible collateral. The table illustrates the funding mix of the KBC group.

KBC Bank: funding sources	31-12-2006	31-12-2007
Deposits from credit institutions and investment firms*	24%	28%
Deposits from customers	53%	51%
Non-subordinated debt securities	21%	19%
Subordinated debt	2%	3%
Total	100%	100%
In millions of EUR	223 327	252 304

* If repo transactions are excluded, deposits from credit institutions and investment firms constitute only 22% of the funding mix in 2007.

- Operational liquidity risk

  Operational liquidity management is conducted in the treasury departments, based on estimated funding requirements. Maturities and expected savings and current account withdrawals are taken into account, as are additional funding needs due to unused credit lines, etc. Operational liquidity management is monitored per entity and on a group-wide basis by the Group Value and Risk Management Directorate.

  The table below illustrates liquidity risk by grouping the cash inflows and cash outflows on the balance sheet date according to the remaining term to maturity (contractual maturity date). The difference between the cash inflows and outflows is referred to as the 'net liquidity gap'. The 'not defined' bucket comprises mainly deposits that are payable on demand, as well as the undrawn margin on confirmed credit lines. The 2006 figures were restated in order to comply with the new IFRS 7 requirements.

Liquidity risk, KBC Bank*

In millions of EUR

	≤ 1 month	1-3 months	3-12 months	1-5 years	5-10 years	> 10 years	Not defined	Total
31-12-2006								
Cash inflows	86 359	28 437	33 512	66 452	34 817	25 091	35 507	310 175
Cash outflows	105 884	32 982	30 196	25 048	8 592	7 722	140 132	350 556
Net liquidity gap	-19 524	-4 545	3 316	41 404	26 225	17 370	-104 625	-40 381
31-12-2007								
Cash inflows	90 441	41 584	42 241	64 361	32 852	26 091	45 514	343 085
Cash outflows	107 598	44 357	32 034	34 401	10 986	9 390	150 734	389 500
Net liquidity gap	-17 157	-2 772	10 207	29 960	21 866	16 701	-105 220	-46 415

* Excluding Absolut Bank and Economic and Investment Bank. The figures for 2006 have been restated.

Market risk management

Description

Market risk is defined as the potential negative deviation from the expected economic value of a financial instrument caused by fluctuations in market prices, i.e. interest rates, exchange rates and equity or commodity prices. Market risk also covers the risk of price fluctuations in negotiable securities as a result of credit risk, country risk and liquidity risk. The interest rate, foreign exchange and equity risks of the non-trading positions in the banking book are all included in ALM exposure.

The objective of market risk management is to measure and report the market risk of the aggregate trading position at group level, taking into account the main risk factors and specific risk.

KBC is exposed to market risk via the trading books of the dealing rooms in Western Europe, Central and Eastern Europe, the United States and Asia. The traditional dealing rooms, with the dealing room in Brussels accounting for the lion’s share of the limits and risks, focus on trading in interest rate instruments, and activity on the forex markets has traditionally been very limited. The dealing rooms abroad focus primarily on providing customer service in money and capital market products, on funding local bank activities and engage in limited trading for own account in local niches.

Through its specialised subsidiaries (KBC Financial Products (KBC FP), KBC Securities and KBC Peel Hunt), the group also engages in trading in equities and their derivatives. KBC FP also sells and deals in structured credit derivatives (services for hedge funds and the launch and management of collateralised debt obligations) and is involved to a minor extent in the seeding and management of Alternative Investment Management (AIM) hedge funds.

Risk governance

Market risk tolerance is determined by the Board of Directors through an annual limit review. The Group Value and Risk Management Directorate and the Group Trading Risk Committee advise on limits before they are submitted to the Board.

The Group Value and Risk Management Directorate develops, implements and manages the risk control system and evaluates the risk benchmarks and limit usage. It reports directly to group senior management through the Group Trading Risk Committee, which is chaired by the Group CFRO and includes representatives from line management, risk management and top management. Operational and counterparty risks in the dealing rooms are managed as an integral part of market risk management. This enables the group to take decisions relating to trading risk on the basis of accurate information.

In the Group Value and Risk Management Directorate, risk co-ordinators are the first contact point for the group’s local trading entities when they have questions relating to market risk. The responsibilities of the risk co-ordinators are clearly set out in risk protocols. Local risk management policy and procedures are described in the risk management framework document.

Managing market risk

The principal tool for measuring and monitoring market risk exposures in the trading book is the Value-at-Risk (VAR) method. VAR is defined as an estimate of the amount of economic value that might be lost on a given portfolio due to market risk over a defined holding period, with a given confidence level. The measurement only takes account of the market risk of the current portfolio and does not attempt to capture possible losses due to further trading or hedging, counterparty default or operational losses.

KBC uses the historical simulation method (HVAR), observing the relevant Basel II standards (99% one-sided confidence interval, ten-day holding period, historical data going back at least 250 working days). In 2007, KBC switched from a data window of 250 to 500 scenario dates, thereby increasing stability without disregarding changing market conditions.

The VAR method does not rely on assumptions regarding the distribution of price fluctuations or correlations, but is based on patterns of experience over the previous two years.

The VAR model is subject to limitations as well, given the fact that it cannot encompass all potential extreme events. Therefore, VAR calculations are supplemented by extensive stress-tests, the results of which are communicated to the Group Trading Risk Committee. Whereas the VAR model captures potential losses under normal market conditions, stress-tests show the impact of exceptional circumstances and events with a low degree of probability that are not always reflected in the ordinary risk indicators. The historical and hypothetical stress-test scenarios incorporate both market risk and the liquidity aspects of disruptions in the market.

Besides the VAR calculations and stress-tests, risk concentrations are also monitored via a series of secondary limits, the most important being a three-dimensional scenario limit (based on movements in spot prices, volatilities and credit spreads). Other secondary limits include equity concentration limits, FX concentration limits and basis-point-value limits for interest rate risk. In addition, risks inherent in options (the so-called 'greeks') or the specific risk associated with a particular issuer or country are also subject to concentration limits.

One of the building blocks of sound risk management is prudent valuation. A daily independent middle-office valuation of front-office positions is performed. Whenever the independent nature of the valuation process is not guaranteed (for instance, when no reliable independent data are available), a parameter review is performed. Where necessary, adjustments to the fair value (market value adjustments) are made to reflect close-out costs, settlement expenses, less liquid positions and valuations made via complex models (model risk).

In addition to the parameter review, periodic risk controls are performed, including all checks that do not entail parameter or P&L testing as carried out in the parameter review, but that are necessary for sound risk management. Moreover, a business case is set up for every new product or activity in order to analyse the material risks and the way in which they will be managed (measured, mitigated, monitored and reported). Every new product business case must be accompanied by written advice from the group or local value and risk management function before being submitted to the New Product Committee.

Risk analysis and quantification

An overall VAR is calculated for each specialised subsidiary (e.g., KBC Financial Products, KBC Securities and KBC Peel Hunt) and for all trading entities. The VAR for the latter (see 'KBC Bank' in the table) includes both the linear and non-linear exposure of the traditional dealing rooms, including those at KBL EPB. KBC Financial Products' VAR is also shown in the table. At the end of 2007, the VAR of KBC Securities amounted to 0.5 million euros (not audited; not shown in the table). The calculation is based on a one-day holding period.

Both KBC Bank and KBC Financial Products have been authorised by the Belgian regulator to use their respective VAR models to calculate regulatory capital requirements for trading activities. ČSOB has received approval from the local regulator to use its VAR model for capital requirement purposes.

The reliability of the VAR model is tested daily via a back-test, which compares the one-day 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). This is done both at the top level and at the level of the different entities and desks.

An overview of the derivative products is given in the 'Consolidated annual accounts' section, Note 21.

Market risk (VAR, 1-day holding period)*

In millions of EUR	KBC Bank[1]	KBC Financial Products[2]
Average, 1Q 2006	4	9
Average, 2Q 2006	4	12
Average, 3Q 2006	3	8
Average, 4Q 2006	3	7
31-12-2006	3	5
Maximum in 2006	6	20
Minimum in 2006	2	4
Average, 1Q 2007	4	10
Average, 2Q 2007	4	10
Average, 3Q 2007	4	13
Average, 4Q 2007	5	15
31-12-2007	5	13
Maximum in 2007	7	19
Minimum in 2007	3	4

* Including KBL EPB.
[1] Excluding the specific interest rate risk measured using other techniques.
2 Excluding 'Atomium' and the fund derivatives and insurance derivatives businesses. Estimates have been used for some parameters.

Although they were higher in 2007 compared to the second half of 2006, average quarterly VAR figures for KBC Bank and KBC FP remained quite low. The higher levels in the third and fourth quarter were due mainly to increased volatility in the financial markets, resulting from the US subprime mortgage crisis.

Following the increase in interest rates, the number of subprime delinquencies in the US housing market escalated, as subprime borrowers were unable to refinance their mortgages. This generated a snowball effect, driving house prices down further and forcing mortgage lenders to file for bankruptcy. Moreover, these mortgage lenders had sold the subprime loans to investment banks, which restructured them into collateralised debt obligations (CDOs) and other mortgage-backed securities (MBS) in order to sell them in the secondary market. As a result, investors and hedge funds were affected as well, because investors shifted money away from CDOs and other MBS to short-term ‘safe-haven’ Treasury bills (T-Bills). As a result of this ‘flight to quality’, credit spreads widened and liquidity dried up. In addition, price volatilities rose considerably, leading to higher VAR outcomes for KBC Bank and KBC FP (see table).

Risk infrastructure

Transaction, market and static data are input into the risk calculation engine on a daily basis. To calculate its risks, the group relies on a number of internally and externally developed models and systems and uses Basel II-compliant parameters. Every model – whether it is used for pricing, processing market data for use in pricing models or for calculating risk associated with a particular portfolio – is validated by a separate, independent validating entity. In addition, independent reviews of the risk control and measurement systems are conducted routinely as part of internal and external audit assignments, both at group level and at the level of the trading subsidiaries and their local risk entities.

Operational risk management

Description

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

Managing operational risk

KBC has a single, global framework for managing operational risk across the entire group. It consists of:

- a uniform operational risk language,
- one methodology,
- one set of centrally developed applications, and
- centralised and decentralised reporting.

The development and implementation of this framework is supported by an extensive operational risk governance model. The framework covers all banking and insurance entities of the group, as well as all supporting activities and services that are fully or proportionally consolidated or that are controlled by the parent company. This framework is gradually being implemented in all the new entities of the KBC group.

The main precept of operational risk management is that ultimate responsibility for managing operational risk lies with line management, which receives support from local operational risk managers, and is supervised by the operational risk committees.

A Group Operational Risk Committee (ORC) advises the Group Executive Committee on the group-wide framework for managing operational risks and monitors the implementation of this framework throughout the group – including in the new group entities – and oversees the main operational risks. The Group CFRO chairs the ORC.

Besides the ORC, there are a variety of operational risk committees at business-unit level and at various group companies. They keep close track of the practical implementation of the operational risk management framework and also take concrete measures either directly or via line management. All departments that are involved in one way or another in managing operational risks can gain access to the risk committees whenever they feel it is necessary. In addition, representatives from the internal audit, legal and compliance divisions sit on the operational risk committees as observers.

The Group Value and Risk Management Directorate is primarily responsible for defining the operational risk management framework for the entire group. This framework is submitted to the Group Operational Risk Committee and the Executive Committee for approval. The directorate is also responsible for overseeing the practical implementation by line management of this framework. In addition, it supervises the quality of the risk management process, analyses the main risk data and reports to the ORC.

The Group Value and Risk Management Directorate creates an environment where risk specialists (ICT Security, Compliance, Human Resources, Legal, Tax, etc.) can work together (setting priorities, using the same language and tools, uniform reporting, etc). Assisting this directorate are the local value and risk management units – which are likewise independent of the business – in the main bank and insurance subsidiaries.

The building blocks for managing operational risks

KBC uses a number of building blocks for managing operational risks, which cover all aspects of operational risk management. These are:

- *The Loss Event Database:* KBC has been uniformly recording all operational losses of 1 000 euros or more in a central database since 2004. This database includes all legal claims filed against group companies. Twice a year, a consolidated loss report is submitted to the ORC, the Executive Committee and the Audit Committee.
- *Risk Self-Assessments:* These assessments focus on actual (= residual) key operational risks at critical points in the process/organisation that are not yet properly mitigated.
- *Group Standards:* KBC has defined some 40 Group Standards to ensure that important operational risks are managed uniformly. These standards are applied and enforced throughout the group. Each group entity has to translate these group standards into specific procedures. The various operational risk committees monitor the proper implementation of group standards and may allow exceptions to be made (subject to the observance of a strict waiver procedure). Adherence to group standards is subject to internal audit reviews.
- *Recommended Practices:* These help sharpen the internal controls against key risks that (i) were identified during Risk Self-Assessments, (ii) are inherent in new activities started by a group entity, (iii) have manifested themselves through a significant loss event, or (iv) were identified by Internal Audit during an audit assignment.
- *Case-Study Assessments:* These are used to test the effectiveness of the protection afforded by existing controls against major operational risks that have actually occurred in the financial sector.
- *Key Risk Indicators*: These indicators help monitor the exposure to certain operational risks.

Operational risk and Basel II

KBC uses the Standard Approach to calculate operational risk capital under pillar 1 of Basel II. The operational risk capital for KBC Bank totalled 0.99 billion euros at the end of 2007.

Solvency

Description

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

Managing solvency

KBC reports its banking solvency calculated according to IFRS figures and the relevant guidelines issued by the Belgian regulator. A detailed calculation is given in this section. The regulatory minimum for the CAD ratio is 8% and 4% for the tier-1 ratio. In-house, KBC's tier-1 target is 8% (i.e. twice the regulatory minimum), based on Basel I (with hybrid elements accounting for a maximum 15% of total tier-1 capital).

In accordance with Basel II, pillar 2 requirements, KBC developed an ICAAP process (an Internal Capital Adequacy Assessment Process) in 2007. This process uses internal models to measure capital requirements, more specifically economic capital (see below). The ICAAP process assesses both the current and future capital situation. To assess the latter situation, a three-year forecast is drawn up for required and available capital, according to a basic scenario that takes account of anticipated internal and external growth, and according to various alternative scenarios with a minimum probability of approximately 1 in 25 years. In addition, contingency plans are charted that might improve KBC's solvency under more difficult circumstances.

Regulatory minimum solvency targets were met not only at year-end, but also throughout the entire year.

Solvency in 2007, KBC Bank (consolidated)

The table shows the tier-1 and CAD ratios calculated under Basel I at year-end 2006 and under both Basel I and Basel II at year-end 2007.

The calculation based on Basel I follows the same methodology used in calculating the ratios in earlier annual reports.
The Basel II calculation for KBC Bank takes into account the specific Basel II rules for calculating weighted risks (these rules essentially differ from Basel I as regards the calculation of the charge for credit risk and they also add a charge for operational risk). It should be noted that Basel II is not yet being used in all entities throughout the group. At 31 December 2007, the entities for which the calculation is based on Basel II accounted for roughly 75% of total weighted risks, the remainder was still calculated according to Basel I.
Moreover, in the Basel II calculation, the 'IRB provision excess' (i.e. the difference between the loan loss impairment and the expected loss) is added to tier-2 capital. If there is a shortage, however, half of it is subtracted from tier 1-capital and the other half from tier-2 capital. Under Basel II, 50% of 'Items to be deducted' are also subtracted from tier-1 capital and 50% from tier-2 capital (under Basel I, 100% are subtracted from tier-2 capital); they include mainly participations in and subordinated claims against financial institutions in which KBC has a 10% to 50% share – predominantly NLB – as well as KBC Group NV shares held by KBC Bank.

In millions of EUR	31-12-2006	31-12-2007	
	Basel I	Basel I	Basel II
Total regulatory capital, after profit appropriation	13 728	15 543	15 723
Tier-1 capital*	10 407	11 525	10 942
Parent shareholders' equity	10 603	12 342	12 342
Intangible fixed assets (-)	-123	-197	-197
Goodwill on consolidation (-)	-709	-1 811	-1 811
Preference shares, hybrid tier-1	1 561	1 694	1 694
Minority interests	529	584	584
Mandatorily convertible bonds	-186	-186	-186
Revaluation reserve, available-for-sale assets (-)	-555	46	46
Hedging reserve, cashflow hedges (-)	-46	-73	-73
Minority interests in available-for-sale reserve and hedging reserve (-)	-7	2	2
Dividend payout (-)	-661	-876	-876
Items to be deducted (-)	–	–	-583
Tier-2- and tier-3 capital	3 321	4 018	4 782
Mandatorily convertible bonds	186	186	186
Perpetuals (including hybrid tier-1 not used in tier-1 capital)	712	581	581
Revaluation reserve, available-for-sale shares (at 90%)	433	154	154
Minority interests in revaluation reserve, available-for-sale shares (at 90%)	3	2	2
IRB provision excess (+)	–	–	139

Subordinated liabilities	3 311	4 285	4 285
Tier-3 capital	14	18	18
Items to be deducted (-)	-1 339	-1 208	-583
Total weighted risks	123 127	147 444	128 536
Credit risk	113 264	136 677	107 461
Market risk	9 863	10 767	12 329
Operational risk	–	–	8 747
Solvency ratios			
Tier-1 ratio	8,5%	7,8%	8,5%
CAD ratio	11,1%	10,5%	12,2%

* Audited figures.

The Board of Directors

Composition of the Board of Directors on 31 December 2007

Composition of the Board of Directors on 31 December 2007

Name	Position	Period on the Board in 2007	End, current term of office
HUYGHEBAERT Jan	Chairman	full year	2010
PHILIPS Luc	Deputy Chairman	full year	2010
BERGEN André	Executive Director, President of the Executive Committee	full year	2010
AGNEESSENS Herman	Executive Director	full year	2010
DEFRANCQ Chris	Executive Director	full year	2010
FLORQUIN Frans	Executive Director	full year	2010
SEGERS Guido	Executive Director	full year	2009
VANHEVEL Jan	Executive Director	full year	2010
VERWILGHEN Etienne	Executive Director	full year	2010
DE WILDE Julien	Independent Director	full year	2010
DE BECKER Sonja	Non-Executive Director	full year	2009
DEPICKERE Franky	Non-Executive Director	full year	2011
KONINGS Pierre	Non-Executive Director	full year	2009
MORLION Lode	Non-Executive Director	full year	2009
ORLENT-HEYVAERT Marita	Non-Executive Director	full year	2009
PEETERS Paul	Non-Executive Director	full year	2009
SAP Gustaaf	Non-Executive Director	full year	2009
VANDEN AVENNE Patrick	Non-Executive Director	full year	2009
VANTIEGHEM Germain	Non-Executive Director	full year	2010
WAUTERS Dirk	Non-Executive Director	full year	2009
WITTEMANS Marc	Non-Executive Director	full year	2010

Auditor: Ernst & Young, Bedrijfsrevisoren bcvba, represented by Daniëlle Vermaelen and/or Jean-Pierre Romont

STATUTORY AUDITOR'S REPORT TO THE GENERAL MEETING OF SHAREHOLDERS OF KBC BANK NV ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

In accordance with the legal requirements, we report to you on the performance of our mandate of statutory auditor. This report contains our opinion on the consolidated financial statements as well as the required additional comments.

Unqualified opinion on the consolidated financial statements

We have audited the consolidated financial statements of KBC Bank NV and its subsidiaries (collectively referred to as 'the Group') for the year ended 31 december 2007, prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium. These consolidated financial statements comprise the consolidated balance sheet as at 31 december 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, as well as the summary of significant accounting policies and other explanatory notes. The consolidated balance sheet shows total assets of € 309.476 million and the consolidated statement of income shows a profit for the year, share of the Group, of € 2.261 million.

Responsibility of the board of directors for the preparation and fair presentation of the consolidated financial statements

The board of directors is responsible for the preparation and fair presentation of the consolidated financial statements. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the statutory auditor

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the legal requirements and the auditing standards applicable in Belgium, as issued by the Institute of Registered Auditors (*Institut des Réviseurs d'Entreprises*/*Instituut van de Bedrijfsrevisoren)*. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

In accordance with these standards, we have performed procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we have considered internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. We have evaluated the appropriateness of accounting policies used, the reasonableness of significant accounting estimates made by the Group and the presentation of the consolidated financial statements, taken as a whole. Finally, we have obtained from the board of directors and the Group's officials the explanations and information necessary for executing our audit procedures. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended 31 december 2007 give a true and fair view of the Group's financial position as at 31 december 2007 and of the results of its operations and its cash flows in accordance with IFRS as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium.

Additional comments

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

Our responsibility is to include in our report the following additional comments, which do not modify the scope of our opinion on the consolidated financial statements:

- The directors' report on the consolidated financial statements deals with 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 entities included in the consolidation are facing, and on their financial situation, their foreseeable evolution or the significant influence of certain facts on their future development. We can nevertheless confirm that the matters disclosed do not present any obvious inconsistencies with the information that we became aware of during the performance of our mandate.

Brussels, 20 March 2008

Ernst & Young Réviseurs d'Entreprises SCCRL
Statutory auditor
represented by

Jean-Pierre Romont Partner	Danielle Vermaelen Partner

08JPR0067

Consolidated income statement

In millions of EUR	Note	2006	2007
Net interest income	3	3 271	3 179
Dividend income	4	139	126
Net (un)realised gains from financial instruments at fair value through profit or loss	5	1 468	1 768
Net realised gains from available-for-sale assets	6	181	189
Net fee and commission income	7	1 648	1 897
Other net income	8	451	416
TOTAL INCOME		7 158	7 576
Operating expenses	9	- 3 872	- 4 140
staff expenses	10	- 2 190	- 2 276
general administrative expenses		- 1 510	- 1 669
depreciation and amortisation of fixed assets		- 206	- 222
provisions for risks and charges		34	27
Impairment	11	- 169	- 212
on loans and receivables		- 176	- 148
on available-for-sale assets		- 2	- 50
on goodwill		0	0
on other		9	- 14
Share in results of associated companies	12	43	59
PROFIT BEFORE TAX		3 160	3 283
Income tax expense	13	- 759	- 750
Net post-tax income from discontinued operations		0	0
PROFIT AFTER TAX		2 401	2 534
attributable to minority interest		318	273
attributable to equity holders of the parent		**2 083**	**2 261**

- Dividend: the Board of Directors will propose to the General Meeting of Shareholders that a gross dividend of 3.8581 euros be paid out per share entitled to dividend. This implies that total dividends to be paid out will come to 1 590 817 294.43 euros. Of this, 715 006 971.29 euros were already paid out as an interim dividend on 16 November 2007. The final dividend comes to 875 810 323.14 euros.
- For changes in the presentation of the income statement, see Note 1 a.

Consolidated balance sheet

ASSETS (in millions of EUR)	Note	31-12-2006	31-12-2007
Cash and cash balances with central banks		2 386	2 898
Financial assets	14-21	265 766	296 702
Held for trading		67 024	73 051
Designated at fair value through profit or loss		46 258	35 985
Available for sale		29 095	26 543
Loans and receivables		113 751	151 304
Held to maturity		9 313	9 296
Hedging derivatives		325	524
Fair value adjustments of hedged items in portfolio hedge of interest rate risk	5	- 175	- 223
Accrued interest income	14	2 299	2 918
Tax assets	23	638	659
Current tax assets		117	102
Deferred tax assets		521	556
Non-current assets held for sale and disposal groups		53	41
Investments in associated companies	24	535	646
Investment property	25	225	448
Property and equipment	25	1 544	1 760
Goodwill and other intangible assets	26	833	2 008
Other assets	22	1 634	1 618
TOTAL ASSETS		275 738	309 476

LIABILITIES AND EQUITY (in millions of EUR)		31-12-2006	31-12-2007
Financial liabilities	14,15,17,21	256 608	287 170
Held for trading		36 880	41 542
Designated at fair value through profit or loss		47 567	37 082
Measured at amortised cost		172 112	208 427
Hedging derivatives		49	118
Fair value adjustments of hedged items in portfolio hedge of interest rate risk	5	0	0
Accrued interest expense	14	1 572	2 006
Tax liabilities	23	451	467
Current tax liabilities		381	388
Deferred tax liabilies		70	79
Non-current liabilities held for sale and liabilities associated with disposal groups		0	0
Provisions for risks and charges	27	407	401
Other liabilities	28, 29	4 534	5 519
TOTAL LIABILITIES		263 570	295 562
Total equity		12 168	13 914
Parent shareholders' equity	30	10 603	12 342
Minority interests		1 565	1 572
TOTAL LIABILITIES AND EQUITY		275 738	309 476

- For changes in the presentation of the balance sheet, see Note 1 a.

Consolidated statement of changes in equity

In millions of EUR	Issued and paid up share capital	Share premium	Other equity (Manda-torily convertible bonds)	Treasury shares	Revalua-tion reserve (AFS assets)	Hedging reserve (cashflow hedges)	Reserves	Transla-tion differen-ces	Parent share-holders' equity	Minority interests	Total equity
31-12-2006											
Balance at the beginning of the period	3 763	490	436	0	837	3	4 757	89	10 375	1 740	12 115
Fair value adjustments before tax	0	0	0	0	- 362	68	0	0	- 294	0	- 294
Deferred tax on fair value changes	0	0	0	0	185	- 25	0	0	160	0	160
Transfer from reserve to net profit											
Impairment losses	0	0	0	0	0	0	0	0	0	0	0
Net gains/losses on disposal	0	0	0	0	- 112	0	0	0	- 112	0	- 112
Deferred income tax	0	0	0	0	7	0	0	0	7	0	7
Transfer from hedging reserve to net profit*											
Gross amount	0	0	0	0	0	0	0	0	0	0	0
Deferred income taxes	0	0	0	0	0	0	0	0	0	0	0
Effect of changes in accounting policies	0	0	0	0	0	0	0	0	0	0	0
Corrections of errors	0	0	0	0	0	0	0	0	0	0	0
Currency translation differences	0	0	0	0	0	0	0	- 18	- 18	0	- 18
Subtotal, recognised directly in equity	**0**	**0**	**0**	**0**	**- 282**	**43**	**0**	**- 18**	**- 257**	**0**	**- 257**
Net profit for the period	0	0	0	0	0	0	2 083	0	2 083	318	2 401
Total income and expense for the period	**0**	**0**	**0**	**0**	**- 282**	**43**	**2 083**	**- 18**	**1 826**	**318**	**2 144**
Dividends	0	0	0	0	0	0	- 1 357	0	- 1 357	0	- 1 357
Capital increase	0	0	2	0	0	0	- 2	0	0	0	0
Purchases of treasury shares	0	0	0	0	0	0	0	0	0	0	0
Sales of treasury shares	0	0	0	0	0	0	0	0	0	0	0
Results on (derivatives on) treasury shares	0	0	0	0	0	0	0	0	0	0	0
Cancellation of own shares	0	0	0	0	0	0	0	0	0	- 493	- 494
Change in minority interests	0	0	- 250	0	0	0	0	0	- 250	0	- 250
Other	0	0	0	0	0	0	9	0	9	0	9
Total change	**0**	**0**	**- 248**	**0**	**- 282**	**43**	**734**	**- 18**	**228**	**- 175**	**53**
Balance at the end of the period	**3 763**	**490**	**188**	**0**	**555**	**46**	**5 491**	**71**	**10 603**	**1 565**	**12 168**
of which revaluation reserve for shares					482						
of which revaluation reserve for bonds					73						
of which revaluation reserve for other assets than bonds and shares					0						
of which relating to non-current assets held for sale and disposal groups	0	0	0	0	0	0	0	0	0	0	0

* Net (un)realised gains from financial instruments at fair value through profit or loss.

In millions of EUR	Issued and paid up share capital	Share premium	Other equity (Manda-torily convertible bonds)	Treasury shares	Revalua-tion reserve (AFS assets)	Hedging reserve (cashflow hedges)	Reserves	Transla-tion differen-ces	Parent share-holders' equity	Minority interests	Total equity
31-12-2007											
Balance at the beginning of the period	3 763	490	188	0	555	46	5 491	71	10 603	1 565	12 168
Fair value adjustments before tax	0	0	0	0	- 288	82	0	0	- 206	0	- 206
Deferred tax on fair value changes	0	0	0	0	60	- 42	0	0	18	0	18
Transfer from reserve to net profit*											
Impairment losses	0	0	0	0	0	0	0	0	0	0	0
Net gains/losses on disposal	0	0	0	0	- 435	0	0	0	- 435	0	- 435
Deferred income tax	0	0	0	0	61	0	0	0	61	0	61
Transfer from hedging reserve to net profit											
Gross amount	0	0	0	0	0	- 16	0	0	- 16	0	- 16
Deferred income taxes	0	0	0	0	0	4	0	0	4	0	4
Effect of changes in accounting policies	0	0	0	0	0	0	0	0	0	0	0
Corrections of errors	0	0	0	0	0	0	0	0	0	0	0
Currency translation differences	0	0	0	0	1	0	0	0	1	0	1
Other	0	0	- 2	0	0	0	2	- 60	- 60	0	0
Subtotal, recognised directly in equity	**0**	**0**	**- 2**	**0**	**- 601**	**28**	**2**	**- 60**	**- 634**	**0**	**- 634**
Net profit for the period	0	0	0	0	0	0	2 261	0	2 261	273	2 534
Total income and expense for the period	**0**	**0**	**- 2**	**0**	**- 601**	**28**	**2 263**	**- 60**	**1 627**	**273**	**1 900**
Dividends	0	0	0	0	0	0	- 1 389	0	- 1 389	0	- 1 389
Capital increase	267	1 233	0	0	0	0	0	0	1 500	0	1 500
Purchases of treasury shares	0	0	0	0	0	0	0	0	0	0	0
Sales of treasury shares	0	0	0	0	0	0	0	0	0	0	0
(Results / Derivatives on) treasury shares	0	0	0	0	0	0	0	0	0	0	0
Cancellation of treasury shares	0	0	0	0	0	0	0	0	0	0	0
Change in minority interests	0	0	0	0	0	0	0	0	0	- 266	- 266
Total change	**267**	**1 233**	**- 2**	**0**	**- 601**	**28**	**874**	**- 60**	**1 738**	**7**	**1 745**
Balance at the end of the period	**4 030**	**1 723**	**186**	**0**	**- 46**	**73**	**6 365**	**11**	**12 342**	**1 572**	**13 914**
of which revaluation reserve for shares					171						
of which revaluation reserve for bonds					- 216						
of which revaluation reserve for other assets than bonds and shares					- 1						
of which relating to non-current assets held for sale and disposal groups	0	0	0	0	0	0	0	0	0	0	0

* Net (un)realised gains from financial instruments at fair value through profit or loss.

- For information on the total number of shares (both ordinary shares and other equity instruments), see Note 30.

Consolidated cashflow statement

In millions of EUR	31-12-2006	31-12-2007
Profit before tax	3 160	3 283
Adjustments for:	- 2 389	- 231
Depreciation, impairment and amortisation of property and equipment, intangible assets, investment property and securities	199	287
Profit/Loss on the disposal of investments	- 135	- 71
Change in impairment on loans and advances	176	148
Change in gross technical provisions - insurance	0	0
Change in the reinsurers' share in the technical provisions	0	0
Change in other provisions	- 34	- 27
Unrealised foreign currency gains and losses and valuation differences	- 2 553	- 508
Income from associated companies	- 43	- 59
Cash flows from operating profit before tax and before changes in operating assets and liabilities	770	3 052
Changes in operating assets (excl. cash & cash equivalents) (1)	13 641	- 26 188
Changes in operating liabilities (excl. cash & cash equivalents) (2)	- 5 925	13 985
Income taxes paid	- 723	- 672
Net cash from (used in) operating activities	7 763	- 9 822
Purchase of held-to-maturity securities	- 1 761	- 1 108
Proceeds from the repayment of held-to-maturity securities at maturity	633	1 169
Acquisition of a subsidiary or a business unit, net of cash acquired (increase in participation intrests included)	- 734	- 774
Proceeds from the disposal of a subsidiary or business unit, net of cash disposed (decrease in participation intrests included)	60	0
Purchase of shares in associated companies	0	- 69
Proceeds from the disposal of shares in associated companies	72	0
Dividends received from associated companies	15	20
Purchase of investment property	0	- 32
Proceeds from the sale of investment property	1	0
Purchase of intangible fixed assets (excl. goodwill)	- 63	- 72
Proceeds from the sale of intangible fixed assets (excl. goodwill)	51	4
Purchase of property and equipment	- 404	- 317
Proceeds from the sale of property and equipment	332	122
Net cash from (used in) investing activities	- 1 798	- 1 058
Purchase or sale of treasury shares	0	0
Issue or repayment of promissory notes and other debt securities	6 883	7 117
Proceeds from or repayment of subordinated liabilities	2	1 356
Principal payments under finance lease obligations	0	0
Proceeds from the issuance of share capital	0	1 500
Proceeds from the issuance of preference shares	0	0
Dividends paid	- 1 394	- 1 480
Net cash from (used in) financing activities	5 491	8 494
Net increase or decrease in cash and cash equivalents	11 456	- 2 386
Cash and cash equivalents at the beginning of the period	5 396	16 706
Effects of exchange rate changes on opening cash and cash equivalents	- 146	140

Cash and cash equivalents at the end of the period	16 706	14 459

Additional information (3)		
Interest paid	- 7 697	- 10 703
Interest received	10 968	13 882
Dividends received (including equity method)	154	146

Components of cash and cash equivalents (4)	16 706	14 459
Cash and cash balances with central banks	1 348	2 898
Loans and advances to banks repayable on demand and term loans to banks < 3 months	23 439	24 729
Deposits from banks repayable on demand and redeemable at notice	- 8 081	- 13 168

(1) Including loans and receivables, available-for-sale assets, held-for-trading assets, financial assets designated at fair value through profit or loss, derivative hedging assets, non-current assets held for sale and disposal groups, and accrued interest income

(2) Including deposits from banks, debts represented by securities, financial liabilities held for trading, financial liabilities designated at fair value through profit or loss, derivative hedging liabilities and accrued interest expense.

(3) The 2006 figures for 'Interest paid' and 'Interest received' have been adjusted retroactively, because the amount of interest relating to hedging derivatives (all of which was allocated to interest expense in 2006) is now allocated to interest income and interest expense, respectively.

(4) The definition of 'Cash and cash equivalents' differs from the definition for 2006 (i.e. treasury bills and other bills eligible for rediscounting with central banks have been omitted, while term loans to banks at not more than three months and deposits from banks repayable on demand have been included), because the presentation of the financial statements was adjusted in 2007 to make it correspond more closely with the Belgian prudential reporting presentation for banks and to comply with IFRS 7 requirements.

- KBC uses the indirect method to report on cashflows from operating activities.
- The main acquisitions and disinvestments of consolidated subsidiaries in 2006 and 2007 are set out below.
- For a more detailed list (including all major changes in ownership percentages), see Note 36.
- All (material) acquisitions and divestments of group companies in 2007 were paid for in cash.

Main acquisitions and divestments

	31-12-2006	31-12-2007		
In millions of EUR	KBC Asset Management	AKB "Absolut Bank" (ZAO)	EI Bank	International Factors NV
Acquistion (A) / Disposal (D)	A	A	A	A
Percentage of shares bought or sold	7,11%	95,00%	75,58%	50%
Segment	Banking	Banking	Banking	Banking
Assets & liabilities bought or sold				
Cash and cash balances with central banks	210	74	130	0
Financial assets				
Held for trading		226	34	
Designated at fair value through profit or loss		0	0	
Available for sale	504	25	5	0
Loans and receivables	83	2 024	668	355
Held-to-maturity investments		0	0	
Hedging derivatives		0	0	
of which: cash and cash equivalents		74	424	0
Financial liabilities				
Held for trading		1	0	0
Designated at fair value through profit or loss		0	0	0
Measured at amortised cost	0	1 623	835	315
Hedging derivatives		0	0	0
of which: cash and cash equivalents		- 12	- 3	0
Gross technical provisions		0	0	
Purchase price or sale price	- 162	698	297	36
Cashflow for acquiring or selling companies less cash and cash equivalents acquired or sold	48	- 636	123	- 36

Notes on the accounting policies

Note 1 a: Statement of compliance

The consolidated annual accounts were authorised for issue on 20 March 2008 by the Board of Directors of KBC Bank NV.

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted for use in the European Union ('endorsed IFRS') and present one year of comparative information.

All amounts are shown in millions of euros and rounded to the million.

The following IFRS standards and IFRICs were issued but not yet effective at year-end 2007. KBC will apply these standards as of their effective date:

- IFRS 8 (Operating segments): the group will apply this standard from 1 January 2009, its effective date. It replaces IAS 14 (Segment Reporting) and will have an impact on the current segment reporting in Note 2.
- IFRIC 11 (Group and Treasury Share Transactions)

In 2007, KBC adjusted the presentation of the financial statements to make them correspond more closely with the Belgian prudential reporting presentation for banks and to comply with IFRS 7 requirements.
The main changes concern the balance sheet, which will be presented on a portfolio basis from 2007 (i.e. according to the IAS 39 classification system) instead of on a product basis. In order to retain information per product, financial assets and liabilities have been broken down on a portfolio and product basis in Note 14.
Changes in the way the income statement has been presented are limited, and include a further breakdown of operating expenses (into staff expenses, general administrative expenses, depreciation and amortisation of fixed assets and provisions for risks and charges). In addition, the 'Net post-tax income from discontinued operations' heading has been moved from the components of 'Total income' to just before 'Profit after tax' and the presentation of minority interests in net profit after tax adjusted.
Changes have also been made to a number of notes, with – among other things – breakdowns being given on a portfolio basis instead of a product basis, to correspond with the changes made to the way in which the balance sheet and income statement are presented.

The requisite information relating to the nature and amount of risk exposure (according to IFRS 7) and the information relating to capital (according to IAS 1) has been included in the audited parts of the 'Value and risk management' section.

Note 1 b: Summary of significant accounting policies

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

All material 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.
Material companies over which joint control is exercised, directly or indirectly, are consolidated according to the method of proportionate consolidation.
Material 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 or 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 designated 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 are all non-derivative financial assets that do not come under one of the above classifications. 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. These liabilities are measured at fair value, with any fair value changes reported in profit or loss.
  - Financial liabilities designated at fair value through profit or loss (FIFV). These are measured in the same way as held-for-trading liabilities. This fair value option may be used under the same conditions as for FIFV assets.
  - Other financial liabilities. These are all other non-derivative financial liabilities that are not classified under one of the two liability classifications above. They are measured at amortised cost.
- *Hedging derivatives.* These are derivatives used for hedging purposes.

Financial instruments (with the exception of trading derivatives) are reported according to the clean price convention. Accrued interest income from financial instruments is presented separately in the balance sheet.

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 (PD). The characteristics of the loan, such as the type of loan, the borrower's line of business, the geographical location of the borrower and other characteristics key to a borrower's risk profile, are used to determine the PD. Loans with the same PD therefore have a similar credit risk profile.
  - Loans and advances with a PD of 12 (individual problem loans with the highest probability of default) are individually tested for impairment (and written down on an individual basis if necessary). The impairment amount is calculated as the difference between the loans' carrying amount and their present value.
  - Loans and advances with a PD of 10 or 11 are also considered to be individual problem loans. Significant loans (of more than 1.25 million euros) are tested individually. The impairment amount is calculated as the difference between the loans' carrying amount and their present value. Non-significant loans (of less than 1.25 million euros) are tested on a statistical basis. The impairment amount calculated according to the statistical

method is based on three components: the amount outstanding of loans, a reclassification percentage reflecting the movement of loans between the various PD classes, and a loss percentage reflecting the average loss for each product.

- Loans and advances with a PD lower than 10 are considered normal loans. Incurred-but-not-reported (IBNR) losses are recognised for loans with a PD of 1 through 9. IBNR losses are based on the IRB Advanced models (PD X LGD X EAD), with all parameters being adjusted to reflect the point-in-time nature of these losses. The main adjustment relates to the PD: the time horizon of the PD has been shortened based on the emergence period. This is the period between the time an event occurs that will lead to an impairment and the time KBC identifies this event, and is dependent on the review frequency, the location and degree of involvement with the counterparties.

  When impairment is identified, the carrying amount of the loan is reduced via an impairment account and the loss recognised in the income statement. If, in a subsequent period, the estimated impairment amount increases or decreases due to an event that occurs after the impairment loss was recognised, the previously recognised impairment will be increased or reduced accordingly through adjustment of the impairment account. Loans and the related amounts included in the impairment accounts are written off when there is no realistic prospect of recovery in future or if the loan is forgiven. A renegotiated loan will continue to be tested for impairment, calculated on the basis of the original effective interest rate applying to the loan.

  For off-balance-sheet commitments (commitment credit) classified as uncertain or irrecoverable and doubtful, provisions are recognised if the general IAS 37 criteria are satisfied and the more-likely-than-not criterion met. These provisions are recognised at their present value.

  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 assets 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 in the income statement on an accruals basis 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 held-for-trading assets or held-for-trading liabilities 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 embedded in contracts that are measured on an accruals basis (held-to-maturity assets, loans and receivables, other financial liabilities) or at fair value, with fair value changes being recorded in equity (available-for-sale assets), are separated from the contract and measured at fair value (with fair value adjustments being taken to the income statement for the financial year), if, when KBC obtains the contract, the risk relating to the embedded derivative is considered not to be closely related to the risk on the host contract. The risk may not be reassessed subsequently, unless the terms of the contract are changed and this has a substantial impact on the contract’s cashflows. Contracts 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. The relevant 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. Accrued interest income from interest rate swaps is included in net interest income. 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 (portfolio hedge 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. Accrued interest income from these swaps is included in net interest income. 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. Accrued interest income from rate swaps is included in net interest income. 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. This form of hedge accounting is used for investments not denominated in euros. Translation differences (account taken of deferred taxes) on the funding are recorded in equity, along with translation differences on the net investment.

- *Financial guarantee contracts.* These are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the initial or revised terms of a debt instrument. A financial guarantee contract is initially recognised at fair value and subsequently measured at the greater of the following:
  1 the amount determined in accordance with IAS 37: Provisions, Contingent Liabilities and Contingent Assets; and
  2 the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with IAS 18: Revenue.

- *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 or recognised in equity. 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.

- *Day 1 profits.* When the transaction price in a non-active market differs from the fair value of other observable market transactions in the same instrument or the fair value based on a valuation technique whose variables include only data from observable markets, the difference between the transaction price and the fair value (day 1 profit) is taken to profit or loss. Day 1 profit is recognised for structuring CDOs. However, a portion is reserved and is released in profit or loss over the life and at maturity of the CDOs.

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 and 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 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.

g 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.

h Provisions

Provisions are recognised in the balance sheet:

- if an obligation (legal or constructive) exists on the balance sheet date that stems from a past event, 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.

i 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 mandatorily redeemable in KBC Group NV shares (1998-2008 MCB) are classified as equity.
- 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.

Put options on minority interests (and, where applicable, combinations of put and call options resulting in forward contracts) are recognised as financial liabilities at the present value of the exercise prices. The corresponding minority interests are deducted from equity. The difference is recognised either as an asset (goodwill) or in the income statement (negative goodwill).

l Exchange rates used

	Exchange rate at 31-12-2007		Exchange rate average in 2007	
	1 EUR = … currency	Change from 31-12-2006 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)	1 EUR = … currency	Change relative to average in 2006 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)
CZK	26,63	3,2%	27,77	2,0%
GBP	0,733	-8,4%	0,685	-0,3%
HUF	253,7	-0,8%	251,3	5,1%
PLN	3,594	6,6%	3,785	3,1%
SKK	33,58	2,5%	33,78	10,1%
USD	1,472	-10,5%	1,373	-8,4%

k Changes made to accounting policies in 2007

No material changes were made to the accounting policies compared with 2006.

Notes on segment reporting

Note 2: Reporting based on the legal structure and by geographic segment

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

- Banking: KBC Bank and its subsidiaries (subsidiary banks);
- Asset management: KBC Asset Management and its subsidiaries;
- Leasing: KBC Lease and its subsidiaries;
- Equity business: KBC Financial Products, KBC Securities and KBC Private Equity;
- Other: Mainly smaller subsidiaries that do not belong to the above segments;
- Intersegment eliminations : 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 limited. Intersegment transfers are measured on the basis actually used to price the transfers.

The IFRS secondary segment reporting format is based on geographic areas, and reflects KBC's focus on its two home markets – Belgium and Central and Eastern Europe (including Russia) – and its selective presence in other countries ('rest of the world', i.e. mainly the US, Southeast Asia and Western Europe excluding Belgium).

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.

In millions of EUR	Banking activities	Asset Manage-ment	Leasing activities	Equity activities	Other	Interseg-ment elimina-tions	KBC Bank Consolida-ted
INCOME STATEMENT FY 2006							
Net interest income	3 218	15	102	- 251	189	- 3	3 271
Dividend income	52	7	0	80	1	0	139
Net (un)realised gains from financial instruments at fair value through profit or loss	377	10	1	1 082	- 2	0	1 468
Net realised gains from available-for-sale assets	174	7	0	0	0	0	181
Net fee and commission income	1 143	408	- 13	78	34	- 1	1 648
Other net income	417	6	25	6	29	- 32	451
TOTAL INCOME	5 380	453	116	995	251	- 37	7 158
Operating expenses*	- 3 063	- 73	- 70	- 625	- 78	37	- 3 872
Staff expenses	- 1 566	- 40	- 31	- 527	- 26	0	- 2 190
General administrative expenses	- 1 346	- 33	- 35	- 89	- 43	37	- 1 510
Depreciation and amortisation of fixed assets	- 183	- 1	- 2	- 11	- 9	0	- 206
Provisions for risks and charges	33	0	- 1	2	0	0	34
Impairment	- 141	0	- 9	- 7	- 11	0	- 169
on loans and receivables	- 149	0	- 9	- 6	- 11	0	- 176
on available-for-sale assets	- 2	0	0	- 1	0	0	- 2
on goodwill	0	0	0	0	0	0	0
on other	9	0	0	0	0	0	9
Share in results of associated companies	41	0	0	1	1	0	43
PROFIT BEFORE TAX	2 217	380	37	364	162	0	3 160
Income tax expense	- 537	- 94	- 12	- 103	- 12	0	- 759
Net post-tax income from discontinued operations	0	0	0	0	0	0	0
PROFIT AFTER TAX	1 680	286	25	261	149	0	2 401
attributable to minority interest	53	138	0	35	92	0	318
attributable to equity holders of the parent	1 627	148	25	226	57	0	2 083
*of which non-cash expenses :	- 150	- 1	- 3	- 9	- 9		- 172
depreciation and amortisation of fixed assets	- 183	- 1	- 2	- 11	- 9		- 206
other	33	0	- 1	2	0		34
INCOME STATEMENT FY 2007							
Net interest income	3 335	23	116	- 473	180	- 2	3 179
Dividend income	40	7	0	76	3	0	126
Net (un)realised gains from financial instruments at fair value through profit or loss	537	1	- 1	1 228	3	0	1 768
Net realised gains from available-for-sale assets	183	4	0	0	1	0	189
Net fee and commission income	1 249	469	- 10	151	44	- 6	1 897
Other net income	319	5	30	34	81	- 54	416
TOTAL INCOME	5 663	510	136	1 017	313	- 62	7 576
Operating expenses*	- 3 279	- 99	- 81	- 645	- 99	62	- 4 140
Staff expenses	- 1 656	- 54	- 37	- 499	- 31	0	- 2 276
General administrative expenses	- 1 458	- 44	- 42	- 131	- 56	62	- 1 669
Depreciation and amortisation of fixed assets	- 191	- 1	- 2	- 15	- 12	0	- 222
Provisions for risks and charges	26	0	1	0	0	0	27
Impairment	- 189	0	- 1	- 2	- 19	0	- 212
on loans and receivables	- 135	0	- 1	- 2	- 9	0	- 148
on available-for-sale assets	- 50	0	0	0	0	0	- 50
on goodwill	0	0	0	0	0	0	0
on other	- 4	0	0	0	- 10	0	- 14
Share in results of associated companies	57	0	0	2	0	0	59
PROFIT BEFORE TAX	2 253	411	54	371	195	0	3 283
Income tax expense	- 533	- 94	- 18	- 99	- 6	0	- 750
Net post-tax income from discontinued operations	0	0	0	0	0	0	0
PROFIT AFTER TAX	1 720	317	36	272	189	0	2 534
attributable to minority interest	28	153	0	2	90	0	273
attributable to equity holders of the parent	1 692	164	36	269	99	0	2 261
*of which non-cash expenses :	- 165	- 1	- 1	- 16	- 13	0	- 195
depreciation and amortisation of fixed assets	- 191	- 1	- 2	- 15	- 12	0	- 222
other	26	0	1	0	0	0	27

In millions of EUR	Banking activities	Asset Manage-ment	Leasing activities	Equity activities	Other	KBC Bank Consolida-ted
BALANCE SHEET 31-12-2006						
Cash and cash balances with central banks	2 386	0	0	0	0	2 386
Financial assets	218 837	581	3 528	36 502	6 318	265 766
Held for trading	34 853	8	0	32 111	53	67 024
Designated at fair value through profit and loss	42 376	0	0	0	3 882	46 258
Available for sale	28 543	455	2	26	69	29 095
Loans and receivables	103 436	117	3 526	4 366	2 306	113 751
Held-to-maturity investments	9 308	0	0	0	4	9 313
Hedging derivatives	321	0	0	0	4	325
Fair value adjustments of the hedged items in portfolio hedge of interest rate risk	- 175	0	0	0	0	- 175
Accrued interest income	2 183	0	9	62	45	2 299
Tax assets	485	1	12	131	10	638
Current tax assets	65	0	7	42	4	117
Deferred tax assets	420	1	5	89	6	521
Non-current assets held for sale and disposal groups	53	0	0	0	0	53
Investments in associated companies	528	0	0	3	4	535
Investment property	0	0	0	0	225	225
Property and equipment	1 477	4	4	55	4	1 544
Goodwill and other intangible fixed assets	784	1	5	26	17	833
Other assets	756	111	183	395	190	1 634
TOTAL ASSETS	227 314	697	3 741	37 174	6 813	275 738
Financial liabilities	205 408	2	22	27 540	23 636	256 608
Held for trading	17 454	0	0	19 328	98	36 880
Designated at fair value through profit and loss	38 401	0	0	0	9 166	47 567
Measured at amortized cost	149 504	2	22	8 212	14 372	172 112
Hedging derivatives	49	0	0	0	0	49
Fair value adjustments of the hedged items in portfolio hedge of interest rate risk	0	0	0	0	0	0
Accrued interest expenses	1 282	0	16	81	194	1 572
Tax liabilities	342	31	23	50	5	450
Current tax liabilities	301	31	7	37	4	380
Deferred tax liabilies	40	0	16	13	1	70
Liabilities included in disposal groups classified as held for sale	0	0	0	0	0	0
Provisions for risks and charges	398	0	3	4	1	407
Other liabilities	3 079	106	108	1 070	170	4 534
TOTAL LIABILITIES	210 508	140	171	28 746	24 005	263 570
Acquisitions of tangible and intangible assets (including goodwill)	805	2	4	34	7	851
BALANCE SHEET 31-12-2007						
Cash and cash balances with central banks	2 873	0	0	25	0	2 898
Financial assets	241 147	680	4 238	42 951	7 686	296 702
Held for trading	38 327	0	0	34 406	317	73 051
Designated at fair value through profit and loss	35 073	3	0	329	579	35 985
Available for sale	24 020	547	1	1 844	131	26 543
Loans and receivables	133 912	130	4 237	6 372	6 652	151 304
Held-to-maturity investments	9 291	0	0	0	5	9 296
Hedging derivatives	522	0	0	0	1	524
Fair value adjustments of the hedged items in portfolio hedge of interest rate risk	- 223	0	0	0	0	- 223
Accrued interest income	2 843	0	6	48	21	2 918
Tax assets	493	1	13	126	25	659
Current tax assets	50	0	11	33	8	102
Deferred tax assets	443	1	2	94	17	556
Non-current assets held for sale and disposal groups	1	0	0	40	0	41
Investments in associated companies	603	0	0	40	3	646
Investment property	94	0	0	0	354	448
Property and equipment	1 681	4	4	64	7	1 760
Goodwill and other intangible fixed assets	1 733	1	59	197	18	2 008
Other assets	758	41	221	573	25	1 618
TOTAL ASSETS	252 004	727	4 542	44 065	8 139	309 476
Financial liabilities	231 678	11	9	30 452	25 020	287 170
Held for trading	19 988	0	0	21 302	251	41 542
Designated at fair value through profit and loss	32 040	0	0	1 825	3 218	37 082
Measured at amortized cost	179 531	11	9	7 325	21 551	208 427
Hedging derivatives	118	0	0	0	0	118
Fair value adjustments of the hedged items in portfolio hedge of interest rate risk	0	0	0	0	0	0
Accrued interest expenses	1 659	0	16	86	245	2 006
Tax liabilities	377	16	18	45	12	467
Current tax liabilities	323	16	5	34	11	388
Deferred tax liabilies	54	0	13	11	1	79
Liabilities included in disposal groups classified as held for sale	0	0	0	0	0	0
Provisions for risks and charges	390	0	3	6	1	401
Other liabilities	4 272	45	125	982	95	5 519
TOTAL LIABILITIES	238 375	72	171	31 571	25 373	295 562
Acquisitions of tangible and intangible assets (including goodwill)	1 217	0	60	158	32	1 467

In millions of EUR	Belgium	Central and Eastern Europe and Russia	Rest of the world	KBC Bank
2006				
Gross income	3.515	1.939	1.705	7.158
Total assets (period-end)	168.308	36.046	71.385	275.738
Total liabilities (period-end)	154.517	35.732	73.321	263.570
Acquisitions of fixed assets (period-end)	211	604	36	851
2007				
Gross income	3 788	2 168	1 619	7 576
Total assets (period-end)	169 734	48 952	90 790	309 476
Total liabilities (period-end)	165 311	44 650	85 601	295 562
Acquisitions of fixed assets (period-end)	233	1 179	55	1 467

Notes to the income statement

Note 3: Net interest income

In millions of EUR	2006	2007
Total	3 271	3 179
Interest income	10 968	13 882
Available-for-sale assets	1 038	1 306
Loans and receivables	7 157	7 737
Held-to-maturity investments	351	384
Other assets not at fair value	68	134
Subtotal, interest income from financial assets not measured at fair value through profit or loss	8 614	9 560
of which : on impaired financial assets	34	10
Financial assets held for trading	1 239	1 605
Hedging derivatives	617	685
Other financial assets at fair value through profit or loss	498	2 031
Interest expense	- 7 697	- 10 703
Financial liabilities measured at amortised cost	- 5 310	- 7 704
Other	- 1	- 12
Subtotal, interest expense for financial liabilities not measured at fair value through profit or loss	- 5 312	- 7 715
Financial liabilities held for trading	- 303	- 484
Hedging derivatives	- 660	- 630
Other financial liabilities at fair value through profit or loss	- 1 422	- 1 873

Note 4: Dividend income

In millions of EUR	2006	2007
Total	139	126
Breakdown by type	139	126
Held-for-trading shares	87	81
Shares initially recognised at fair value through profit or loss	0	0
Available-for-sale shares	52	45

● Note 5: Net (un)realised gains from financial instruments at fair value through profit or loss

In millions of EUR	2006	2007
Total	1 468	1 768
Breakdown by type		
Trading instruments (including interest and fair value changes in trading derivatives)	1 252	1 549
Other financial instruments initially recognised at fair value through profit or loss	- 252	59
Foreign exchange trading	468	154
Fair value adjustments in hedge accounting	0	6
Microhedge	0	2
Fair value hedges	0	2
Changes in the fair value of the hedged item	- 12	- 15
Changes in the fair value of the hedging derivatives (including discontinuation)	12	17
Cashflow hedges	- 1	0
Changes in the fair value of the hedging derivatives - ineffective portion	- 1	0
Hedges of net investments in foreign operation - ineffective portion	0	0
Portfolio hedge of interest rate risk	0	4
Fair value hedges of interest rate risk	0	0
Changes in the fair value of the hedged item	- 234	- 48
Changes in the fair value of the hedging derivatives (including discontinuation)	234	48
Cashflow hedges of interest rate risk	0	4
Changes in the fair value of the hedging instrument - ineffective portion	0	4

- With regard to the ALM derivatives (except for micro-hedging derivatives, which are used to only a limited extent in the group), the following applies:
  - For ALM derivatives classified under ‘Portfolio hedge of interest rate risk’, the interest concerned is recognised under ‘Net interest income’. Changes in the fair value of these derivatives are recognised under ‘Net (un)realised gains from financial instruments at fair value through profit or loss’, but due to the fact that changes in the fair value of the hedged assets are also recognised under this heading – and the hedge is effective – the balance of ‘Net (un)realised gains from financial instruments at fair value through profit or loss’ is zero.
  - For other ALM derivatives, the interest in question is recognised under ‘Net (un)realised gains from financial instruments at fair value through profit or loss' (a negative 146 and a positive 35 million euros in 2006 and 2007, respectively). The fair value changes are also recognised under this heading, most (but not all) of which are offset by changes in the fair value of a bond portfolio that is classified as 'financial instruments designated at fair value through profit or loss' (see accounting policies).
- The effectiveness of the hedge is determined according to the following methods:
  - For fair value micro-hedging, the dollar offset method is used on a quarterly basis, which requires changes in the fair value of the hedged item to offset changes in the fair value of the hedging instrument within a range of 80%–125%, which is currently the case.
  - For cashflow micro-hedges, the designated hedging instrument is compared with a perfect hedge of the hedged cashflows on a prospective (by BPV measurement) and retrospective basis (by comparing the fair value of the designated hedging instrument with the perfect hedge). The effectiveness of both tests must fall within a range of 80%–125%, which is currently the case.
  - For fair value hedges for a portfolio of interest rate risk, effectiveness is assessed on the basis of the rules set out in the European version of IAS 39 (carve-out). IFRS does not permit net positions to be reported as hedged items, but does allow hedging instruments to be designated as a hedge of a gross asset position (or a gross liabilities position, as the case may be). Specifically, care is taken to ensure that the volume of assets (or liabilities) in each maturity bucket is greater than the volume of hedging instruments allocated to the same bucket.
- Total exchange differences, excluding those recognised on financial instruments at fair value through profit or loss came to a positive 10 million euros for 2006 and to 154 million euros for 2007. These are included in the 468 and 154 million euros shown in the table.
- The total change in fair value taken to the income statement in 2007, where the fair value was estimated using techniques based on unobservable parameters, was almost entirely accounted for by CDOs in the group's portfolios. The changes in the fair value of these instruments came to 103 million euros in 2007 (insignificant in 2006). Reasonable changes in the assumptions would lead to an additional negative fair value impact of 110 million euros before taxes.
- When the transaction price in a non-active market differs from the fair value of other observable market transactions in the same instrument or the fair value based on a valuation technique whose variables include only data from observable markets, the difference between the transaction price and the fair value (day 1 profit) is taken to profit or loss. If this is not the case, day 1 profit is reserved and is released in profit or loss during the life and until the maturity of the financial instrument. Day 1 profit is recognised for structuring CDOs. Movements in deferred day 1 profit can be summarised as follows (in millions of euros):

- Deferred day 1 profits, opening balance on 1 January 2006 — 40
- New deferred day 1 profits — 55
- Day 1 profits recognised in profit or loss during the period
  - Amortisation of day 1 profits — -1
  - Financial instruments no longer recognised — -24
  - Exchange differences — 2
- Deferred day 1 profits, closing balance on 31 December 2006/opening balance on 1 January 2007: — 72
- New deferred day 1 profits — 134
- Day 1 profits recognised in profit or loss during the period
  - Amortisation of day 1 profits — -32
  - Financial instruments no longer recognised — -63
  - Exchange differences — -7
- Deferred day 1 profits, closing balance on 31 December 2007 — 104

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

In millions of EUR	2006	2007
Total	181	189
Breakdown by portfolio		
Fixed-income assets	34	- 145
Shares	147	335

Note 7: Net fee and commission income

In millions of EUR	2006	2007
Total	1 648	1 897
Breakdown by type		
Fee and commission income	2 398	2 666
Securities and asset management	1 464	1 646
Commitment credit	149	181
Payments	412	419
Other	374	420
Fee and commission expense	- 750	- 769
Commission paid to intermediaries	- 74	- 81
Other	- 676	- 688

- The lion's share of the fees and commissions related to lending is recognised under 'Net interest income' (effective interest rate calculations).

Note 8: Other net income

In millions of EUR	2006	2007
Total	451	416
Net realised gain on loans and receivables	58	18
of which: impact of sale of bad loans - Kredyt Bank 2006	37	0
Net realised gain on held-to-maturity investments	1	1
Net realised gain on financial liabilities measured at amortised cost	0	0
Other	392	397
of which: realised gain on sale of buildings in Prague - ČSOB	36	2
of which: realised gain on sale of BCC and Banksys shareholdings - KBC Bank 2006	60	0
of which: Belgian Deposit Guarantee Agency - KBC Bank	0	44
of which: impact of sale GBC - K&H Bank	0	35

- The amount reported under 'Other net income' includes income from operating leases, amounts recovered under guarantees, rental income, realised gains or losses on property and equipment and investment property, and amounts recovered on loans that have been written off in full and realised gains or losses on the sale of held-to-maturity investments, loans and receivables and financial liabilities measured at amortised cost.

Note 9: Operating expenses

In millions of EUR	2006	2007
Total	- 3 872	- 4 140
Breakdown by type		
Staff expenses	- 2 190	- 2 276
of which share based payment: equity settled	- 2	- 1
of which share based payment: cash settled	- 61	- 25
General administrative expenses	- 1 510	- 1 669
Depreciation and amortisation of fixed assets	- 206	- 222
Provisions for risks and charges	34	27

- General administrative expenses (see table) include repair and maintenance expenses, advertising costs, 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. At the end of 2007, KBC Financial Products recognised an outstanding liability of 88 million euros in this regard (129 million euros at year-end 2006).

  B. Main equity-settled share-based payments

  Since 2000, the KBC Bank and Insurance Holding Company NV (now KBC Group NV) has launched a number of share option plans. The share options have been granted to members of staff of the company and various subsidiaries. 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 on the benefit when the options were allocated. The share options have a life of seven to ten years from the date of issue and 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 Ltd. dating from 1999 and 2000. Eligible KBC Peel Hunt staff members have obtained options on KBC Group NV shares instead of KBC Peel Hunt Ltd. shares.

  KBC 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.
- In 2007, KBC Bank employees again had the opportunity to subscribe to the group’s capital increase on attractive terms. This employee benefit of 1.3 million euros was recognised as a staff expense against an entry under equity (in 2006, this employee benefit came to 1.7 million euros).

- An overview of the number of stock options for staff and the weighted averages of the exercise prices is shown in the table. The average price of the KBC share came to 95.8 euros during 2007. In 2007, 7 300 new KBC share options for personnel were issued. The fair value of this employee benefit was determined using an option valuation model that takes into account the specific features of the options allocated, including the exercise price (97.94 euros), life (7 years) and limited transferability.

	2006		2007	
Options	Number of options[1]	Average exercise price	Number of options[1]	Average exercise price
Outstanding at beginning of period	3 290 072	41,81	2.223.824	43,31
Granted during period	57 143	89,21	7.300	97,94
Exercised during period	-1 118 727	41,46	-1.137.286	40,80
Expired during period	- 4 662	41,61	-75.650	34,50
Forfeited during period	0	0,00	0	0,00
Outstanding at end of period[2]	2 223 824	43,31	1.018.188	47,12
Exercisable at end of period	1 713 563	42,50	813.358	42,24

1 In share equivalents.
2 2006: range of exercise prices: 28.3-89.21 euros; weighted average residual term to maturity: 56 months;
2007: range of exercise prices: 28.3-97.94 euros; weighted average residual term to maturity: 46 months.

Note 10: Personnel

	2006	2007
Total average number of persons employed (in full-time equivalents)	36.462	41.059
Breakdown by type	36.462	41.059
Blue-collar staff	53	525
White-collar staff	35.514	39.967
Management	895	567

Note 11: Impairment (income statement)

In millions of EUR	2006	2007
Total	- 169	- 212
Impairment on loans and receivables	- 176	- 148
Breakdown by type		
Specific impairments for on-balance-sheet lending	- 177	- 168
Specific impairments for off-balance-sheet credit commitments	- 8	- 18
Portfolio-based impairments	9	39
Impairment on available-for-sale assets	- 2	- 50
Breakdown by type		
Shares	- 2	- 42
Other	0	- 8
Impairment on goodwill	0	0
Impairment on other	9	- 14
Intangible assets, other than goodwill	- 1	- 2
Property and equipment	11	- 9
Held-to-maturity assets	0	1
Associated companies (goodwill)	0	0
Other	0	- 4

- Impairment on loans and receivables relate primarily to loans and advances to customers (chiefly term loans).
- Impairment on other. In 2007, this heading included primarily a 2-million-euro allocation for impairment on various intangible assets and a 9–million-euro allocation for impairment on real estate. In 2006, this heading had included mainly a 7-million-euro reversal of impairment on property in Poland.

Note 12: Share in results of associated companies

In millions of EUR	2006	2007
Total	43	59
of which NLB	33	48

- Impairment on (goodwill on) associated companies is included in ‘Impairment’. The share in results of associated companies does not therefore take this impairment into account.

Note 13: Income tax expense

In millions of EUR	2006	2007
Total	- 759	- 750
Breakdown by type	- 759	- 750
Current taxes on income	- 723	- 672
Deferred taxes on income	- 35	- 78
Tax components		
Profit before tax	3 160	3 283
Income tax at the Belgian statutory rate	33,99%	33,99%
Income tax calculated	- 1 074	- 1 116
Plus/minus tax effects attributable to	316	366
Differences in tax rates, Belgium - abroad	127	160
Tax-free income	204	361
Adjustments related to prior years	1	0
Adjustments, opening balance of deffered taxes due to change in tax rate	0	- 3
Unused tax losses and unused tax credits to reduce current tax expense	1	4
Unused tax losses and unused tax credits to reduce deferred tax expense	0	0
Other (mainly non-deductible expenses)	- 17	- 157
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 recognized	442	462

[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 23.

Notes to the balance sheet

Note 14: Financial assets and liabilities, breakdown by portfolio and product

FINANCIAL ASSETS (In millions of EUR)	Held for trading	Designated at fair value through profit or loss[1]	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Measured at amortised cost	Total
31-12-2006								
Loans and advances to credit institutions and investment firms[a / c]	11 463	19 619	0	9 948	-	-	-	41 030
Loans and advances to customers[b]	3 442	11 943	0	103 803	-	-	-	119 188
Discount and acceptance credit	0	0	0	224	-	-	-	224
Consumer credit	0	0	0	3 226	-	-	-	3 226
Mortgage loans	0	11 089	0	28 500	-	-	-	39 589
Term loans	3 442	854	0	50 913	-	-	-	55 208
Finance leasing	0	0	0	6 031	-	-	-	6 031
Current account advances	0	0	0	6 885	-	-	-	6 885
Securitised loans	0	0	0	302	-	-	-	302
Other	0	0	0	7 722	-	-	-	7 722
Equity instruments	16 265	0	1 417	-	-	-	-	17 682
Debt instruments issued by	19 004	14 697	27 678	-	9 313	-	-	70 684
Public bodies	12 327	9 073	19 254	-	8 505	-	-	49 152
Credit institutions and investment firms	4 170	847	2 569	-	441	-	-	8 026
Corporates	2 507	4 778	5 855	-	366	-	-	13 506
Derivatives	16 851	-	-	-	-	325	-	17 176
Total carrying value excluding accrued interest income	67 024	46 258	29 095	113 751	9 313	325	0	265 766
Accrued interest income[2]	141	249	420	816	221	408	-	2 256
Total carrying value including accrued interest income	67 165	46 507	29 515	114 567	9 534	733	-	268 022
Total fair value	67 165	46 507	29 515	115 725	9 515	733		269 161
[a] Of which reverse repos								23 107
[b] Of which reverse repos								7 006
[c] Of which loans and advances to banks repayable on demand and term loans at not more than three months								23 439

[1] Designated at fair value through profit or loss.

[2] Excluding accrued interest income related to cash balances with central banks for an amount of 43 million EUR; including accrued interest income the cash and cash balances with central banks amount to 2 429 million EUR

FINANCIAL ASSETS (In millions of EUR)	Held for trading	Designated at fair value through profit or loss[1]	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Measured at amortised cost	Total
31-12-2007								
Loans and advances to credit institutions and investment firms[a / c]	16 098	16 014	0	15 417	-	-	-	47 529
Loans and advances to customers[b]	2 067	8 756	0	135 887	-	-	-	146 710
Discount and acceptance credit	0	0	0	717	-	-	-	717
Consumer credit	0	0	0	3 885	-	-	-	3 885
Mortgage loans	0	3 254	0	43 513	-	-	-	46 767
Term loans	2 067	5 322	0	65 796	-	-	-	73 185
Finance leasing	0	0	0	6 883	-	-	-	6 883
Current account advances	0	0	0	7 162	-	-	-	7 162
Securitised loans	0	0	0	264	-	-	-	264
Other	0	181	0	7 667	-	-	-	7 848
Equity instruments	16 992	15	939	-	-	-	-	17 947
Debt instruments issued by	16 391	11 199	25 604	-	9 296	-	-	62 491
Public bodies	5 218	8 581	13 889	-	8 737	-	-	36 425
Credit institutions and investment firms	4 059	741	3 575	-	279	-	-	8 654
Corporates	7 114	1 878	8 140	-	280	-	-	17 412
Derivatives	21 503	-	-	-	-	524	-	22 026
Total carrying value excluding accrued interest income	73 051	35 985	26 543	151 304	9 296	524	0	296 702

Accrued interest income [2]	344	299	390	1 475	229	175	0	2 910
Total carrying value including accrued interest income	73 394	36 284	26 933	152 778	9 525	698	0	299 613
Total fair value	73 394	36 284	26 933	151 955	9 404	698		298 668
[a] Of which reverse repos								29 919
[b] Of which reverse repos								7 298
[c] Of which loans and advances to banks repayable on demand and term loans at not more than three months								24 729

[1] Designated at fair value through profit or loss.

[2] Excluding accrued interest income related to cash balances with central banks for an amount of 8 million EUR; including accrued interest income the cash and cash balances with central banks amount to 2 906 million EUR

FINANCIAL LIABILITIES (In millions of EUR)	Held for trading	Designated at fair value through profit or loss [1]	Available for sale	Loans and receiva-bles	Held to maturity	Hedging derivatives	Measured at amortised cost	Total
31-12-2006								
Deposits from credit institutions and investment firms [c / e]	5 426	15 942	-	-	-	-	32 321	53 689
Deposits from customers and debt certificates [d]	1 399	31 625	-	-	-	-	136 615	169 638
Deposits from customers	270	16 242	-	-	-	-	101 167	117 679
Demand deposits	0	0	-	-	-	-	31 827	31 827
Time deposits	270	16 242	-	-	-	-	35 778	52 289
Savings deposits	0	0	-	-	-	-	29 628	29 628
Special deposits	0	0	-	-	-	-	2 736	2 736
Other deposits	0	0	-	-	-	-	1 199	1 199
Debt certificates	1 129	15 383	-	-	-	-	35 447	51 960
Certificates of deposit	0	9 239	-	-	-	-	15 652	24 891
Customer savings certificates	0	0	-	-	-	-	2 704	2 704
Convertible bonds	0	0	-	-	-	-	0	0
Non-convertible bonds	1 129	5 199	-	-	-	-	12 540	18 869
Convertible subordinated liabilities	0	0	-	-	-	-	0	0
Non-convertible subordinated liabilities	0	945	-	-	-	-	4 551	5 496
Liabilities under investment contracts	-	0	-	-	-	-	-	0
Derivatives	23 558	-	-	-	-	49	-	23 608
Short positions	5 718	-	-	-	-	-	-	5 718
in equity instruments	1 417	-	-	-	-	-	-	1 417
in debt instruments	4 301	-	-	-	-	-	-	4 301
Other	779	0	-	-	-	-	3 176	3 954
Total carrying value excluding accrued interest expense	36 880	47 567	-	-	-	49	172 112	256 608
Accrued interest expense	208	184	-	-	-	436	744	1 572
Total carrying value including accrued interest expense	37 087	47 751	-	-	-	485	172 856	258 180
Total fair value	37 087	47 751	0	0	0	485	172 680	258 003
[c] Of which repos								18 333
[d] Of which repos								9 071
[e] Of which deposits from banks repayable on demand								8 081
31-12-2007								
Deposits from credit institutions and investment firms [c / e]	8 210	15 156	-	-	-	-	46 373	69 738
Deposits from customers and debt certificates [d]	2 452	21 927	-	-	-	-	158 188	182 567
Deposits from customers	0	14 139	-	-	-	-	114 698	128 837
Demand deposits	0	1 415	-	-	-	-	36 343	37 758
Time deposits	0	12 723	-	-	-	-	46 913	59 636
Savings deposits	0	0	-	-	-	-	27 079	27 079
Special deposits	0	0	-	-	-	-	3 444	3 444
Other deposits	0	0	-	-	-	-	919	919
Debt certificates	2 452	7 788	-	-	-	-	43 490	53 730
Certificates of deposit	0	2 245	-	-	-	-	15 697	17 942
Customer savings certificates	0	0	-	-	-	-	2 950	2 950
Convertible bonds	0	0	-	-	-	-	0	0
Non-convertible bonds	2 452	4 497	-	-	-	-	19 037	25 986
Convertible subordinated liabilities	0	0	-	-	-	-	0	0
Non-convertible subordinated liabilities	0	1 046	-	-	-	-	5 806	6 852
Liabilities under investment contracts	-	0	-	-	-	-	-	0
Derivatives	25 828	-	-	-	-	118	-	25 946
Short positions	4 809	-	-	-	-	-	-	4 809
in equity instruments	3 723	-	-	-	-	-	-	3 723
in debt instruments	1 085	-	-	-	-	-	-	1 085

Other	243	0	-	-	-	-	3 867	4 110
Total carrying value excluding accrued interest expense	41 542	37 082	-	-	-	118	208 427	287 170
Accrued interest expense	311	420	-	-	-	320	954	2 006
Total carrying value including accrued interest expense	41 853	37 503	-	-	-	438	209 382	289 175
Total fair value	41 853	37 503	-	-	-	438	208 948	288 741

[c] Of which repos	21 006
[d] Of which repos	8 489
[e] Of which deposits from banks repayable on demand	13 168

- Financial assets and liabilities are grouped into categories (*portfolios*). These categories are defined and the relevant valuation rules provided in 'Financial assets and liabilities (IAS 39)', Note 1b.
- As stated in Note 1a, the balance sheet presentation now reflects a portfolio instead of a product-based approach. However, in Note 14, the financial assets and liabilities are presented in a table with both a portfolio and a product breakdown. The reference figures for 31 December 2006 have been restated to allow comparison with the information presented in the new breakdown. The following changes were made:
    - A number of non-interest-bearing assets and liabilities (classified in the 2006 annual report as 'loans and advances to customers') are now recognised under 'other assets' and 'other liabilities'.
    - Short positions (classified in the 2006 annual report as 'other liabilities') have been reclassified as 'financial liabilities held for trading').
    - Derivatives (classified in the 2006 annual report entirely under 'held for trading') have now been broken down into the 'held for trading' and 'hedging derivatives' categories.
    - The breakdown by counterparty type - such as credit institutions, customers, etc. - (based on the regulatory definition in the 2006 annual report) is now based on Basel II definitions. The main change relates to reclassification of investment firms as credit institutions.
    - Warrants (classified in the 2006 annual report as 'equity instruments') have been reclassified as 'derivatives').
    - In order to bring the classification into line with the measurement method used, a portion of the mortgage loans with variable yield (11 089 million euros on 31 December 2006) - classified in the 2006 annual report as 'loans and receivables' - have, together with part of the funding, now come under 'designated at fair value through profit or loss'.
    - A portion of the 'term loans' (i.e. for certain Central and Eastern European group companies) have been reclassified as 'consumer credit'.
    - Impairment (in Note 20 of the 2006 annual report under 'other') is now broken down per relevant product type.
    - Part of the 'other deposits' heading has been reclassified as 'time deposits'.
- Financial assets and liabilities at fair value (available for sale, held for trading, designated at fair value through profit or loss) are valued as follows:
    - When readily and regularly available, published price quotations in active markets (from dealers, brokers, regulatory agencies, etc.) accessible to KBC are used to determine the fair value of financial assets or financial liabilities. Revaluation is obtained by comparing prices; no model is involved. Financial instruments are initially valued at mid- or closing prices. Market value adjustments are applied to cover close-out costs, which means that financial assets are measured at bid prices and financial liabilities at ask prices. Financial instruments valued using the above methodology include spot foreign exchange contracts, futures, listed equity and share options and government bonds.
    - If there is no active market, fair value will be obtained using a valuation technique (e.g., discounted cash flow analysis and option pricing techniques) based on the prices from observable current market transactions in the same instruments, or based on available observable market data obtained from independent sources and based on models commonly used by market participants. Financial instruments valued using the above methodology include forward foreign exchange contracts, currency swaps, forward rate agreements and interest rate swaps.
    - When valuation parameters are not observable, fair value is based on the best information available in the circumstances, which may include KBC's own data. Such parameters reflect KBC's own assumptions about what information is relevant for the pricing of a financial asset or liability. Financial instruments for which the parameters are not observable include illiquid bonds, illiquid credit default swaps and illiquid structured notes.

- Fair value adjustments (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 or in equity 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.
- The following also applies to financial assets:
  - Most of the changes in the market value of loans and advances initially designated at fair value through profit or loss are accounted for by changes in interest rates. The effect of changes in credit exposure is negligible.
  - Most of the loans and advances designated at fair value through profit or loss are accounted for by reverse repo transactions and a limited portfolio of home loans. In each case, the carrying value comes close to the maximum credit exposure.
  - Only home loans are securitised. Related financial liabilities came to 0.3 billion euros at year-end 2007 (excluding Home Loan Invest, as the risk is borne for the most part by KBC), the same as the previous year.
- In addition, the following applies to financial liabilities:
  - The impact of KBC's own credit exposure on the fair value of financial liabilities is negligible.
  - The fair value of demand and savings deposits (which both are repayable on demand) is presumed to be equal to their carrying value.
  - The difference between the carrying value and the repayment price of financial liabilities designated at fair value through profit or loss is minor.
  - A 'repo' transaction is a transaction where one party (the buyer) sells securities to another party and undertakes to repurchase these securities at a designated future date at a set price. In most cases, repo transactions are governed by bilateral framework agreements (generally Global Master Repo Agreements) which include a description of the periodic exchanges of collateral. The repo transactions shown in the table are related mainly to the temporary lending of bonds. In this type of lending, the risk and the income from the bonds is for KBC. The amount of the repos is virtually identical to the amount of the underlying assets (that have been lent out).

Note 15: Financial assets and liabilities, breakdown by portfolio and geographic location

ASSETS (In millions of EUR)	Held for trading	Designa-ted at fair value through profit or loss*	Available for sale	Loans and receiva-bles	Held to maturity	Hedging derivatives	Measured at amortised cost	Total
31-12-2006								
Belgium	4 048	5 446	13 040	61 638	2 966	254	-	109 625
Central and Eastern Europe and Russia	5 918	1 385	3 866	23 627	5 075	66	-	42 042
Rest of the world	57 058	39 426	12 189	28 486	1 271	6	-	158 761
Total carrying value	67 024	46 258	29 095	113 751	9 313	325	-	265 766
31-12-2007								
Belgium	3 046	7 021	7 299	70 167	2 893	435	-	90 860
Central and Eastern Europe and Russia	8 977	839	4 635	33 256	5 348	67	-	53 122
Rest of the world	61 028	28 125	14 609	47 881	1 055	22	-	152 720
Total carrying value	73 051	35 985	26 543	151 304	9 296	524	-	296 702

* Designated at fair value through profit or loss.

LIABILITIES (In millions of EUR)	Held for trading	Designa-ted at fair value through profit or loss*	Available for sale	Loans and receiva-bles	Held to maturity	Hedging derivatives	Measured at amortised cost	Total
31-12-2006								
Belgium	3 342	8 426	-	-	-	35	73 877	85 680
Central and Eastern Europe and Russia	945	4 488	-	-	-	13	30 696	36 143
Rest of the world	32 593	34 653	-	-	-	1	67 538	134 785
Total carrying value	36 880	47 567	-	-	-	49	172 112	256 608
31-12-2007								
Belgium	3 025	3 980	-	-	-	77	77 267	84 349
Central and Eastern Europe and Russia	667	3 031	-	-	-	38	39 499	43 235
Rest of the world	37 849	30 072	-	-	-	3	91 662	159 586
Total carrying value	41 542	37 082	-	-	-	118	208 427	287 170

* Designated at fair value through profit or loss.

● Note 16: Financial assets, breakdown by portfolio and quality

In millions of EUR	Held for trading	Designated at fair value through profit or loss*	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	TOTAL
31-12-2006							
Unimpaired assets	67 024	46 258	29 075	112 747	9 311	325	264 741
Impaired assets	-	-	81	3 079	3	-	3 163
Impairment	-	-	- 62	- 2 075	- 1	-	- 2 138
Total carrying value	67 024	46 258	29 095	113 751	9 313	325	265 766
31-12-2007							
Unimpaired assets	73 051	35 985	26 397	149 898	9 296	524	295 150
Impaired assets	-	-	284	3 427	0	-	3 711
Impairment	-	-	- 138	- 2 020	0	-	- 2 158
Total carrying value	73 051	35 985	26 543	151 304	9 296	524	296 702

* Designated at fair value through profit or loss.

Past due, but not impaired assets* (In millions of EUR)	less then 30 days past due	30 days or more, but less then 90 days past due
31-12-2006		
Loans & advances	3 011	543
Debt instruments	0	0
Derivatives	0	0
Total	3 011	543
31-12-2007		
Loans & advances	3 642	573
Debt instruments	0	0
Derivatives	18	0
Total	3 659	573

* Financial assets that are 90 days or more past due are always considered ‘impaired.

- Definitions:
  - o Financial assets are past due if a counterparty fails to make a payment at the time agreed in the contract. The concept of ‘past due’ applies to a contract, not to a counterparty. For example, if a counterparty fails to make a monthly repayment, the entire loan is considered past due, but that does not mean that other loans to this counterparty are considered past due.
  - o Fixed-income financial assets are impaired when impairment is identified on an individual basis. The concept of ‘impairment’ is relevant for all financial assets that are not measured at fair value through profit or loss. For loans, impairment is identified on an individual basis if the loan has a probability of default (PD) rating of 10, 11 or 12. Since PD ratings relate to counterparties, so too does the concept of impaired.

- Information on 'maximum credit exposure' is provided in the table. The maximum credit exposure relating to a financial asset is generally the gross carrying value, net of impairment in accordance with IAS 39.

Maximum credit exposure (In millions of EUR)	31-12-2006	31-12-2007
Equity	17 682	17 947
Debt instruments	70 684	62 491
Loans & advances	160 217	194 239
Of which designated at fair value through profit or loss	31 561	24 770
Derivatives	17 176	22 026
Other	41 602	48 443
Total	307 362	345 145
Carrying value of financial assets pledged as collateral for		
Liabilities	27 829	40 383
Contingent liabilities	2 815	1 534

- Information on collateral held is provided in the table. Collateral can be called in if loans are terminated for various reasons such as default or bankruptcy. In the event of bankruptcy, the collateral will be sold by the trustee in bankruptcy. In other cases, the bank will itself sell up the collateral. Possession of collateral is only taken in exceptional cases (which accounts for the limited amounts shown in the table).
- Collateral held that relates to OTC derivatives is primarily cash, which is recognised by KBC on the balance sheet (and is not included in the table).
- There is an obligation to return collateral held (which may be sold or repledged in the absence of default by the owners) in its original form, or, where necessary, in cash

Collateral held (which may be sold or repledged in the absence of default by the owner)

	Fair value of collateral held		Fair value of collateral sold/repledged	
	31-12-2006	31-12-2007	31-12-2006	31-12-2007
Financial assets	31 077	41 830	8 108	15 472
Equity instruments	174	245	0	0
Debt instruments	30 747	41 207	8 108	15 472
Loans & advances	14	197	0	0
Cash	142	182	0	0
Non-financial assets	0	0	0	0
Property and equipment	0	0	0	0
Investment property	0	0	0	0
Other	0	0	0	0

- Collateral obtained by taking possession is not material.

Note 17: Financial assets and liabilities, breakdown by portfolio and remaining term to maturity

ASSETS (In millions of EUR)	Held for trading	Designa-ted at fair value through profit or loss*	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Measured at amortised cost	Total
31-12-2006								
Not more than one year	21 400	17 313	4 837	50 388	1 005	-	-	94 944
More than one but not more than five year	3 104	10 437	12 050	17 283	5 103	-	-	47 977
More than five years	9 403	18 508	10 784	44 990	3 205	-	-	86 889
Without maturity	33 117	0	1 424	1 090	0	325	-	35 956
Total carrying value	67 024	46 258	29 095	113 751	9 313	325	-	265 766
31-12-2007								
Not more than one year	23 731	23 671	2 997	58 577	2 023	-	-	110 999
More than one but not more than five year	3 353	5 875	11 952	24 320	3 891	-	-	49 391
More than five years	7 472	6 423	10 655	67 341	3 382	-	-	95 273
Without maturity	38 495	15	939	1 066	0	524	-	41 039
Total carrying value	73 051	35 985	26 543	151 304	9 296	524	-	296 702

* Designated at fair value through profit or loss.

LIABILITIES (In millions of EUR)	Held for trading	Designa-ted at fair value through profit or loss*	Available for sale	Loans and receivables	Held to maturity	Hedging derivatives	Measured at amortised cost	Total
31-12-2006								
Not more than one year	10 784	40 744	-	-	-	-	120 093	171 620
More than one but not more than five year	1 657	3 143	-	-	-	-	15 890	20 690
More than five years	842	3 546	-	-	-	-	6 004	10 392
Without maturity	23 598	134	-	-	-	49	30 125	53 906
Total carrying value	36 880	47 567	-	-	-	49	172 112	256 608
31-12-2007								
Not more than one year	10 520	31 286	-	-	-	-	149 854	191 660
More than one but not more than five year	3 038	1 472	-	-	-	-	21 105	25 615
More than five years	1 968	4 308	-	-	-	-	9 574	15 850
Without maturity	26 016	16	-	-	-	118	27 894	54 044
Total carrying value	41 542	37 082	-	-	-	118	208 427	287 170

* Designated at fair value through profit or loss.

Note 18: Impairment on financial assets that are available for sale

In millions of EUR	2006 Fixed-income securities	2006 Shares	2007 Fixed-income securities	2007 Shares
Opening balance	6	90	7	55
Movements with an impact on results				
Impairment recognised	0	3	8	43
Impairment reversed	0	0	0	0
Movements without an impact on results				
Write-offs	0	0	0	0
Change in the scope of consolidation	0	0	0	6
Other	0	- 38	- 1	21
Closing balance	7	55	13	124

Note 19: Impairment on financial assets held to maturity

In millions of EUR	2006 Fixed-income securities	2007 Fixed-income securities
Opening balance	0	1
Movements with an impact on results		
Impairment recognised	0	0
Impairment reversed	0	- 1
Movements without an impact on results		
Write-offs	0	0
Changes in the scope of consolidation	0	0
Other	1	0
Closing balance	1	0

Note 20: Impairment on loans and receivables (balance sheet)

In millions of EUR	31-12-2006	31-12-2007
Total	2 155	2 128
Breakdown by type		
Specific impairment, on-balance-sheet lending	1 866	1 859
Specific impairment, off-balance-sheet credit commitments	67	84
Portfolio-based impairment	222	185
Breakdown by counterparty		
Impairment for loans and advances to banks	0	6
Impairment for loans and advances to customers	2 075	2 015
Specific and portfolio based impairment, off-balance-sheet credit commitments	80	108

MOVEMENTS	Specific impairment, on-balance-sheet lending	Specific impairment, off-balance-sheet credit commitments	Portfolio-based impairments	Total
Opening balance 1-1-2006	2 361	60	245	2 665
Movements with an impact on result				
Loan loss expenses	721	49	117	886
Loan loss recoveries	- 544	- 41	- 126	- 710
Movements without an impact on result				
Write-offs	- 523	0	- 1	- 524
Changes in the scope of consolidation	3	0	- 4	- 1
Other	152	- 1	- 8	- 161
Closing balance 31-12-2006	1 866	67	222	2 155
Opening balance 1-1-2007	1 866	67	222	2 155
Movements with an impact on result				
Loan loss expenses	643	62	173	878
Loan loss recoveries	- 475	- 44	- 211	- 730
Movements without an impact on result				
Write-offs	- 235	- 1	0	- 235
Changes in the scope of consolidation	59	0	0	59
Other	1	0	2	2
Closing balance 31-12-2007	1 859	84	185	2 128

● Note 21: Derivative financial instruments

In millions of EUR	Held for trading				Fair value hedge				Cash flow hedge*				Portfolio hedge			
	Carrying value		Notional amount		Carrying value		Notional amount		Carrying value		Notional amount		Carrying value		Notional amount	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
31-12-2006																
Total	16 851	23 558	891 337	912 127	4	11	222	217	133	26	5 426	5 363	188	13	12 733	12 785
Breakdown by type																
Interest rate contracts	5 388	8 623	553 040	560 990	4	2	82	75	65	23	4 083	4 132	188	13	12 733	12 785
Interest rate swaps	4 790	8 052	480 359	476 610	4	2	82	75	65	23	4 083	4 132	188	13	12 733	12 785
Forward rate agreements	20	21	21 817	20 030	0	0	0	0	0	0	0	0	0	0	0	0
Futures	31	0	11 361	20 144	0	0	0	0	0	0	0	0	0	0	0	0
Options	482	340	38 688	42 099	0	0	0	0	0	0	0	0	0	0	0	0
Forwards	65	210	815	2 106	0	0	0	0	0	0	0	0	0	0	0	0
Foreign exchange contracts	1 252	1 240	179 537	180 171	0	8	140	142	68	3	1 343	1 231	0	0	0	0
Forward foreign exchange operations/Currency forwards	505	431	100 786	101 442	0	0	0	0	1	0	14	14	0	0	0	0
Currency and interest rate swaps	564	578	54 727	54 678	0	8	140	142	62	3	1 166	1 075	0	0	0	0
Futures	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Options	182	231	24 023	24 051	0	0	0	0	6	1	163	143	0	0	0	0
Equity contracts	9 008	13 298	60 074	70 818	0	0	0	0	0	0	0	0	0	0	0	0
Equity swaps	2 363	676	53 922	53 922	0	0	0	0	0	0	0	0	0	0	0	0
Forwards	2	4	81	116	0	0	0	0	0	0	0	0	0	0	0	0
Futures	64	25	1 378	1 118	0	0	0	0	0	0	0	0	0	0	0	0
Options	5 468	12 019	37 417	47 856	0	0	0	0	0	0	0	0	0	0	0	0
Warrants	1 111	575	693	1 224	0	0	0	0	0	0	0	0	0	0	0	0
Credit contracts	1 147	359	65 173	66 645	0	0	0	0	0	0	0	0	0	0	0	0
Credit default swaps	1 147	359	65 173	66 645	0	0	0	0	0	0	0	0	0	0	0	0
Credit spread options	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total return swaps	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Commodity and other contracts	57	38	95	85	0	0	0	0	0	0	0	0	0	0	0	0

* Including hedges of a net investment in a foreign operation

	Held for trading				Fair value hedge				Cash flow hedge*				Portfolio hedge			
	Carrying value		Notional amount		Carrying value		Notional amount		Carrying value		Notional amount		Carrying value		Notional amount	
In millions of EUR	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
31-12-2007																
Total	21 503	25 828	1 051 666	1 039 677	32	20	1 933	1 927	269	89	11 912	11 749	223	9	11 862	11 862
Breakdown by type																
Interest rate contracts	5 403	7 467	648 680	643 737	31	15	1 804	1 804	197	81	10 451	10 451	223	9	11 862	11 862
Interest rate swaps	4 815	6 943	554 908	554 314	31	15	1 804	1 804	197	81	10 451	10 451	223	9	11 862	11 862
Forward rate agreements	49	43	33 957	29 042	0	0	0	0	0	0	0	0	0	0	0	0
Futures	25	2	9 722	9 626	0	0	0	0	0	0	0	0	0	0	0	0
Options	514	471	47 538	50 371	0	0	0	0	0	0	0	0	0	0	0	0
Forwards	0	9	2 555	384	0	0	0	0	0	0	0	0	0	0	0	0
Foreign exchange contracts	1 360	1 356	209 568	211 222	0	5	129	122	73	8	1 461	1 299	0	0	0	0
Forward foreign exchange operations/Currency forwards	443	445	116 667	118 195	0	0	7	0	0	0	20	20	0	0	0	0
Currency and interest rate swaps	659	656	64 890	65 239	0	5	122	122	66	8	1 276	1 134	0	0	0	0
Futures	0	0	14	14	0	0	0	0	0	0	0	0	0	0	0	0
Options	259	255	27 998	27 774	0	0	0	0	6	1	166	145	0	0	0	0
Equity contracts	9 452	13 826	60 965	58 375	0	0	0	0	0	0	0	0	0	0	0	0
Equity swaps	1 911	290	32 363	32 368	0	0	0	0	0	0	0	0	0	0	0	0
Forwards	8	1	10	184	0	0	0	0	0	0	0	0	0	0	0	0
Futures	21	31	1 098	338	0	0	0	0	0	0	0	0	0	0	0	0
Options	7 277	12 909	26 628	25 028	0	0	0	0	0	0	0	0	0	0	0	0
Warrants	234	594	867	457	0	0	0	0	0	0	0	0	0	0	0	0
Credit contracts	5 060	3 165	132 287	126 148	0	0	0	0	0	0	0	0	0	0	0	0
Credit default swaps	5 060	3 165	132 287	126 148	0	0	0	0	0	0	0	0	0	0	0	0
Credit spread options	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total return swaps	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Commodity and other contracts	228	15	166	195	0	0	0	0	0	0	0	0	0	0	0	0

* Including hedges of a net investment in a foreign operation

- Compared with the presentation in the previous annual report, a number of items have been reclassified. The main reclassification relates to the separation of credit derivatives from interest rate contracts.
- 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:
  - Portfolio hedges 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.
  - Financial assets and liabilities designated at fair value through profit or loss (the so-called '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.

    Moreover, the fair value option is used for certain financial liabilities with embedded derivatives whose economic risk and characteristics are closely related to those of the host contract (some IFIMA issues), which would otherwise give rise to an accounting mismatch with the hedging instruments.
- In addition, KBC uses micro-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 because 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.
  - Hedges of net investments in foreign operations. The exchange risk attached to foreign-currency investments is hedged by attracting funding in the currency concerned at the level of the investing entity.
- As regards choosing between one or other of the above hedge accounting techniques, generally one of the micro-hedging techniques that must be documented individually is used for large individual transactions that can clearly be separated out. For the purposes of ALM, which by definition is macro-management, the decision was taken to make use of the possibilities specifically provided for under IAS 39, namely the 'fair value option and the portfolio hedge of interest rate risk' according to 'the carved-out version'.
- As regards the relationship between risk management and hedge accounting policy, 'economic' management is given priority and the risks have to be hedged in accordance with the general ALM framework. It is then decided what the most efficient option is for limiting (any) resulting accounting mismatch using one of the above hedging techniques.
- The breakdown of the estimated future cashflows from cashflow hedging derivatives by time bucket was as follows at year-end 2007 (in millions of EUR, positive numbers represent a cash-inflow, negative numbers represent a cash-outflow):
  - not more than three months: 65
  - more than three but not more than six months: -10
  - more than six but not more than twelve months: 12
  - more than one but not more than two years: -18
  - more than two but not more than five years: -23
  - more than five years: 110

Note 22: Other assets

In millions of EUR	31-12-2006	31-12-2007
Total	1 634	1 618
Breakdown by type	1 634	1 618
Called capital as yet unpaid	0	0
Income receivable (other than interest income from financial assets)	70	134
Other	1 564	1 484

Note 23: Tax assets and tax liabilities

In millions of EUR	31-12-2006	31-12-2007
CURRENT TAXES		
Current tax assets	117	102
Current tax liabilities	381	388
DEFERRED TAXES	451	477
Tax assets by type of temporary difference	1 068	1 341
Employee benefits	247	237
Losses carried forward	15	17
Tangible and intangible fixed assets	46	61
Provisions for risks and charges	35	42
Impairment for losses on loans and advances	208	218
Financial instruments at fair value through profit or loss and fair value hedges	202	275
Fair value adjustments, available-for-sale assets, cash flow hedges and hedges of net investments in foreign entities	244	397
Technical provisions	0	0
Other	72	94
Unused tax losses and unused tax credits	0	0
Deferred tax liabilities by type of temporary difference	617	864
Employee benefits	3	5
Losses carried forward	3	2
Tangible and intangible fixed assets	58	78
Provisions for risks and charges	1	19
Impairment for losses on loans and advances	82	105
Financial instruments at fair value through profit or loss and fair value hedges	95	174
Fair value adjustments, available-for-sale assets, cash flow hedges and hedges of net investments in foreign entities	292	373
Technical provisions	0	0
Other	81	107
Recognised in the balance sheet as follows:		
Deferred tax assets	521	556
Deferred tax liabilities	70	79

- The total net increase in deferred taxes came to 26 million euros, which can be broken down as follows:
  - a 273-million-euro increase in deferred tax assets
  - a 247-million-euro increase in deferred tax liabilities
- The 273-million-euro increase in deferred tax assets is accounted for mainly by:
  - the increase via the income statement: + 81 million euros, due primarily to:
    - losses carried forward: +10 million euros.
    - tangible and intangible fixed assets: +14 million euros.
    - impairment for losses on loans and advances: -7 million euros.
    - financial instruments at fair value through profit or loss and fair value hedges: +68 million euros.
  - the increase in deferred tax assets consequent on the drop in the market value of available-for-sale securities. +123 million euros.
  - the remaining 69-million-euro increase is accounted for primarily by changes in the scope of consolidation, translation differences and other items.
- The 247-million-euro increase in deferred tax liabilities is made up primarily of the following:
  - the increase via the income statement: + 159 million euros, due primarily to:
    - tangible and intangible fixed assets: +23 million euros.
    - provisions for risks and charges: +18 million euros.
    - impairment for losses on loans and advances: +27 million euros.
    - financial instruments at fair value through profit or loss and fair value hedges: +80 million euros.
  - the increase in positive fair value changes in cashflow hedges: +37 million euros;

- o the remaining 49-million-euro increase is accounted for mainly by changes in the scope of consolidation, translation differences and other items.

Note 24: Investments in associated companies

In millions of EUR	31-12-2006	31-12-2007
Total	535	646
Overview of investments including goodwill		
NLB	496	568
Other	39	78
Goodwilll on associated companies		
Gross amount	210	210
Accumulated impairment	0	0
Breakdown by type		
Unlisted	535	646
Listed	0	0
Fair value of investments in listed associated companies	0	0

MOVEMENTS	31-12-2006	31-12-2007
Opening balance (January, 1)	839	535
Acquisitions	0	69
Carrying value, transfers	- 13	0
Share in the result for the period	43	59
Dividends paid	- 15	- 20
Share of gains and losses not recognized in the income statement	1	1
Translation differences	- 3	1
Changes in goodwill	0	0
Transfer to non-current assets held for sale	0	0
Changes in scope	- 328	0
Other movements	10	0
Closing balance (December, 31)	535	646

- 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.
- For an overview of financial information on associated companies, see Note 35.
- 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).

Note 25: Property and equipment and investment property

In millions of EUR	31-12-2006	31-12-2007
Property and equipment	1 544	1 760
Investment property	225	448
Rental income	17	29
Direct operating expenses from investments generating rental income	2	3
Direct operating expenses from investments not generating rental income	0	14

MOVEMENTS TABLE	Land and buildings	IT equipment	Other equipment	Total property and equipment	Investment property
2006					
Opening balance	1 063	38	348	1 449	158
Acquisitions	56	15	333	404	0
Disposals	- 54	0	- 95	- 149	- 1
Depreciation	- 52	- 27	- 78	- 157	- 5
Impairment					
Recognised	- 5	0	0	- 5	0
reversed	15	0	0	15	0
Transfer to or from non-current assets held for sale and disposal groups	0	0	0	0	0
Translation differences	13	1	7	21	0
Changes in the scope of consolidation	2	4	31	37	48
Other movements	- 21	6	- 57	- 72	26
Closing balance	1 017	37	490	1 544	225
Of which: accumulated depreciation and impairment	689	218	513	1 420	25
Of which expenditure on items in the course of construction	0	0	131	131	-
Of which finance lease as a lessee	0	0	22	22	-
Fair value 31-12-2006	-	-	-	-	258
2007					
Opening balance	1 017	37	490	1 544	225
Acquisitions	116	45	156	317	32
Disposals	- 29	- 2	- 86	- 118	0
Depreciation	- 60	- 30	- 75	- 166	- 10
Impairment					
Recognised	0	0	0	0	- 9
Reversed	0	0	0	0	0
Transfer to or from non-current assets held for sale and disposal groups	0	0	0	0	59
Translation differences	10	0	5	15	4
Changes in scope of consolidation	85	5	8	98	55
Other movements	144	6	- 82	69	91
Closing balance	1 283	62	415	1 760	448
Of which: accumulated depreciation and impairment	774	246	174	1 194	21
Of which expenditure on items in the course of construction	25	0	17	42	-
Of which finance lease as a lessee	4	0	0	4	-
Fair value 31-12-2007	-	-	-	-	449

- KBC applies the following annual rates of depreciation to property, equipment and investment property: between 3% and 10% for land and buildings, between 30% and 33% for IT equipment, between 10% and 33% for other equipment, and between 3% and 5% for investment property.
- There are no material obligations to acquire property or equipment. Nor are there any material restrictions on title, and property and equipment pledged as security for liabilities.
- The investment property is valued by an independent expert, based primarily on:
  - the capitalisation of the estimated rental value;
  - 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 26: Goodwill and other intangible assets

In millions of EUR	Goodwill	Software developed inhouse	Software developed externally	Other	Total
2006					
Opening balance	259	0	97	3	360
Acquisitions	383	18	22	22	447
Disposals	0	0	- 1	- 8	- 9
Adjustment resulting from subsequent identification	0	0	0	0	0
Amortisation	0	0	- 41	- 2	- 43
Impairment					
Recognised	0	0	- 1	0	- 1
Reversed	0	0	0	0	0
Transfer to or from non-current assets held for sale and disposal groups	0	0	0	0	0
Translation differences	26	- 1	1	1	27
Changes in the scope of consolidation	0	0	0	0	0
Other movements	41	0	1	10	52
Closing balance	709	17	79	27	832
Of which: accumulated amortisation and impairment	0	12	295	21	328
2007					
Opening balance	709	17	79	27	832
Acquisitions	1 045	1	40	31	1 118
Disposals	0	0	- 3	0	- 4
Adjustment resulting from subsequent identification	0	0	0	0	0
Amortisation	0	- 3	- 38	- 5	- 46
Impairment					
Recognised	0	- 1	0	- 1	- 2
Reversed	0	0	0	0	0
Transfer to or from non-current assets held for sale and disposal groups	0	0	0	0	0
Translation differences	- 12	- 1	1	- 1	- 13
Changes in the scope of consolidation	0	0	1	53	53
Other movements	68	- 4	- 8	15	70
Closing balance	1 810	9	71	117	2 008
Of which: accumulated amortisation and impairment	0	6	262	23	291

- The ‘goodwill’ column 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 on goodwill under IAS 36 is recognised in profit or loss if the recoverable amount 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 discounted cash flow analysis) and the fair value (calculated based on multiple analysis, regression analysis, etc.) less costs to sell.
  - The discounted cash flow method calculates the recoverable amount of an investment as the present value of all future free cashflows of the business. This method is based on long-term projections about the company’s business and the resulting cashflows. The present value of these future cashflows is calculated using an annual discount rate. Free cashflows of banks and insurance companies are the dividends that can be paid out to the company’s shareholders, account taken of the minimum capital requirements.
  - The multiple-analysis method calculates the recoverable amount of an investment relative to the value of comparable companies. The value is determined on the basis of relevant ratios between the value of the comparable company and the carrying value, or profit, for instance, of that company. For the purposes of comparison, account is taken of listed companies (where value is equated to market capitalisation) and of companies involved in mergers or acquisitions (where the value is equated to the sales price).
  - The regression analysis method calculates the recoverable amount of an investment using a regression analysis of comparable listed companies. For banks, account is taken primarily of the relationship between market capitalisation, net asset value and profitability. Statistical analysis has shown that a strong correlation exists between these parameters. It is assumed that a company with a comparable net asset value and comparable profitability is comparable in value.

- At year-end 2007, goodwill related primarily to Absolut Bank and its subsidiaries (516 million euros), CSOB and its subsidiaries (308 million euros), EIBank (281 million euros), K&H Bank (271 million euros), KBC Asset Management NV (115 million euros) and Kredyt Bank and its subsidiaries (94 million euros). At year-end 2006, goodwill had been accounted for primarily by K&H Bank (273 million euros), CSOB and its subsidiaries (178 million euros), KBC Asset Management NV (115 million euros), and Kredyt Bank and its subsidiaries (101 million euros).

Note 27: Provisions for liabilities and charges

In millions of EUR	Provision for restructu-ring	Provision for taxes and pending legal disputes	Other	Subtotal	Impairment, off-balance-sheet credit commit-ments	Total
2006						
Opening balance	14	221	92	326	70	396
Movements with an impact on result						
Amounts allocated	4	20	20	45	67	111
Amounts used	0	- 21	- 6	- 27	0	- 27
Unused amounts reversed	- 3	- 46	- 1	- 50	- 57	- 107
Other movements	- 2	42	- 6	34	- 1	33
Closing balance	12	215	99	327	80	407
2007						
Opening balance	12	215	99	327	80	407
Movements with an impact on result						
Amounts allocated	1	64	13	78	79	157
Amounts used	- 2	- 18	- 64	- 85	0	- 85
Unused amounts reversed	0	- 18	- 2	- 21	- 53	- 74
Other movements	- 3	10	- 14	- 6	2	- 5
Closing balance	7	253	32	293	108	401

- Restructuring provisions were set aside mainly in a number of Central and Eastern European subsidiaries of KBC Bank.
- 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 legal disputes pending are discussed below. Claims filed against KBC group companies are – in keeping with IFRS rules – treated on the basis of their risk assessment (‘probable’, ‘possible’, ‘remote’). Provisions are set aside for ‘probable outflow’ cases (see ‘Notes on the accounting policies’).
  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).
  All other claims (‘remote 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 has also provided information on the current status of the most important cases in this category.

  The main cases are as follows: The information provided is limited in order not to prejudice the position of the group in ongoing litigation.
  - Probable outflow:
    - 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. On balance, 51 million euros’ worth of 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 nineteen cases. In addition, KB Consult has been placed under suspicion by an investigating magistrate. A provision of 40 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 preclude any further involvement with these parties.

- Possible outflow:
  - In 2002, a 100-million-euro claim was filed against KBC Bank by the shareholders of a holding company that had wholly owned NV Transport Coulier, a major transport firm in the petrochemical sector declared bankrupt in 1992. According to the claimants, the bank made various errors that led to the bankruptcy of the firm. On 14 October 2005, the court issued a decision, declaring the claims inadmissible. This decision was appealed on 30 June 2006, but no ruling can be expected before 2009.
- Remote outflow:
  - On 11 January 2008, the Brussels court sitting in chambers rendered its decision on the inquiry instituted in mid-1996 relating to the alleged co-operation by (former) directors and members of staff of KBC Bank and Kredietbank SA Luxembourgeoise (KBL) in tax evasion committed by customers of KBC Bank and KBL, ultimately deciding to refer only eleven of the people who had previously been placed under suspicion in the case to the criminal court for trial. All the other persons placed under suspicion have had charges dismissed against them because the evidence was insufficient or the period of prescription had expired. The court sitting in chambers dismissed nearly all of the original allegations of money laundering by (former) KBC/KBL employees. Of the (former) KBC/KBL employees, one person appealed his referral for trial, and the Public Prosecutor appealed the discontinuation of criminal proceedings against three persons. After the legal proceedings before the Indictment Division have been completed, in the end, it is only the criminal court which can decide, based on the merits of the case, whether these persons are guilty or whether they should be acquitted.
  - ČSOB (and KBC Bank in one case) is involved in a number of court cases relating to the Agreement on Sale of Enterprise concluded on 19 June 2000 between Investiční a Poštovní banka (IPB) and ČSOB and to the guarantees provided in this respect by the Czech Republic and the Czech National Bank. In one of these cases, ČSOB initiated arbitration proceedings in respect of the above guarantees at the International Chamber of Commerce on 13 June 2007 against the Czech Republic concerning payment of 62 million euros plus interest. The Czech government has filed a counterclaim, provisionally estimated at 1 billion euros plus interest. Having examined the matter, internationally renowned law firms have, in formal legal opinions, come to the conclusion that the counterclaim is unfounded.

Note 28: Other liabilities

In millions of EUR	31-12-2006	31-12-2007
Total	4 534	5 519
Breakdown by type	4 534	5 519
Retirement benefit plans or other employee benefits	1 224	1 420
Accrued charges (other than from interest expenses on financial liabilities)	756	1 969
Other	2 554	2 130

- For more information on retirement benefit plans or other employee benefits, see Note 29.

● Note 29: Retirement benefit obligations

In millions of EUR	31-12-2006	31-12-2007
DEFINED BENEFIT PLANS		
Reconciliation of defined benefit obligations		
Defined benefit obligations at the beginning of the period	1 506	1 484
Current service Cost	91	85
Interest cost	61	71
Plan amendments	7	8
Actuarial gain/(loss)	- 119	- 83
Benefits paid	- 67	- 88
Exchange differences	0	- 5
Curtailment	0	0
Changes in the scope of consolidation	0	0
Other	5	56
Defined benefit obligation at end of the period	1 484	1 528
Reconciliation of the fair value of plan assets		
Fair value of plan assets at the beginning of the period	1 156	1 261
Actual return on plan assets	101	0
Employer contributions	55	55
Plan participant contributions	15	16
Benefits paid	- 65	- 85
Exchange differences	0	- 4
Settlements	0	0
Changes in the scope of consolidation	0	0
Other	- 1	9
Fair value of plan assets at the end of the period	1 261	1 252
of which financial instruments issued by the Bank	11	10
Reconciliation of the fair value of reimbursement rights		
Fair value of reimbursement rights at the beginning of the period	26	37
Actual return on reimbursement rights	2	2
Employer contributions	3	17
Plan participant contributions	0	0
Benefits paid	-2	- 3
Exchange differences	0	0
Settlements	0	0
Changes in the scope of consolidation	0	0
Other	8	2
Fair value of reimbursement rights at the end of the period	37	55
of which financial instruments issued by the Bank	0	0
Funded Status		
Plan assets / reimbursement rights in excess of defined benefit obligations	- 186	- 222
Unrecognised net actuarial gains	- 263	- 243
Unrecognised transaction amount	0	0
Unrecognised past service cost	0	0
Unrecognised assets	- 2	- 10
Unfunded accrued/prepaid pension cost	- 451	- 475
Movement in net liabilities or net assets		
Unfunded accrued/prepaid pension cost at the beginning of the period	- 430	- 451
Net periodic pension cost	- 78	- 100
Employer contributions	58	72
Exchange differences	0	3
Changes in the scope of consolidation	0	0
Other	- 1	1
Unfunded accrued/prepaid pension cost at the end of the period	- 451	- 475

Amounts recognised in the balance sheet		
Prepaid pension cost	6	9
Reimbursement right	- 22	- 7
Accrued pension liabilities	- 435	- 477
Unfunded accrued/prepaid pension cost	- 451	- 475
Amounts recognised in the income statement		
Current service cost	91	85
Interest cost	61	71
Expected return on plan assets	- 60	- 72
Expected return on reimbursement rights	- 1	- 2
Adjustments to limit prepaid pension cost	1	2
Amortisation of unrecognized prior service costs	7	64
Amortisation of unrecognized net (gains)/losses	- 2	- 32
Employee contributions	- 14	- 17
Other	- 5	1
Curtailments	0	0
Settlements	0	0
Changes in the scope of consolidation	0	0
Actuarially determined net periodic pension cost*	78	100
Actual return on plan assets (in %)	9%	0%
Actual return on reimbursement rights (in %)	6%	5%
Principal actuarial assumptions used (based on weighted averages)		
Discount rate	4,0%	4,6%
Expected rate of return on plan assets	5,3%	5,3%
Expected rate of return on reimbursement rights	4,4%	4,6%
Expected rate of salary increase	3,4%	3,3%
Rate of pension increase	0,3%	0,4%
DEFINED CONTRIBUTION PLANS		
Expenses for defined contribution plans	1	2

* Included under 'staff expenses' (see 'Note 9 Operating expenses)

- The pension claims of the staff of various KBC group companies are covered by pension funds and group insurance schemes, most of which are defined benefit plans. More specifically, retirement benefit obligations include a defined benefit plan in the form of a pension fund for KBC Bank (and a large number of subsidiaries). The assets are managed by KBC Asset Management. The benefits are dependent on, among other things, 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.
- Past figures for the main items shown in the table (figures for year-end 2005, 2006 and 2007, in millions of EUR):
  - Defined benefit obligations: 1 506, 1 484, 1 528;
  - Fair value of plan assets: 1 182, 1 298, 1 307;
  - Unfunded accrued or prepaid pension cost: -430, -451, -475.
- The actual return on 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 2007, the plan assets of KBC Bank’s pension fund were as follows: 51% shares, 39% bonds, 8% real estate and 2% cash (in 2006: 53%, 36%, 10% and 1%, respectively);
- For the KBC pension fund, a contribution of 49 million euros is expected for 2008.

- Changes in the assumptions used in the actuarial calculation of plan assets and gross liabilities from defined benefit plans had the following impact on plan assets (a plus sign indicates a positive impact, a minus sign a negative impact): -23 million euros in 2006, 0 million euros in 2007. The impact on pension liabilities came to +9 million euros, +16 million euros, -40 million euros and -5 million euros, respectively.
- There is no contractual agreement or fixed base for taxing individual KBC entities that have signed up for the KBC pension fund for the net expense arising from the overall defined-benefit scheme.

Note 30: Parent shareholders' equity

In number of shares	31-12-2006	31-12-2007
Total number of shares issued and fully paid up	389 955 122	417 232 809
Breakdown by type		
Ordinary shares	385 054 107	412 331 794
Other equity instruments	4 901 015	4 901 015
of which ordinary shares that entitle the holder to a dividend payment	389 955 122	417 232 809
of which treasury shares	0	0
Other information		
Par value per share (in euros)	9,77	9,77
Number of shares issued but not fully paid up	0	0

MOVEMENTS, in number of shares	Ordinary shares	Other equity instruments	Total
2006			
Opening balance	385 054 107	12 787 451	397 841 558
Issue of shares	0	0	0
Conversion of convertible bonds into shares	0	0	0
Other movements	0	- 7 886 436	- 7 886 436
Closing balance	385 054 107	4 901 015	389 955 122
2007			
Opening balance	385 054 107	4 901 015	389 955 122
Issue of shares	27 277 687	0	27 277 687
Conversion of convertible bonds into shares	0	0	0
Other movements	0	0	0
Closing balance	412 331 794	4 901 015	417 232 809

- The share capital of KBC Bank NV consists of ordinary shares of no nominal value and mandatorily convertible bonds (MCBs – see 'Other equity instruments' in the table). All ordinary shares carry voting rights and each share represents one vote. No participation certificates or non-voting shares have been issued.
- At 31 December 2007, there were 412 331 794 ordinary shares in circulation. Of these, KBC Group NV and KBC Insurance NV respectively hold 412 331 793 shares and 1 share.
- At 31 December 2007, there were no freely convertible bonds outstanding.
- Preference shares are not included in 'Parent shareholders' equity', but in 'Minority interests'.
- For information on stock option plans, see Note 9.

Other notes

Note 31: Commitments and contingent liabilities

In millions of EUR	31-12-2006	31-12-2007
CREDIT COMMITMENTS - undrawn amount		
– given	39 313	41 403
1) irrevocable	29 893	34 634
2) revocable	9 420	6 769
– received	6	273
FINANCIAL GUARANTEES		
– given	11 639	13 734
– guarantees received / collateral	127 511	166 160
1) for impaired and past due assets	3 180	4 617
non-financial assets	3 039	4 304
financial assets	141	313
2) for assets that are not impaired or past due assets	124 331	161 543
non-financial assets	83 312	100 967
financial assets	41 019	60 577
OTHER COMMITMENTS		
– given	87	93
1) irrevocable	71	75
2) revocable	16	18
– received	0	0

- The fair value of financial guarantees is based on the available market value, while the fair value of non-financial guarantees is based on the value when the loan is taken out (for example, the mortgage registration amount) or when the personal guarantee is established.
- KBC Bank irrevocably guarantees all sums, indebtedness, obligations and liabilities outstanding on 31 December 2007 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.
    - KBC Asset Management International Limited
    - KBC Asset Management Limited
    - KBC Financial Services (Ireland) Limited
    - KBC Fund Managers Limited

Note 32: Leasing

In millions of EUR	31-12-2006	31-12-2007
Finance lease receivables		
Gross investment in finance leases, receivable	6 772	7 873
At not more than one year	2 097	2 385
At more than one but not more than five years	2 893	4 087
At more than five years	1 782	1 401
Unearned future finance income on finance leases	690	988
Net investment in finance leases	6 031	6 883
At not more than one year	1 929	2 101
At more than one but not more than five years	2 568	3 726
At more than five years	1 534	1 055
Of which: unguaranteed residual values accruing to the benefit of the lessor	10	9
Accumulated impairment for uncollectable lease payments receivable	60	35
Contingent rents recognised in income	15	17
Operating lease receivables		
Future aggregate minimum rentals receivable under non-cancellable leases :	50	91
Not more than one year	13	26
More than one but not more than five years	29	55
More than five years	8	9
Contingent rentals recognised in income	0	0

- There are no significant cases in which KBC is the lessee in operating leases.
- Pursuant to IFRIC 4, no operating or finance leases contained in other contracts were identified.
- Finance leasing: most finance leasing is carried out via separate companies operating mainly in Western and Central and Eastern Europe. KBC offers finance lease products ranging from equipment leasing, to real estate leasing and vendor finance to car leasing. While equipment leasing is typically commercialised in Belgium through KBC group’s branch network, vendor finance is designed for producers and suppliers, and car leasing is sold both through the branch networks of KBC Bank and CBC Banque and by an in-house sales team. Typical vendor finance transactions involve EDP hardware, EDP software, medical equipment, containers, trailers and other capital goods. Transactions with non-European customers are also concluded from time to time.

Note 33: Related-party transactions

In millions of EUR	31-12-2006						31-12-2007				
	Parent	Subsidiaries	Associates	Joint Ventures	Other related parties	Total	Parent	Subsidiaries	Associates	Other related parties	Total
TRANSACTIONS WITH RELATED PARTIES, EXCLUDING DIRECTORS											
Assets	99	45	500	45	1 373	2 063	88	815	733	2 186	3 822
Loans and advances	98	21	500	45	1 364	2 029	77	40	679	1 176	1 972
Current accounts	1	4	416	5	217	643	0	0	0	122	122
Term loans	97	17	84	41	1 146	1 386	77	40	678	1 054	1 850
Finance leases	0	0	0	0	0	0	0	0	0	0	0
Consumer credit	0	0	0	0	0	0	0	0	0	0	0
Mortgage loans	0	0	0	0	0	0	0	0	0	0	0
Equity instruments	1	24	0	0	9	34	9	114	6	145	274
Trading securities	1	13	0	0	9	23	7	0	6	133	145
Investment securities	0	11	0	0	0	11	3	114	0	12	129
Other Receivables	0	0	0	0	0	0	2	661	48	865	1 576
Liabilities	1 156	34	21	2	1 879	3 091	178	548	7	5 284	6 017
Deposits	906	34	21	2	1 879	2 841	146	532	7	4 663	5 347
deposits	906	34	21	2	1 879	2 841	146	531	4	4 516	5 197
other borrowings	0	0	0	0	0	0	0	0	3	147	150
Other financial liabilities	250	0	0	0	0	250	0	2	0	347	349
Debt certificates	0	0	0	0	0	0	0	2	0	347	349
Subordinated liabilities	250	0	0	0	0	250	0	0	0	0	0
Share based payments	0	0	0	0	0	0	0	0	0	0	0
Granted	0	0	0	0	0	0	0	0	0	0	0
Exercised	0	0	0	0	0	0	0	0	0	0	0
Other liabilities	0	0	0	0	0	0	32	14	0	274	321
Income statement	11	- 27	21	1	51	57	- 4	- 33	32	36	30
Net interest income	- 7	- 47	14	1	- 34	- 73	- 40	- 30	31	- 130	- 170
Gross earned premiums	0	0	0	0	0	0	0	0	0	0	0
Dividend income	0	1	4	0	0	5	17	4	2	0	23
Net fee and commission income	2	18	0	0	66	87	2	- 8	0	147	141
Other income	16	0	3	0	18	38	17	0	0	18	36
Guarantees											
Guarantees issued by the group	0	0	0	0	0	0	0	0	0	0	0
Guarantees received by the group	0	0	0	0	0	0	0	0	0	0	0

	31-12-2006	31-12-2007
TRANSACTIONS WITH DIRECTORS		
Amount of 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 in respect of retirement pensions granted to former directors or partners on that basis	9	10
Short-term employee benefits	6	6
Post-employment benefits	2	4
defined benefit plans	2	4
defined contribution plans	0	0
Other long-term employee benefits	0	0
Termination benefits	0	0
Share-based payments	1	0
Share options, in units		
At the beginning of the period	94 400	128 200
Granted	39 600	4 600
Exercised	- 25 800	- 8 100
Change in composition of directors	20 000	0
At the end of the period	128 200	124 700
Advances and loans granted to the directors and partners	2	3

- Related-party transactions are transactions with KBC Group NV (the parent company), with subsidiaries (transactions with non-consolidated special purpose vehicles), with associated companies (chiefly NLB) and with other related parties, including the sister companies KBL EPB and KBC Insurance and transactions with KBC Ancora, Cera cvba, MRBB, the pension funds and the directors of the group.
- All related-party transactions occur ‘at arm’s length’.
- Transactions with KBC Ancora, Cera cvba, MRBB and the group’s pension funds are limited in scope.
- There were no material transactions with associated companies other than shown in the table.

● Note 34: Auditor’s remuneration

In 2007, KBC Bank NV (consolidated) paid Ernst & Young Bedrijfsrevisoren BCVBA fees of 8 373 968 euros for standard audit services. Remuneration paid for non-audit services came to 2 533 122 euros, viz:

- other certifications: 751 245 euros;
- tax advice: 535 474 euros;
- other non-audit assignments: 1 246 403 euros.

Note 35: List of subsidiaries and associated companies

KBC BANK : LIST OF CONSOLIDATED AND NON-CONSOLIDATED COMPANIES
December 31, 2007

LIST OF SUBSIDIARIES FULLY CONSOLIDATED

name of the company	registered office	identification number	share of capital held (in %)
KBC Bank NV	Brussels - BE	0462.920.226	100
AKB "Absolut Bank" (ZAO)	Moscow - RU	--	95
Absolut Capital (Luxembourg) SA	Luxembourg - LU	--	95
Absolut Capital Trust Limited	Limasol - CY	--	95
Absolut Finance SA	Luxembourg - LU	--	95
Antwerpse Diamantbank NV	Antwerp - BE	0404.465.551	100
Banque Diamantaire (Suisse) SA	Geneva - CH	--	100
CBC BANQUE SA	Brussels - BE	0403.211.380	100
CENTEA NV	Antwerp - BE	0404.477.528	99,56
Ceskoslovenska Obchodni Banka a.s.	Prague - CZ	--	100
Auxilium a.s.	Prague - CZ	--	100
Bankovni Informacni Technologie s.r.o.	Prague - CZ	--	100
Business Center s.r.o.	Bratislava - SK	--	100
Centrum Radlická a.s.	Prague - CZ	--	100
CSOB Asset Management a.s.	Prague - CZ	--	100
CSOB Property Fund a.s.	Prague - CZ	--	100
Merrion Properties a.s.	Prague - CZ	--	100
CSOB Asset Management a.s.	Bratislava - SK	--	100
CSOB Distribution a.s.	Prague - CZ	--	100
CSOB d.s.s. a.s.	Bratislava - SK	--	100
CSOB Factoring a.s.	Prague - CZ	--	100
CSOB Factoring a.s.	Bratislava - SK	--	100
CSOB Investicni Spolecnost a.s.	Prague - CZ	--	90,81
CSOB Investment Banking Service a.s.	Prague - CZ	--	100
CSOB Korporatni OPF CSOB Investicni Spolecnosti a.s.	Prague - CZ	--	100
CSOB Leasing a.s.	Prague - CZ	--	100
CSOB Leasing Pojist'ovaci Maklér s.r.o.	Prague - CZ	--	100
CSOB Leasing a.s.	Bratislava - SK	--	100
CSOB Leasing Poist'ovaci Maklér s.r.o.	Bratislava - SK	--	100
CSOB Penzijní fond Progres a.s.	Prague - CZ	--	100
CSOB Penzijní fond Stabilita a.s.	Prague - CZ	--	100
CSOB Stavebni Sporitelna a.s.	Bratislava - SK	--	100
Hypotecni Banka a.s.	Prague - CZ	--	99,87
Zemsky Penzijni fond a.s.	Prague - CZ	--	100
Economic and Investment Bank AD	Sofia - BG	--	75,58
Fin-Force NV	Brussels - BE	0472.725.639	90
IIB Bank Public Limited Company	Dublin - IE	--	100
Bencrest Properties Limited	Dublin - IE	--	100
Boar Lane Nominee (Number 1) Limited	Dublin - IE	--	100
Boar Lane Nominee (Number 2) Limited	Dublin - IE	--	100
Boar Lane Nominee (Number 3) Limited	Dublin - IE	--	100
Danube Holdings Limited	Dublin - IE	--	100
Dunroamin Properties Limited	Dublin - IE	--	100
Glare Nominee Limited	Dublin - IE	--	100
Homeloans and Finance Limited	Dublin - IE	--	100
IIB Capital Plc.	Dublin - IE	--	100
IIB Finance Limited	Dublin - IE	--	100
IIB Asset Finance Limited	Dublin - IE	--	100
IIB Commercial Finance Limited	Dublin - IE	--	100
IIB Leasing Limited	Dublin - IE	--	100
Khans Holdings Limited	Dublin - IE	--	100
Lease Services Limited	Dublin - IE	--	100

IIB Homeloans and Finance Limited	Dublin - IE	--	100
Cluster Properties Company	Dublin - IE	--	100
Demilune Limited	Dublin - IE	--	100
IIB Homeloans Limited	Dublin - IE	--	100
KBC Homeloans and Finance Limited	Dublin - IE	--	100
Premier Homeloans Limited	Surrey - GB	--	100
Staple Properties Limited	Dublin - IE	--	100
IIB Nominees Limited	Dublin - IE	--	100
Stepstone Mortgage Services Limited	Dublin - IE	--	100
Intercontinental Finance	Dublin - IE	--	100
Irish Homeloans and Finance Limited	Dublin - IE	--	100
Kalzari Limited	Dublin - IE	--	100
Linkway Developments Limited	Dublin - IE	--	100
Maurevel Investment Company Limited	Dublin - IE	--	100
Meridian Properties Limited	Dublin - IE	--	100
Merrion Commercial Leasing Limited	Surrey - GB	--	100
Merrion Equipment Finance Limited	Surrey - GB	--	100
Merrion Leasing Assets Limited	Surrey - GB	--	100
Merrion Leasing Finance Limited	Surrey - GB	--	100
Merrion Leasing Industrial Limited	Surrey - GB	--	100
Merrion Leasing Limited	Surrey - GB	--	100
Merrion Leasing Services Limited	Surrey - GB	--	100
Monastersky Limited	Dublin - IE	--	100
Needwood Properties Limited	Dublin - IE	--	100
Perisda Limited	Dublin - IE	--	100
Phoenix Funding Plc.	Dublin - IE	--	100
Quintor Limited	Dublin - IE	--	100
Rolata Limited	Douglas - IM	--	100
Wardbury Properties Limited	Dublin - IE	--	100
IIB Finance Ireland	Dublin - IE	--	100
KBC Finance Ireland	Dublin - IE	--	100
KBC Asset Management NV	Brussels - BE	0469.444.267	51,86
Bemab NV	Brussels - BE	0403.202.670	51,86
KBC Access Fund Conseil Holding SA	Luxembourg - LU	--	51,86
KBC Asset Management Limited	Dublin - IE	--	51,86
KBC Asset Management International Limited	Dublin - IE	--	51,86
KBC Asset Management (UK) Limited	London - GB	--	51,86
KBC Fund Managers Limited	Dublin - IE	--	51,86
KBC Asset Management SA	Luxembourg - LU	--	51,86
KBC Bonds Conseil Holding SA	Luxembourg - LU	--	51,86
KBC Cash Conseil Holding SA	Luxembourg - LU	--	51,86
KBC Conseil Service SA	Luxembourg - LU	--	51,86
KBC Districlick Conseil Holding SA	Luxembourg - LU	--	51,86
KBC Equity Fund Conseil Holding SA	Luxembourg - LU	--	51,86
KBC Fund Partners Conseil Holding SA	Luxembourg - LU	--	51,86
KBC Invest Conseil Holding SA	Luxembourg - LU	--	51,86
KBC Life Invest Fund Conseil Holding SA	Luxembourg - LU	--	51,86
KBC Money Conseil Holding SA	Luxembourg - LU	--	51,86
KBC Renta Conseil Holding SA	Luxembourg - LU	--	51,86
KBC Towarzystwo Funduszy Inwestycyjnych a.s.	Warsawa - PL	--	44,74
KBC Bank Deutschland AG	Bremen - DE	--	99,76
KBC Bank Funding LLC II	New York - US	--	100
KBC Bank Funding LLC III	New York - US	--	100
KBC Bank Funding LLC IV	New York - US	--	100
KBC Bank Funding Trust II	New York - US	--	100
KBC Bank Funding Trust III	New York - US	--	100
KBC Bank Funding Trust IV	New York - US	--	100
KBC Bank Nederland NV	Rotterdam - NL	--	100
Westersingel Holding BV	Rotterdam - NL	--	100
KBC Bank (Singapore) Limited	Singapore - SG	--	100
KBC Clearing NV	Amsterdam - NL	--	100
KBC Commercial Finance NV	Brussels - BE	0403.278.488	100
KBC Consumer Finance IFN sa	Bucarest - RO	--	99,95
KBC Credit Invesments NV	Brussels - BE	0887.849.512	100
KBC Dublin Capital Plc.	Dublin - IE	--	100

KBC Financial Products UK Limited	London - GB	--	100
Atomium Funding Corporation SPV	George Town - KY	--	100
Baker Street Finance Limited	Jersey - GB	--	100
Dorset Street Finance Limited	Jersey - GB	--	100
Hanover Street Finance Limited	Jersey - GB	--	100
KBC AIM Master Fund spc - KBC Diversified Fund	George Town - KY	--	98,40
KBC Asia Fund of Funds	George Town - KY	--	94,05
KBC Asia Pacific LP	George Town - KY	--	92,19
KBC Credit Arbitrage Limited	George Town - KY	--	97,70
KBC Financial Products Hong Kong Limited	Hong Kong - HK	--	100
KBC Financial Products Trading Hong Kong Limited	Hong Kong - HK	--	100
KBC Pacific Fund of Funds	George Town - KY	--	98,66
KBC Special Opportunities Fund	George Town - KY	--	100
Old Brompton Fixed Income Fund Limited	George Town - KY	--	92,50
Pembridge Square Limited	Jersey - GB	--	100
Picaros Funding Plc.	Dublin - IE	--	100
Picaros Purchasing no.3 Limited	Dublin - IE	--	100
Progress Capital Fund Limited	George Town - KY	--	97
Regent Street Finance Limited	Jersey - UK	--	100
Sydney Street Finance Limited	Jersey - UK	--	100
Vertical Lend	Melville - US	--	100
KBC Alternative Investment Management Belgium NV	Brussels - BE	0883.054.940	100
KBC Alternative Investment Management Limited	London - UK	--	100
KBC Alternative Investment Management HK Limited	Hong Kong - HK	--	100
KBC Financial Holding Inc.	Wilmington - US	--	100
Corona Delaware LLC	Delaware - US	--	100
Churchill Finance LLC	Delaware - US	--	100
KBC Financial Products (Cayman Islands) Limited "Cayman I"	George Town - KY	--	100
KBC Financial Products International Limited "Cayman III"	George Town - KY	--	100
KBC FP International VI Limited "Cayman VI"	George Town - KY	--	100
KBC Financial Products USA Inc.	New York - US	--	100
KBC FP Cayman Finance Limited "Cayman II"	George Town - KY	--	100
Midas Life Settlements LLC	Delaware - US	--	100
Nabula Holdings LLC	Delaware - US	--	100
Pacifica Group LLC	Delaware - US	--	100
Atlas Insurance Services LLC	Wisconsin - US	--	100
Certo Insurance Services LLC	Delaware - US	--	100
Devon Services LLC	Delaware - US	--	100
Dorato Insurance Services LLC	Delaware - US	--	100
Equity Key LLC	Delaware - US	--	100
Estate Planning LLC	Delaware - US	--	100
H/G II LLC	Delaware - US	--	100
Londsdale LLC	Wisconsin - US	--	100
Oceanus LLC	Wisconsin - US	--	100
Stone River Life LLC	Delaware - US	--	100
Stratford Services LLC	Wisconsin - US	--	100
Welden Insurance Services LLC	Delaware - US	--	100
Pulsar Holdings LLC	Delaware - US	--	100
Spurling I LLC	Delaware - US	--	100
Spurling II LLC	Delaware - US	--	100
Strategic Alpha Limited	George Town - KY	--	100
KBC Investments Hong Kong Limited	Hong Kong - HK	--	100
KBC Consultancy Services Korea Limited	Seoul - KR	--	100
KBC Consultancy Services (Shenzhen) Limited	Shenzhen - CN	--	100
KBC Investments Cayman Islands Limited "Cayman IV"	George Town - KY	--	100
KBC Investments Cayman Islands V Limited	George Town - KY	--	100
KBC Investments Cayman Islands VII Limited	George Town - KY	--	100
KBC Investments Cayman Islands VIII Limited	George Town - KY	--	100
Seoul Value Trust	Seoul - KR	--	100
KBC Investments Limited	London - GB	--	100
KBC International Portfolio SA	Luxembourg - LU	--	99,98
KBC Internationale Financieringsmaatschappij NV	Rotterdam - NL	--	100
KBC International Finance NV	Rotterdam - NL	--	100

KBC Lease Holding NV	Diegem - BE	0403.272.253	100
Dala Property Holding III BV	Amsterdam - NL	--	100
Sicalis NV	Amsterdam - NL	--	100
Fitraco NV	Antwerp - BE	0425.012.626	100
INK Consultanta - Broker de Asigurare SRL	Bucharest - RO	--	100
KBC Autolease NV	Diegem - BE	0422.562.385	100
KBC Bail Immobilier France sas	Paris - FR	--	100
KBC Lease Belgium NV	Leuven - BE	0426.403.684	100
KBC Lease France SA	Lyon - FR	--	100
KBC Bail France sas	Lyon - FR	--	100
KBC Lease (Nederland) BV	Bussum - Nl	--	100
Cathar BV	Bussum - Nl	--	100
Gooieen BV	Bussum - Nl	--	100
Hospiveen BV	Bussum - Nl	--	100
Mercala 1 BV	Bussum - Nl	--	100
Mercala 2 BV	Bussum - Nl	--	100
KBC Lease Polska Sp z.o.o.	Warsawa - PL	--	100
KBC Lease (UK) Limited	Surrey - GB	--	100
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 España SA	Madrid - ES	--	100
KBC Lease Italia S.p.A.	Verona - IT	--	100
KBC Lease (Luxembourg) SA	Strassen - LU	--	100
KBC Lizing Magyarország Kereskedelmi és Szolgátató Kft.	Budapest - HU	--	100
KBC Vendor Lease NV	Diegem - BE	0444.058.872	100
Romstal Leasing IFN SA	Bucharest - RO	--	99,34
Securitas sam	Nandrin - MC	--	100
KBC Peel Hunt Limited	London - GB	--	99,99
KBC Peel Hunt CFD 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
KBC Pinto Systems NV	Brussels - BE	0473.404.540	60,01
KBC Private Equity NV	Brussels - BE	0403,226,228	100
Dynaco Group NV	Moorsel - BE	0893.428.495	89,54
Dynaco Europe NV	Moorsel - BE	0439.752.567	89,54
Dynaco International NV	Moorsel - BE	0444.223.079	89,54
Dynaco USA Inc.	Northbrook - US	--	89,54
KBC ARKIV NV	Brussels - BE	0878.498.316	52
Mezzafinance NV	Brussels - BE	0453.042.260	100
Novaservis a.s.	Brno - CZ	--	94,57
Wever & Ducré Lighting Group NV	Roeselare - BE	0891.731.886	50,01
Wever & Ducré NV	Roeselare - BE	0412.881.191	50,01
Wever & Ducré GmbH	Herzogenrath - DE	--	50,01
Wever & Ducré BV	Den Haag - NL	--	50,01
Wever & Ducré Iluminacion SL	Madrid - ES	--	50,01
Wever & Ducré Asia Pacific Limited	Hong Kong - HK	--	50,01
KBC Real Estate Luxembourg SA	Luxembourg - LU	--	100
KBC Real Estate NV	Zaventem - BE	0404.040.632	73,18
Almafin Real Estate NV	Brussels - BE	0403.355.494	73,18
Immo Arenberg NV	Brussels - BE	0471.901.337	73,18
KBC Vastgoedinvesteringen NV	Brussels - BE	0455.916.925	72,44
KBC Vastgoedportefeuille België NV	Brussels - BE	0438.007.854	64,32
Novoli Investors BV	Amstelveen - NL	--	60,98
Poelaert Invest NV	Zaventem - BE	0478.381.531	73,17
Vastgoed Ruimte Noord NV	Brussels - BE	0863.201.515	73,18

KBC Securities NV	Brussels - BE	0437.060.521	100
KBC Equitas LLC	Budapest - HU	--	100
KBC Securitas a.d. Beograd	Belgrade - RS	--	100
KBC Securities Baltic Investment Company sia	Riga - LV	--	51,05
KBC Securities Ukraine LLC	Kiev - UA	--	51,05
KBC Securities Romania SA	Bucarest - RO	--	100
SAI Swiss Capital Asset Management SA	Bucarest - RO	--	100
Ligeva NV	Mortsel - BE	0437.002.519	100
Patria Finance a.s.	Prague - CZ	--	100
Patria Finance CF a.s.	Prague - CZ	--	100
Patria Finance Slovakia a.s.	Bratislava - SK	--	100
Patria Online a.s.	Prague - CZ	--	100
Patria Direct a.s.	Prague - CZ	--	100
Kereskedelmi és Hitelbank Rt.	Budapest - HU	--	100
K & H Alkusz Kft.	Budapest - HU	--	100
K & H Csoportszolgáltató Központ Kft.	Budapest - HU	--	100
K & H Equities Rt.	Budapest - HU	--	100
K & H Ertékpapir Befektetési Alapkezelö Rt.	Budapest - HU	--	100
K & H Lízingadminisztrációs Rt.	Budapest - HU	--	100
K & H Eszközfinanszirozó Rt.	Budapest - HU	--	100
K & H Eszközlizing Gép-és Thrgj. Bérleti Kft.	Budapest - HU	--	100
K & H Lizingház Rt.	Budapest - HU	--	100
K & H Pannonlizing Rt.	Budapest - HU	--	100
K & H Autófinanszirozó Pénzügyl Szolgátató Rt.	Budapest - HU	--	100
K & H Autópark Bérleti és Szolg Kft.	Budapest - HU	--	100
K & H Ingatlanlizing Kft.	Budapest - HU	--	100
K & H Lizing Rt..	Budapest - HU	--	100
Kvantum Követeléskezelõ és Befektetési Rt.	Budapest - HU	--	100
Kredyt Bank SA	Warsawa - PL	--	80
Kredyt International Finance BV	Rotterdam - Nl	--	80
Kredyt Lease SA	Warsawa - PL	--	80
Kredyt Trade Sp z.o.o.	Warsawa - PL	--	80
Reliz SA	Katowice - PL	--	80
Zagiel SA	Warsawa - PL	--	80
Loan Invest NV "Institutionele VBS naar Belgisch recht"	Brussels - BE	0889.054.884	100
Quasar Securitisation Company NV	Brussels - BE	0475.526.860	100

LIST OF SUBSIDIARIES NOT FULLY CONSOLIDATED

name of the company	registered office	identification number	share of capital held (in %)
ADB Private Equity Limited (1)	Jersey - GB	--	80
Aldersgate Finance Limited (1)	Jersey - GB	--	100
Almafin Real Estate Services NV (1)	Zaventem - B	0416.030.525	73,18
Almaloisir & Immobilier sas (1)	Nice - FR	--	73,18
Apitri NV (1)	Diegem - BE	0469.889.873	73,18
Atomium Funding LLC (1)	Delaware - US	--	100
Avebury Limited (1)	Dublin - IE	--	100
Baker Street USD Finance Limited (1)	Jersey - GB	--	100
Bankowa Polana Sp z.o.o. (1)	Warsawa - PL	--	53,60
Bankowy Fundusz Inwestycyjny Serwis Sp z.o.o. (1)	Warsawa - PL	--	80,00
Brussels North Distribution NV (1)	Brussels - BE	0476.212.887	73,18
Chiswell Street Finance Limited (1)	Jersey - GB	--	100
City Hotels NV (1)	Zaventem - BE	0416.712.394	62,57
City Hotels International NV (1)	Zaventem - BE	0449.746.735	62,57
CH Corp (1)	Rockville - US	--	62,57
Clifton Finance Street Limited (1)	Jersey - GB	--	100
Dala Beheer BV (1)	Amsterdam - NL	--	73,18
Dala Property Holding XV BV (1)	Amsterdam - NL	--	73,18

Distienen NV (1)	Zaventem - BE	0452.312.285	73,18
Dorlick Vastgoedmaatschappij NV (1)	Zaventem - BE	0434.885.345	73,18
Eurincasso s.r.o. (1)	Prague - CZ	--	100
Fidabel NV (1)	Brussels - BE	0417.309.044	0,80
Fulham Road Finance Limited (1)	Jersey - GB	--	100
Gie Groupe KBC Paris (1)	Paris - FR	--	100
Immo-Accent NV (2)	Brussels - BE	0465.538.335	73,17
Immo-Antares NV (2)	Brussels - BE	0456.398.361	69,52
Immo-Basilix NV (2)	Brussels - BE	0453.348.801	69,52
Immo-Beaulieu NV (2)	Brussels - BE	0450.193.133	36,59
Immobilière Distri-Land NV (2)	Brussels - BE	0436.440.909	64,04
Immo-Duo NV (1)	Zaventem - BE	0435.573.154	73,18
Immo Genk-Zuid NV (1)	Zaventem - BE	0464.358.497	73,18
Immo Kolonel Bourgstraat NV (2)	Brussels - BE	0461.139.879	36,59
Immolease-Trust NV (1)	Zaventem - BE	0406.403.076	73,18
Immo-Llan NV (2)	Brussels - BE	0448.079.820	99,56
Immo Lux-Airport SA (2)	Luxembourg - LU	--	48,76
Immo Marcel Thiry NV (2)	Brussels - BE	0450.997.441	69,52
Immo-North Plaza NV (2)	Brussels - BE	0462.118.688	73,17
IMMO PARIJSSTRAAT NV (1)	Leuven - BE	0439.655.765	100
Immo-Plejaden NV (2)	Brussels - BE	0461.434.344	73,17
Immo-Quinto NV (1)	Zaventem - BE	0466.000.470	73,18
Immo-Regentschap NV (2)	Brussels - BE	0452.532.714	54,88
Immo-Tres NV (1)	Zaventem - BE	0465.755.990	73,18
Immo Zenobe Gramme NV (2)	Brussels - BE	0456.572.664	73,18
KB-Consult NV (1)	Brussels - BE	0437.623.220	100
KBC Alternative Investment Management (USA) Inc. (1)	Delaware - US	--	100
KBC Broker a.d. (1)	Belgrade - RS	--	100
KBC Financial Services (Ireland) Limited (1)	Dublin - IE	--	100
KBC Group NV (1)	Brussels - BE	0403.227.515	1,08
KBC North American Finance Corporation (1)	Delaware - US	--	100
KBC Private Equity Advisory Services Limited Liability Company (1)	Budapest - HU	--	100
KBC Private Equity Advisory Services s.r.o. (1)	Prague - CZ	--	100
KBC Private Equity Advisory Services Sp.z.o.o. (1)	Warsawa - PL	--	100
KBC Private Equity Consulting S.R.L. (1)	Bucarest - RO	--	100
KBC Securities B-H a.d. Banja Luka (1)	Banjaluka - BA	--	100
KBC Securities Corporate Finance LLC (1)	Belgrade - RS	--	60
KBC Securities Montenegro a.d. Potgorica (1)	Montenegro - CS	--	100
KBC Securities Skopje a.d. Skopje (1)	Skopje - MK	--	100
KBC Structured Finance Limited (1)	Sydney - AU	--	100
KBC Vastgoed Portefeuille Nederland (1)	Rotterdam - NL	--	73,18
KBC Verzekeringen NV (1)	Leuven - BE	0403.552.563	0,00
Kredietfinance Corporation (June) Limited (1)	Surrey - GB	--	100
Kredietfinance Corporation (September) Limited (1)	Surrey - GB	--	100
Kredietlease (UK) Limited (1)	Surrey - GB	--	100
Kredyt Bank SA i TUiR WARTA SA (1)	Warsawa - PL	--	100
Liontamer Investment Management Pty Limited (1)	Sydney - AU	--	26,45
Liontamer Investment Services Limited (1)	Auckland - NZ	--	26,45
LIZAR Sp z.o.o. (1)	Warsawa - PL	--	80
Lombard Street Limited (1)	Dublin - IE	--	100
Luxembourg North Distribution SA (1)	Luxembourg - LU	--	73,18
Luxembourg Offices Securitisations SA (1)	Luxembourg - LU	--	73,17
Mechelen City Center NV (1)	Heffen - BE	0471.562.332	73,18
Motokov a.s. (1)	Prague - CZ	--	69,10
Net Banking Sp z.o.o. (1)	Warsawa - PL	--	80
Newcourt Street Finance Limited (1)	Jersey - GB	--	100
Omnia cvba	Leuven - BE	0413.646.305	0,01
OOO "Absolut Lizing" (1)	Moscow - RU	--	95
OOO Lizingovaya Kompaniya "Absolut" (1)	Moscow - RU	--	95
Oxford Street Finance Limited (1)	Jersey - GB	--	100
Parkeergarage De Panne NV (1)	Brussels - BE	0881.909.548	65,86
Pericles Invest NV (1)	Zaventem - BE	0871.593.005	43,30
Picaros Funding LLC (1)	Wilmington - US	--	100
Picaros Purchasing No.1 Limited (1)	Dublin - IE	--	100
Picaros Purchasing No.2 Limited (1)	Dublin - IE	--	100
Renthotel Utah LC (1)	Rockville - US	--	62,57
Renthotel Singer LLC (1)	Rockville - US	--	62,57

Risk Kft. (1)	Budapest - HU	--	99,96
Servipolis Management Company NV (1)	Zaventem - BE	0442.552.206	51,22
SM Vilvoorde NV (1)	Zaventem - BE	0425.859.197	73,18
Sunrise Asset Manangement Co Limited (1)	Tapei - TW	--	28
TEE Square Limited (1)	Road Town - VG	--	100
Threadneedle Finance Limited (1)	Jersey - GB	--	100
Trustimmo NV (1)	Zaventem - BE	0413.954.626	73,18
Valuesource NV (1)	Brussels - BE	0472.685.453	0,01
Vastgoedmaatschappij Manhattan-Kruisvaarten NV (1)	Zaventem - BE	0419.336.938	73,18
Vermögensverwaltungsgesellschaft Merkur mbH (1)	Bremen - DE	--	99,76
Wetenschap Real Estate NV (1)	Zaventem - BE	0871.247.565	99,76
Weyveld Vastgoedmaatschappij NV (1)	Zaventem - BE	0425.517.818	86,59
Willowvale Company (1)	Dublin - IE	--	100

reason for exclusion : (1) exclusion based on limited importance
(2) real estate companies and certificates where the result is not allocated to the Group

LIST OF THE JOINT SUBSIDIARIES PROPORTIONAL CONSOLIDATED

name of the company	registered office	identification number	share of capital held (in %)
Ceskomaravská Stavebni Sporitelna a.s.	Prague - CZ	--	55
Covent Garden Real Estate NV	Zaventem - BE	0872.941.897	50
CSOB Pojist'ovna a.s.	Pardubice - CZ	--	25
Immobiliare Novoli S.p.A.	Firenze - IT	--	32,78
KBC Goldstate Fund Management Co. Limited	Sjanghai - CN	--	25,41
Real Estate Participation NV	Zaventem - BE	0473.018.817	50
Société Agricole des Grands Lacs SA	Luxembourg - LU	--	50
Romarin Real Estate sas	Lille - FR	--	50

LIST OF THE JOINT SUBSIDIARIES NOT PROPORTIONAL CONSOLIDATED (1)

name of the company	registered office	identification number	share of capital held (in %)
Atrium Development SA	Luxembourg - LU	--	25
Barbarahof NV	Zaventem - BE	0880.789.197	21,95
Consorzio Sandonato Est	Firenze - IT	--	16,68
Covent Garden Development NV	Brussels - BE	0892.236.187	25
FM-A Invest NV	Diegem - BE	0460.902.725	36,59
Immocert t'Serclaes NV	Zaventem - BE	0433.037.989	36,59
Jesmond Amsterdam NV	Amsterdam - NL	--	50
Miedziana Sp z.o.o.	Warsawa - PL	--	47,75
Panton Kortenberg Vastgoed NV "Pako Vastgoed"	St Niklaas - BE	0437.938.766	36,59
Amdale Holdings Limited NV	Diegem - BE	0452.146.563	36,59
Pakobo NV	Diegem - BE	0474.569.526	36,59
Rumst Logistics NV	Machelen - BE	0862.457.583	36,59
Perifund NV	Brussels - BE	0465.369.673	36,59
Prague Real Estate NV	Zaventem - B	0876.309.678	36,59
Real Estate Administration a.s.	Prague - CZ	--	21,99
Resiterra NV	Zaventem - BE	0460.925.588	36,59
Rumst Logistics II NV	Machelen - BE	0880.830.076	36,59
Rumst Logistics III NV	Machelen - BE	0860.829.383	36,59

Sandonato Parcheggi Srl	Firenze - IT	--	32,71
Sandonato Srl	Firenze - IT	--	32,71

(1) exclusion based on limited importance

LIST OF COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD

name of the company	registered office	identification number	share of capital held (in %)
Budatrend III. Ingatlanhasznositó Rt.	Budapest - HU	--	34,33
Foxhill Opportunity Offshore Fund	Princeton - GB	--	43
Giro Elszámolásforgáltátó Rt.	Budapest - HU	--	20,99
HAGE Hajdúsági Agráripari Résvényatársaság	Budapest - HU	--	25
Isabel NV	Brussels - BE	0455.530.509	25,33
K & H International Treasury Service Szolg. Kft.	Budapest - HU	--	100
Nova Ljubljanska Banka d.d.	Ljubljana - SI	--	34
Prague Stock Exchange a.s.	Prague - CZ	--	24,39

LIST OF COMPANIES NOT ACCOUNTED FOR USING THE EQUITY METHOD (1)

name of the company	registered office	identification number	share of capital held (in %)
Banking Funding Company NV	Brussels - BE	0884.525.182	22,90
BCC Corporate NV	Brussels - BE	0883.523.807	23,95
Bedrijvencentrum Noordoost-Antwerpen NV	Antwerp - BE	0455.474.485	21,28
Bedrijvencentrum Rupelstreek NV	Aartselaar - BE	0427.329.936	33,33
Brand and Licence Company NV	Brussels - BE	0884.499.250	20
Czech Banking Credit Bureau a.s.	Prague - CZ	--	20
Etoiles d'Europe sas	Paris - FR	--	32,93
Justinvest Antwerpen NV	Antwerp - BE	0476.658.097	24,39
Kattendijkdok NV	Antwerp - BE	0863.854.482	28,54
Prvni Certifikacni Autorita a.s.	Prague - CZ	--	23,25
Rabot Invest NV	Antwerp - BE	0479.758.733	18,29
Sea Gate Logistics NV	Aalst - BE	0480.040.627	18,29
Transportbeton GmbH	Delmenhorst - DE	--	25,88

(1) exclusion based on limited importance

- The companies accounted for using the equity method (see table) have combined total assets, equity and a net result of 14.4 billion euros, 0.8 billion euros and 105 million euros, respectively.

Note 36: Main changes in the scope of consolidation

Company	Consolidation method	Ownership percentage at KBC Group level		Comments
		31-12-2006	31-12-2007	
ADDITIONS				
Absolut Bank	Full	-	95,00%	in profit as of 3Q07
Economic and Investment Bank AD	Full	-	75,59%	in profit as of 1Q08
EXCLUSIONS				
Banksys and Bank Card Company	Equity	-	-	sold in 4Q 2006
CHANGES IN OWNERSHIP PERCENTAGE				
KBC Commercial Finance NV (ex-International Factors NV)	Full	50,00%	100,00%	2Q07: acquisition of the remaining 50%
CSOB a.s.	Full	97,44%	100,00%	squeeze-out in 2Q07

Note 37: 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 event after balance sheet date was:

- The reaching of a compromise settlement by the group with a number of insurance companies regarding a legal dispute. No additional information can be provided on this matter, as it might prejudice the group's position.

Note 38: General information (IAS 1)

Name	KBC Bank NV
Incorporated	17 March 1998
Country of incorporation	Belgium
Registered office	2 Havenlaan, BE-1080 Brussels
VAT	BE 0462.920.226
RLP	Brussels
Legal form	*Naamloze vennootschap* (company with limited liability) under Belgian law, which solicits or has solicited savings from the public; the company is a bank registered with the Belgian Banking, Finance and Insurance Commission.
Life	Indefinite
Object	In Belgium or abroad, for its own account or for account of third parties, the company has as object the execution of all banking operations in the widest sense, as well as the exercise of all other activities which banks are or shall be permitted to pursue (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 on the appointment, resignation and dismissal of members of the Executive Committee and 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 Wednesday immediately preceding 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.

In order to be admitted to the General Meeting, the holders of bearer bonds or bearer warrants, and the holders of bearer certificates issued in co-operation with the company, must deposit these securities at least four business days prior to the meeting at the registered office or at another place designated in the convening notice.

The owners of registered bonds, warrants or certificates issued in co-operation with the company must also notify the registered office in writing, at least four business days prior to the meeting, of their intention to attend the General Meeting. Holders of bonds and warrants are entitled to attend the General Meeting, but they have only advisory voting capacity.

Holders of book-entry bonds, warrants or certificates issued in co-operation with the company, who wish to be admitted to the General Meeting must, at least four business days prior to the meeting, deposit at the registered office or at another place designated in the convening notice, a certificate drawn up by the recognised account holder or by the clearing house, attesting to the non-availability of the bonds, warrants or certificates until the date of the General Meeting.

Annual report KBC Bank

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Volume 2

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This volume contains the company annual accounts of KBC Bank, as filed with the National Bank of Belgium.

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NAT.	Date of filing	No.	PP.	B.	D.		1.

ANNUAL ACCOUNTS

FIRM OR NAME : KBC BANK
Legal form : NV
Address : Havenlaan Nr : 2 Box :
Postal code : 1080 Municipality : Brussels
Register of corporate bodies - Chamber of Commerce : Brussels
Internetaddress : http://www.kbc.be

Company number 0462.920.226

DATE 21/12/2007 of filing of the deed op incorporation OR the most recent document stating the date on which the deed of incorporation and the deed amending the articles of association were published

ANNUAL ACCOUNT approved by the General Meeting of 23/04/2008

concerning the financial year covering the period from 01/01/2007 till 31/12/2007

Preceding period from 01/01/2006 till 31/12/2006

The amounts for the preceding period are identical to those previously published yes / ~~no~~

COMPLETE LIST with name, first names,occupation place of residence(address, number, postal code and municipality) of both the DIRECTORS OR MANAGERS of the enterprise and of the AUDITORS who audited the accounts.

CHAIRMAN OF THE BOARD OF DIRECTORS

Mr. Jan HUYGHEBAERT	Copernicusstraat 12, 1180 UKKEL

PRESIDENT OF THE EXECUTIVE COMMITTEE

Mr. André BERGEN	Coupure R 164Q, 9000 GENT

MEMBERS:

Mr. Herman AGNEESSENS	Edelweisslaan 47, 3080 TERVUREN
Mr. Franky DEPICKERE	Izegemstraat 203, 8770 INGELMUNSTER
Mr. Frans FLORQUIN	Dewittelaan 7 bus 202, 8670 KOKSIJDE
Mr. Luc PHILIPS	Platanenlaan 14, 1820 PERK
Mr. Guido SEGERS	Torenstraat 114, 3110 ROTSELAAR
Mr. Jan VANHEVEL	Max Hermanlei 8, 2930 BRASSCHAAT
Mr. Germain VANTIEGHEM	Dalemstraat 9, 3078 KORTENBERG
Mr. Marc WITTEMANS	Winkselsesteenweg 41, 3020 HERENT
Mr. Paul PEETERS	Molenstraat 2 A , 2811 MECHELEN
Mr. Lode MORLION	Weststraat 18, 8647 LO-RENINGE
Mrs. Sonja DE BECKER	Meerbeekstraat 20, 3071 ERPS-KWERPS
Mrs. Marita ORLENT-HEYVAERT	Richard Orlentstraat 5, 2070 ZWIJNDRECHT
Mr. Gustaaf SAP	Stationsstraat 70, 8730 BEERNEM
Mr. Pierre KONINGS	Prins Van Oranjelaan 178, 1180 BRUSSEL
Mr. Patrick VANDEN AVENNE	Desselgemsestraat 15, 8710 OOIGEM
Mr. Dirk WAUTERS	Bovenbosstraat 17, 3052 BLANDEN
Mr. Julien DE WILDE	Jabekestraat 49, 9230 WETTEREN
Mr. Christian DEFRANCQ	Zonnelaan 23, 3070 KORTENBERG
Mr. Etienne VERWILGHEN	Rue des Foyers 3, LU 1537 LUXEMBOURG

AUDITOR
Ernst & Young Bedrijfsrevisoren c.v., Moutstraat 54, 9000 GENT, represented by Jean-Pierre ROMONT and Danielle VERMAELEN

Total number of pages filed :
Number of pages of the standardform not being filed becouse they are not relevant :

These annual accounts include:
- the report of the statutory auditor
- annual report of the Board of Directors to the ordinary General Meeting of shareholders

A. BERGEN
President of the executive committee

J. HUYGHEBAERT
President of the board of directors

1. BALANCE SHEET AFTER PROFIT APPROPRIATION

ASSETS

	Codes	Period (in thousands of EUR) 05	Preceding Period (in thousands of EUR) 10
I. Cash in hand, balances at central banks and post office banks	101.000	511,437	392,899
II. Treasury bills eligible for refinancing at the central bank	102.000	180,795	1,405,267
III. Loans and advances to credit institutions	103.000	51,388,559	31,045,906
A. Repayable on demand	103.100	4,516,606	548,309
B. Other loans and advances (with agreed maturity dates or periods of notice)	103.200	46,871,953	30,497,597
IV. Loans and advances to customers	104.000	99,587,943	82,749,169
V. Bonds and other fixed-income securities	105.000	33,250,049	41,477,942
A. Issued by public bodies	105.100	21,541,742	28,492,188
B. Issued by other borrowers	105.200	11,708,307	12,985,754
VI. Shares and other variable-yield securities	106.000	449,845	720,710
VII. Financial fixed assets	107.000	16,229,745	9,080,437
A. Participating interests in affiliated enterprises	107.100	14,265,987	7,561,902
B. Particpating interests in other enterprises linked by participating interests	107.200	489,115	460,815
C. Other shares constituting financial fixed assets	107.300	185,316	219,034
D. Subordinated loans and advances to affiliated enterprises and other enterprises linked by participating interests	107.400	1,289,327	838,686
VIII. Formation expenses and intangible fixed assets	108.000	241	113
IX. Tangible fixed assets	109.000	769,715	750,716
X. Own shares	110.000		
XI. Other assets	111.000	1,830,031	1,304,420
XII. Deferred charges and accrued income	112.000	15,373,557	14,606,268
TOTAL ASSETS	199.000	219,571,917	183,533,847

LIABILITIES	Codes	Period	Preceding Period
		(in thousands of EUR)	
		05	10
I. Amounts owed to credit institutions	201.000	64,846,411	49,287,066
A. Repayable on demand	201.100	11,872,474	6,775,820
B. Amounts owed as a result of the rediscounting of trade bills	201.200		
C. Other debts (with agreed maturity dates or periods of notice)	201.300	52,973,937	42,511,246
II. Amounts owed to customers	202.000	110,170,708	94,792,070
A. Saving deposits	202.100	20,556,389	22,736,503
B. Other debts	202.200	89,614,319	72,055,567
1) Repayable on demand	202.201	26,322,928	21,673,820
2) With agreed maturity dates or periods of notice	202.202	63,290,552	50,342,383
3) As a result of the rediscounting of trade bills	202.203	839	39,364
III. Debts represented by securities	203.000	8,473,059	7,733,542
A. Bonds and other fixed-income securities in circulation	203.100	1,076,723	1,112,868
B. Other debt instruments	203.200	7,396,336	6,620,674
IV. Other liabilities	204.000	2,409,934	2,179,334
V. Accrued charges and deferred income	205.000	16,875,144	15,295,236
VI. A. Provisions for liabilities and charges	206.100	236,096	258,413
1. Pensions and similar commitments	206.101	48,848	67,054
2. Taxation	206.102	6,136	4,674
3. Other liabilities and charges	206.103	181,112	186,685
B. Deferred taxes	206.200		
VII. Fund for General Banking Risks	207.000		
VIII. Subordinated liabilities	208.000	7,557,458	6,532,537
CAPITAL AND RESERVES	290.000	9,003,107	7,455,649
IX. Capital	209.000	4,030,110	3,763,334
A. Subscribed capital	209.100	4,030,110	3,763,334
B. Uncalled capital (-)	209.200		
X. Share premium account	210.000	1,723,224	489,999
XI. Revaluation reserve	211.000		
XII. Reserves	212.000	3,249,751	3,202,294
A. Legal reserve	212.100	403,011	353,006
B. Reserves not available for distribution	212.200		
1. Own	212.201		
2. Other	212.202		
C.Untaxed reserves	212.300	78,834	81,382
D.Reserves available for distribution	212.400	2,767,906	2,767,906
XIII. Profit brought forward	213.000	22	22
TOTAL LIABILITIES	299.000	219,571,917	183,533,847

OFF-BALANCE-SHEET HEADINGS	Codes	Period (in thousands of EUR) 05	Preceding Period 10
I. Contingent liabilities	301.000	40,850,573	33,821,727
A. Non-negotiated acceptances	301.100	125,263	51,311
B. Guarantees in the nature of direct credit substitutes	301.200	6,166,019	3,837,703
C. Other guarantees	301.300	33,025,078	28,580,975
D. Documentary credits	301.400	1,534,209	1,351,734
E. Assets charged as collateral security on behalf of third parties	301.500	4	4
II. Commitments carrying a potential credit risk	302.000	46,339,054	41,737,645
A. Firm credit commitments	302.100	7,498,336	2,766,230
B. Commitments arising from spot purchases of securities	302.200	506,960	110,162
C. Undrawn margin on confirmed credit lines	302.300	38,274,089	38,856,691
D. Underwriting and placing commitments	302.400	59,669	4,562
E. Commitments as a result of open-ended sale and repurchase agreements	302.500		
III. Assets lodged with the credit institution	303.000	249,770,142	174,847,989
A. Assets held for fiduciary purposes	303.100	3,138,839	3,103,256
B. Safe custody and equivalent items	303.200	246,631,303	171,744,733
IV. Uncalled share capital	304.000	36,621	37,488

2. PROFIT AND LOSS ACCOUNT

	Codes	Period	Preceding Period
		(in thousands of EUR)	
		05	10
I. Interest receivable and similar income	401.000	8,753,950	6,838,209
of which income from fixed-income securities	401.001	2,064,003	2,066,574
II. Interest payable and similar charges	502.000	(7,456,840)	(5,422,878)
III. Income from variable-yield securities	403.000	1,085,378	802,238
A. From shares and other variable-yield securities	403.100	23,474	18,555
B. From participating interests in affiliated enterprises	403.200	1,037,471	757,268
C. From participating interests in other enterprises linked by participating interests	403.300	15,901	11,141
D. Other shares constituing financial fixed assets	403.400	8,532	15,274
IV. Commission receivable	404.000	939,980	865,383
V. Commission payable (-)	505.000	(238,762)	(214,240)
VI. Profit (loss) on financial transactions	506.000	229,809	175,255
A. On the trading of securities and other financial instruments	506.100	161,273	104,592
B. On the disposal of investment securities	506.200	68,536	70,663
VII. General administrative expenses (-)	507.000	(1,506,125)	(1,420,576)
A. Remuneration, social security costs and pensions	507.100	822,085	809,402
B. Other administrative expenses	507.200	684,040	611,174
VIII. Depreciation and write-downs on formation expenses and on intangible and tangible fixed assets (-)	508.000	(52,063)	(49,426)
IX. Adjustments to write-downs (Write-downs (-)) on receivables and write-back of provisions (Provisions (-)) for Off-balance-sheet headings 'I. Contingent liabilities' and 'II. Commitments carrying a potential credit risk'	509.000	(38,621)	3,133
X. Adjustments to write-downs (Write-downs (-)) on the investment portfolio in bonds, shares and other fixed-income and variable-yield securities	510.000	(7,387)	3,770
XI. Utilization and write-back of provisions for liabilities and charges other than those referred to in Off-balance-sheet headings 'I. Contingent liabilities' and 'II. Commitments carrying a potential credit risk'	411.000	101,541	42,047
XII. Provisions for liabilities and charges other than those referred to in Off-balance-sheet headings 'I. Contingent liabilities' and 'II. Commitments carrying a potential credit risk'	512.000	(57,543)	(34,298)
XIII. Transfer from (Transfer to) the Fund for General Banking Risks	513.000		
XIV. Other operating income	414.000	162,532	151,220
XV. Other operating charges (-)	515.000	(85,750)	(80,159)
XVI. Profit (Loss) on ordinary activities before tax	416.000	1,830,099	1,659,678

NO	0462.920.226

APPROPRIATION ACCOUNT	Codes	Period (in thousands of EUR) 05	Preceding Period (in thousands of EUR) 10
A. Profit (Loss (-)) to be appropriated	600.100	1,689,426	1,490,790
1. Profit (Loss (-)) for the period available for appropriation	600.101	1,689,404	1,490,769
2. Profit (Loss (-)) brought forward from the previous financial year	600.102	22	21
B. Transfers from capital and reserves	600.200		
1. From capital and share premium account	600.201		
2. From reserves	600.202		
C. Appropriation to capital and reserves (-)	600.300	(50,005)	(74,538)
1. To capital and share premium account	600.301		
2. To the legal reserve	600.302	50,005	74,538
3. To others reserves	600.303		
D. Result to be carried froward	600.400	(22)	(22)
1. Profit to be carried forward (-)	600.401	(22)	(22)
2. Loss to be carried forward	600.402		
E. Shareholders' contribution in respect of losses	600.500		
F. Profit for distribution (-)	600.600	(1,639,399)	(1,416,230)
1. Dividends (a)	600.601	1,590,817	1,367,327
2. Directors' entitlements (a)	600.602	725	709
3. Other allocations	600.603	47,857	48,194

(a) only for companies with restricted liability governed by Belgian law

3. ANNEX

I. STATEMENT OF LOANS AND ADVANCES TO CREDIT INSTITUTIONS

(Assets heading III.)

(in thousands of EUR)

A. For the heading as a whole :

	Codes	Period	Preceding Period
		05	10
1. - Loans and advances to affiliated enterprises	010	21,195,347	10,553,520
- Loans and advances to other enterprises linked by participating interests	020	634,589	

	Codes	Period	Preceding Period
		05	10
2. - Subordinated loans and advances	030		

B. Other loans and advances (with agreed maturity dates or periods of notice) to credit institutions (Assets sub-heading III.B.)

	Codes	Period	Preceding Period
		05	10
1. Trade bills eligible for refinancing at the central banks of the credit institution's countries of establishment	040	147	294

2. Analysis of loans and advances according to remaining maturity :

	Codes	Period
		05
. up to three months	050	35,656,624
. more than three months and up to one year	060	7,379,354
. more than one year and up to five years	070	3,540,125
. more than five years	080	181,218
. undated	090	114,632

II. STATEMENT OF LOANS AND ADVANCES TO CUSTOMERS

(Assets heading IV.)

(in thousands of EUR)

1. Loans and advances to

	Codes	Period 05	Preceding Period 10
- affiliated enterprises	010	26,002,521	13,110,390
- other enterprises linked by participating interests	020	8,928	723,230

	Codes	Period 05	Preceding Period 10
2. Subordinated loans and advances	030	524,567	12,215

	Codes	Period 05	Preceding Period 10
3. Trade bills eligible for refinancing at the central banks of the credit institution's countries of establishment	040		

4. Analysis of loans and advances according to remaining maturity :

	Codes	Period 05
. up to three months	050	51,200,496
. more than three months and up to one year	060	6,190,638
. more than one year and up to five years	070	8,917,644
. more than five years	080	28,676,257
. undated	090	4,602,908

5. Analysis of loans and advances according to type:

	Codes	Period 05
. trade bills (including own acceptances)	100	221,052
. loans and advances arising from leasing and similar claims	110	756,130
. fixe-rate loans	120	1,067,001
. mortgage loans	130	14,777,179
. other loans at terms of more than one year	140	30,889,064
. other loans and advances	150	51,877,517

6. Geographical analysis of loans and advances * :

	Codes	Period 05
. loans and advances in respect of Belgium	160	54,972,123
. loans and advances in respect of other countries	170	44,615,820

7. Breakdown of mortgage loans, with reconstitution at the institution or linked to which there are life assurance and capitalization agreements

	Codes	Period 05
a) . Capital borrowed initially	180	
b) . Reconstitution and actuarial reserves for these loans	190	
c) . Net amount outstanding for these loans (a-b)	200	

* Amount for trade bills is broken down according to beneficiary of the credit.

III. STATEMENT OF BONDS AND OTHER FIXED-YIELD SECURITIES
(Assets heading V.)

(in thousands of EUR)

1. Bonds and other securities issued by :

	Codes	Period 05	Preceding Period 10
- affiliated enterprises	010	2,256,124	478,219
- enterprises linked by participating interests	020	5,308	771

2. Bonds and other securities representing subordinated loans

Codes	Period 05	Preceding Period 10
030	47,388	48,251

3. Geographical analysis of the following sub-headings :

		Belgian issuers	Foreign issuers
V.A. . issued by public bodies	040	11,763,769	9,777,973
V.B. . issued by other borrowers	050	2,296,883	9,411,424

4. Listing and maturity

		Carrying value	Market value
a) . Listed securities	060	30,502,504	30,333,167
. Unlisted securities	070	2,747,545	

	Codes	Period 05
b) . Remaining maturity of up to one year	080	7,150,998
. Remaining maturity of more than one year	090	26,099,051

5. Analysis of bonds and other securities classified according to :

	Codes	Period 05
a) . Trading portfolio	100	11,127,944
b) . Investment portfolio	110	22,122,105

6. Trading portfolio :

	Codes	Period 05
. the positive difference between the higher market value and acquisition value of the bonds and other securities valued at market value	120	21,451
. the positive difference between the higher market value and the acquisition value of the bonds and securities valued in accordance with Article 35 ter, §2, paragraph two of the Royal Decree of 23 September 1992 on the annual accounts of credit institutions	130	

7. Investment portfolio :

	Codes	Period 05
. the positive difference in respect of all securities whose redemption value is greater than their carrying value	140	312,608
. the negative difference in respect of all securities whose redemption value is less than their carrying value	150	376,079

8. Detailed statement of the carrying value of the investment portfolio :
(in continuation of Assets heading V.)

(in thousands of EUR)

	Codes	Period 05
a) ACQUISITION VALUE		
As at the end of the previous financial year	010	33,574,677
Movements during the financial year :		
. acquisitions	020	5,328,558
. transfers (-)	030	(16,515,833)
. adjustments pursuant to Art. 35 ter, §4 and 5 (+/-) of the royal decree of September 23, 2992 concerning the annual accounts of credit institutions	040	(160,650)
. price difference (+/-)	050	(90,588)
As at the end of the financial year	099	22,136,164
b) TRANSFERS BETWEEN PORTFOLIOS		
1. Transfers		
. from the investment portfolio to the trading portfolio (-)	110	
. from the trading portfolio to the investment portfolio (+)	120	
2. Repercussion on the result	130	
c) WRITE-DOWNS		
As at the end of the financial year	200	6,070
Movements during the financial year		
. recorded	210	9,075
. written back as being redundant	220	(1,085)
. written off	230	
. transfer from one heading to another	240	
. price difference (+/-)	250	
As at the end of the financial year	299	14,060
d) CARRYING VALUE AS AT THE END OF THE FINANCIAL YEAR (a) + b)1. - c))	399	22,122,104

IV. STATEMENT OF SHARES AND OTHER VARIABLE-YIELD SECURITIES

(Assets heading VI.)

(in thousands of EUR)

1. Geographical analysis of issuers :

	Codes	Period 05
- Belgian issuers	010	1,757
- foreign issuers	020	448,088

2. Listing :

		Carrying value	Market value
- listed securities	030	443,578	443,649
- unlisted securities	040	6,267	

3. Analysis of shares and other securities classified according to :

	Codes	Period 05
. Trading portfolio	050	433,617
. Investment portfolio	060	16,228

4. Trading portfolio :

	Codes	Period 05
. the positive difference between the higher market value and acquisition value of the shares and other securities valued at market value	070	19,722
. the positive difference between the market value and carrying value of securities valued in accordance with Article 35 ter, §2, paraggraph two of the royal decree of 23 September 1992on the annual accounts of credit institutions	080	

5. Detailed statement of the carrying value of the investment portfolio :
(in continuation of Assets heading VI.)

	Codes	Period 05
a) ACQUISITION VALUE		
As at the end of the previous financial year	100	117,285
Movements during the financial year :		
. acquisitions	110	10,940
. transfers (-)	120	(102,149)
. other changes	130	(76)
As at the end of the financial year	199	26,000
b) TRANSFERS BETWEEN PORTFOLIOS		
1. Transfers		
. from the investment portfolio to the trading portfolio (-)	200	
. from the trading portfolio to the investment portfolio (+)	210	
2. Repercussion on the result	220	
c) WRITE-DOWNS		
As at the end of the financial year	300	10,646
Movements during the financial year		
. recorded	310	1,005
. written back as being redundant	320	(1,607)
. written off	330	
. transfer from one heading to another	340	
. price differences	350	(272)
As at the end of the financial year	399	9,772
d) CARRYING VALUE AS AT THE END OF THE FINANCIAL YEAR (a) + b)1. - c))	499	16,228

V. STATEMENT OF FINANCIAL FIXED ASSETS

(Assets heading VII)

A1. Analysis of assets sub-headings VII.A,B,C :

(in thousands of EUR)

a) Economic sector of the following holdings

	Codes	Credit institutions – Period 05	Credit institutions – Preceding Period 10	Other companies – Period 15	Other companies – Preceding Period 20
A. participating interests in affiliated enterprises	010	6,188,312	4,623,713	8,077,675	2,938,189
B. participating interests in other enterprises linked by participating interests	020	467,451	433,451	21,664	27,364
C. Other shares constituting financial fixed assets	030	101,955	196,081	83,361	22,953

b) Listing

	Codes	Listed 05	Unlisted 10
A. participating interests in affiliated enterprises	040	1,058,853	13,207,134
B. participating interests in other enterprises linked by participating interests	050	10,799	478,316
C. Other shares constituting financial fixed assets	060	169,924	15,392

A2. Detailed statement of carrying value as at the end of the financial year of assets headings VII.A, B and C

	Codes	Companies – Affiliated enterprises (VII.A.)	Companies – Other enterprises linked by particip interests (VII.B.)	Companies – Other (VII.C.)
A. ACQUISITION VALUE				
As at the end of the previous financial year	100	7,607,365	484,995	219,699
Movements during the financial year:				
. Acquisitions	110	6,771,036	34,055	111,629
. Transfers and asset retirements (-)	120	(66,855)	(16,179)	(94,106)
. Transfers from one heading to another (+/-)	130	122	10,529	(10,651)
As at the end of the financial year	199	14,311,668	513,400	226,571
B. SURPLUS VALUES				
Movements during the financial year:	200			
. Recorded	210			
. Acquired from third parties	220			
. Written off (-)	230			
. Transfers from one heading to another (+/-)	240			
As at the end of the financial year	299			
C. WRITE-DOWNS				
As at the end of the previous financial year	300	45,463	24,180	665
Movements during the financial year:				
. Recorded	310	218	105	40,590
. Written back as being redundant (-)	320			
. Acquired from third parties	330			
. Written off (-)	340			
Transfers from one heading to another (+/-)	350			
As at the end of the financial year	399	45,681	24,285	41,255
E. NET CARRYING VALUE AS AT THE END OF THE FINANCIAL YEAR (A + B - C)	499	14,265,987	489,115	185,316

ARTICLE 29, 1 UNCLAIMED AMOUNTS ON PARTICIPATIONS AND SHARES

	Companies			
	Affiliated enterprises (VII.A.)	Other enterprises linked by particip interests (VII.B.)	Other (VII.C.)	
IIB Finance Ireland	1,223			
KBC Dublin Capital Plc	30			
KBC Private Equity	34,876			
African Export-Import Bank			408	
Mode Natie			81	
Mts Belgium			5	
				TOTAL
Total	36,129		493	36,621

B. Analysis of Assets sub-heading VII D

	Codes	Credit institutions Period 05	Credit institutions Preceding Period 10	Other enterprises Period 15	Other enterprises Preceding Period 20
1. Subordinated loans and advances to:					
. Affiliated enterprises	010	831,110	398,117	383,217	275,569
. Participating interests in other enterprises linked by participating interests	020	75,000	165,000		
2. Amount of noted shares represented by subordinated loans and advances	030				

3. Detailed statement of subordinated loans and advances

	Codes	affiliated enterprises 10	other enterprises linked by participating interests 15
NET CARRYING VALUE AS AT THE END OF THE PREVIOUS FINANCIAL YEAR	100	673,686	165,000
Movements during the financial year			
. Additions	110	534,786	(90,000)
. Repayments (-)	120		
. Recorded write downs (-)	130		
. Written back write downs	140		
. Exchange rate difference (+/-)	150	5,855	
. Other (+/-)	160		
NET CARRYING VALUE AS AT THE END OF THE FINANCIAL YEAR	199	1,214,327	75,000
CUMULATED WRITE DOWNS AS AT THE END OF THE FINANCIAL YEAR	200		

C. Declaration concerning the consolidated annual accounts

A. Information that must be supplied by all credit institutions:
Pursuant to the provisions of the Royal Decree of 23 September 1992 concerning the consolidated annual accounts of credit institutions, the credit institution draws up annual accounts and a consolidated annual report: YES / ~~NO~~*

B. Information that need only be supplied by the credit institution if it is a subsidiary or a joint subsidiary
. Name, complete address of the registered office and, if the company concerned is incorporated under Belgian law, the VAT number or the national identification number of the parent company(companies), and whether the parent company(companies) draws(draw) up and publishes(publish) consolidated annual accounts in which the annual accounts of the company are included via consolidation*:
- KBC Group NV, Havenlaan 2, 1080 Brussels, BE 403.227.515
. If the parent company(companies) is(are) incorporated under foreign law, where the above-mentioned annual accounts can be obtained*:

* If the annual accounts of the institution are consolidated at various levels, this information must be provided for the largest grouping and and for the smallest grouping of companies to which the institution belongs in its capacity as a subsidiary and for which consolidated annual accounts are drawn up and published.

VI. ART.1 LIST OF ENTERPRISES IN WHICH THE CREDIT INSTITUTION HOLDS A PARTICIPATING INTEREST

Mentioned below are those enterprises in which the credit institution has a participating interest in the sense of the Royal Decree of 23 September 1992, as well as the other enterprises in which the credit institution has shareholder rights representing at least 10 % of issued capital.

Name, registerd office, VAT number or national registration number	Shareholder rights				Data on the latest financial year for which annual accounts are available ('000)			
	Direct			via sub-sidiary	Annual accounts as at	Currency	Own Funds	Net result
	Type	Number	%	%			(+) of (-)	(+) of (-)
A. Affiliated entreprices :								
AKB Absolut Bank Moskou RU -	Ordinary	127,755,720	95.00	0.00				
Antwerpse Diamantbank NV Antwerpen BE,0404.465.551	Ordinary	7,686,400	100.00	0.00				
				0.00				
CBC Banque SA Brussels BE,0403.211.380	Ordinary	1,838,956	100.00	0.00				
CENTEA NV Antwerpen BE,0404.477.528	Ordinary	184,561	99.56	0.00				
Ceskoslovenska Obchodni Banka a.s. (CSOB) Prague CZ,-	Ordinary	5,855,000	100.00	0.00				
Covent Garden Real Estate NV Zaventem BE,0872.941.897	Ordinary	2,500	50.00	0.00				
Economic and Investment Bank AD Sofia, BG -	Ordinary	5,269,772	75.58	0.00				
Fidabel NV Brussels BE,0417.309.044	Ordinary	1	0.80	0.00	31-dec-06	EUR	143	1
Fin-Force NV Brussels BE,0472.725.639	Ordinary	3,033	90.00	0.00				
IIB Bank Public Limited Company Dublin IE,-	Ordinary	372,038,509	100.00	0.00				
IIB Finance Ireland Dublin IE,-	Ordinary	2,166,999	99.99	0.00				
	Preferent AUD	700,000	100.00	0.00				
	Preferent EUR	514,000,000	100.00	0.00				
	Preferent GBP	104,000,000	100.00	0.00				
	Preferent USD	116,000,000	100.00	0.00				
IMMO PARIJSSTRAAT NV Leuven BE,0439.655.765	Ordinary	54,380	99.99	0.01	31-dec-06	EUR	14,508	822
KBC Commercial Finance NV Brussels BE,0403.278.488	Ordinary	120,000	100.00	0.00				
KB Consult NV Brussels BE,0437.623.220	Ordinary	67,973	99.62	0.00	31-dec-06	EUR	128	-16
KBC Alternative Investment Management Belgium NV Brussels BE, 0883.054.940	Ordinary	4,699,530	99.99	0.00				
KBC Asset Management NV Brussels BE,0469.444.267	Cat. A shares	2,580,644	44.75	7.11				

VI. ART.1. LIST OF ENTERPRISES IN WHICH THE CREDIT INSTITUTION HOLDS A PARTICIPATING INTEREST

Mentioned below are those enterprises in which the credit institution has a participating interest in the sense of the Royal Decree of 23 September 1992, as well as the other enterprises in which the credit institution has shareholder rights representing at least 10 % of issued capital.

Name, registerd office, VAT number or national registration number	Shareholder rights				Data on the latest financial year for which annual accounts are available ('000)			
	Direct			via sub-sidiary	Annual accounts as at	Currency	Own Funds	Net result
	Type	Number	%	%			(+) of (-)	(+) of (-)
KBC Bank Deutschland AG Bremen DE,-	Ordinary Genusrechte	565,915 97,791,500	99.76 100.00	0.00 0.00				
KBC Bank Funding LLC II New York US,-	Common Shares	1,000	100.00	0.00				
KBC Bank Funding LLC III New York US,-	Common Shares	1,000	100.00	0.00				
KBC Bank Funding LLC IV New York US,-	Common Shares	1,000	100.00	0.00				
KBC Bank Funding Trust II New York US,-	Common Shares	1,000	100.00	0.00				
KBC Bank Funding Trust III New York US,-	Common Shares	1,000	100.00	0.00				
KBC Bank Funding Trust IV New York US,-	Common Shares	1,000	100.00	0.00				
KBC Bank Nederland NV Rotterdam NL,-	Ordinary	115,360	100.00	0.00				
KBC Bank (Singapore) Ltd. Singapore SG,-	Ordinary SGD Ordinary USD	10,000,000 35,000,000	100.00 100.00	0.00 0.00				
KBC Clearing NV Amsterdam NL,-	Ordinary	30,491	100.00	0.00				
KBC Consumer Finance IFN sa Boekarest BG,-	Ordinary	134,001	99.95	0.00				
KBC Credit Investments NV Brussels BE 0887.849.512	Ordinary	4,999,999	99.99	0.00				
KBC Dublin Capital Plc Dublin IE,-	Ordinary	40,000	100.00	0.00				
KBC Financial Holding Inc. Wilmington US,-	Ordinary	100	100.00	0.00				
KBC Financial Products UK Limited London GB,-	Ordinary	350,100,000	100.00	0.00				
KBC Groep NV Brussels BE,0403.227.515	Ordinary	3,917,845	1.08	0.00				
KBC Ifima NV Rotterdam NL,-	Ordinary	10,585	100.00	0.00				
KBC International Portfolio SA Luxembourg LU,-	Ordinary	16,990	86.49	13.51				

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Name, registerd office, VAT number or national registration number	Shareholder rights				Data on the latest financial year for which annual accounts are available ('000)			
	Direct			via sub-sidiary	Annual accounts as at	Currency	Own Funds	Net result
	Type	Number	%	%			(+) of (-)	(+) of (-)
KBC Investments Hong Kong Limited Hong Kong HK, -	Ordinary	30,000,000	100.00	0.00				
KBC Investments Limited London GB,-	Ordinary	170,000,000	100.00	0.00				
KBC Lease Holding NV Leuven BE,0403.272.253	Ordinary	167,595	99.99	0.01				
KBC Lease (UK) Limited Guildford GB,	Ord. Shares of 1 GBP	7,327,865	34.00	66.00				
KBC North American Finance Corporation Delaware US,-	Ordinary	1,000	100.00	0.00	31-dec-06	USD	25	0
KBC Peel Hunt Limited London GB,-	Ordinary	26,303,595	51.27	48.73				
KBC Pinto Systems NV Brussels BE,0473.404.540	Ordinary	2,793	49.42	10.60				
KBC Private Equity NV Brussels BE,0403.226.228	Ordinary Ordinary - 25% fully paid-up	445,416 73,502	100.00 100.00	0.00 0.00				
KBC Real Estate Luxembourg SA Luxemburg LU, -	Ordinary	99,947	99.95	0.05				
KBC Real Estate NV Brussels BE, 0404.040.632	Ordinary	467,121	73.18	0.00				
KBC Securities NV Brussels BE,0437.060.521	Ordinary	1,898,517	99.95	0.05				
KBC Structured Finance Limited Melbourne AU,-	Ordinary	500,000	100.00	0.00	31-dec-06	AUD	264	79
KBC Vastgoedportefeuille België NV Brussels BE, 0438.007.854	Ordinary	3,000	5.19	94.81				
KBC Verzekeringen NV Leuven BE,0403.552.563	Ordinary	1	0.00	0.00	31-dec-06	EUR	1,610,466	436,149
Kereskedelmi és Hitelbank Rt. Budapest HU,-	Reg. Sh. HUF 2000	66,307,204,412	100.00	0.00				
Kredyt Bank SA Warschau PL,-	Ordinary PLN	217,327,103	80.00	0.00				
Ligeva NV Mortsel BE,0437.002.519	Ordinary	1	0.02	99.98				
Luxembourg Offices Securitisations SA Luxemburg LU,-	Ordinary	99	99.00	1.00	31-dec-05	EUR	19	-12

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Name, registerd office, VAT number or national registration number	Shareholder rights				Data on the latest financial year for which annual accounts are available ('000)			
	Direct			via sub-sidiary	Annual accounts as at	Currency	Own Funds	Net result
	Type	Number	%	%			(+) of (-)	(+) of (-)
Mezzafinance NV Brussels BE,0453.042.260	Ordinary	1	0.02	99.98				
Omnia CVBA Leuven BE,0413.646.305	Ordinary	1	0.01	0.00	31-dec-06	EUR	784	280
Real Estate Participations NV Zaventem BE, 0473.018.817	Ordinary	2,250	50.00	0.00				
Valuesource NV Brussels BE,0472.685.453	Ordinary	1	0.01	0.00	31-dec-06	EUR	407	-12
Wetenschap Real Estate NV Zaventem BE,0871.247.565	Ordinary	3,000	50.00	50.00	31-dec-06	EUR	603	-1
B. Enterprises linked by participating interests >20% and <= 50%								
Banking Funding Company NV Brussels BE, 0884.525.182	Ordinary	12,464	20.27	0.00	first financial year ends at 31/12/2007			
BCC Corporate NV Brussels BE, 0883.523.807	Ordinary	5,747	23.95	0.00	first financial year ends at 31/12/2007			
Bedrijvencentrum Rupelstreek NV Aartselaar BE,0427.329.936	Ordinary	5,000	33.33	0.00	31-dec-06	EUR	585	63
Brand and Licence Company NV Brussels BE, 0884.499.250	Ordinary	123	20.00	0.00	first financial year ends at 31/12/2007			
Isabel NV Brussels BE,0455.530.509	Ordinary	253,322	25.33	0.00				
Nova Ljubljanska Banka d.d. Ljubljana SL,-	Ordinary	2,722,634	34.00	0.00				
C. Enterprises linked by participating interests >10% and <= 20%								
Bedrijvencentrum Leuven NV Heverlee BE,0428.014.676	Ordinary	40	9.52	0.00	31-dec-06	EUR	1,996	34
Bedrijvencentrum Regio Roeselare NV Roeselare BE,0428.378.724	Ordinary	500	18.52	0.00	31-dec-06	EUR	528	21
Bedrijvencentrum Vilvoorde NV Vilvoorde BE,0434.222.577	Ordinary	338	9.31	0.00	31-dec-06	EUR	1,046	1
Bedrijvencentrum Westhoek NV Ieper BE,0430.383.258	Ordinary	200	11.85	0.00	31-dec-06	EUR	487	-8
Bedrijvencentrum Zaventem NV Zaventem BE,0426.496.726	Ordinary	350	11.64	0.00	31-dec-06	EUR	333	-102

VI. ART.1 LIST OF ENTERPRISES IN WHICH THE CREDIT INSTITUTION HOLDS A PARTICIPATING INTEREST

Mentioned below are those enterprises in which the credit institution has a participating interest in the sense of the Royal Decree of 23 September 1992, as well as the other enterprises in which the credit institution has shareholder rights representing at least 10 % of issued capital.

Name, registerd office, VAT number or national registration number	Shareholder rights				Data on the latest financial year for which annual accounts are available ('000)			
	Direct			via sub-sidiary	Annual accounts as at	Currency	Own Funds	Net result
	Type	Number	%	%			(+) of (-)	(+) of (-)
BEM NV Brussels BE, 0461.612.904	Ordinary	1,500	6.47	0.00	31-dec-06	EUR	4,916	10
BH-Capital a.s. Prostejov CZ,-	Ordinary	717,300	14.06	0.00	31-dec-06	CZK	496,210	13,069
De Beitel NV Lier BE, 0869.799.196	Ordinary	25	16.34	0.00	31-dec-06	EUR	78	1
Designcenter De Winkelhaak Borgerhout BE, 0470.201.857	Cat. B	124	10.84	0.00	31-dec-06	EUR	2,291	20
Europay Belgium CV Brussels BE,0434.197.536	Ordinary	4,857	14.04	1.99	31-dec-06	EUR	1,175	664
Orbay NV Utrecht, NL,-	Ordinary	735,000	13.36	0.00	31-dec-06	EUR	8,030	2,545
Retail Estates NV Ternat BE, 0434.797.847	Ordinary	347,886	9.75	2.24	31-mrt-07	EUR	145,051	22,851
Visa Belgium CVBA Brussels BE,0435.551.972	Ordinary	22	12.29	2.24	31-dec-06	EUR	265	29

VI §2 LIST OF ENTERPRISES IN RESPECT OF WHICH THE CREDIT INSTITUTION IS FULLY LIABLE IN ITS CAPACITY AS A PARTNER OR MEMBER WITH UNLIMITED LIABILITY

	Name, registered office, VAT number		Possible codes (*)
Codes	05		10
	IIB Finance Unltd., Sandwith Street, Dublin 2		C
	KBC Clearing, Oudezijds Voorburgwal 302, NL-1012 GL Amsterdam		C
	KBC Asset Management, Havenlaan 2,B-1080 Brussel ,	0469.444.267	C
	KBC Asset Management International Ltd, Joshua Dawson House, Dawson Street, Dublin 2		C
	KBC Asset Management Ltd, Joshua Dawson House, Dawson Street, Dublin 2		C
	KBC Financial Services (Ireland) Ltd, KBC House, 4 George's Dock IFSC, Dublin 1		C
	KBC Fund Managers Ltd, Joshua Dawson House, Dawson Street, Dublin 2		C
	KBC Securities, Havenlaan 12, B-1080 Brussel,	0437.060.521	C
	Antwerpse Diamantbank NV, Pelikaanstraat 54, 2018 Antwerpen	0404.465.551	C

(*) The annual accounts of the enterprise:

A. Will be published through a deposition in the National Bank of Belgium
B. Will be published effectively in another member state of the EC pursuant to art.3 of the directive 68/151/EEG;
C. Will be fully or proportionally consolidated in the consolidated annual statements of the enterprise which is prepared, audited and published pursuant to the Royal Decree of 29 September 1992 on the consolidated annual account of the credit institutions.

VII. STATEMENT OF FORMATION EXPENSES AND INTANGIBLE FIXED ASSETS

(Assets heading VIII.)

(in thousands of EUR)

A. Detailed statement of formation expenses

	Codes	Period 05
Net carrying value as at the end of the previous financial year	010	
Movements during the financial year :		
. New costs	020	
. Whrite-downs (+/-)	030	
. Other changes (+/-)	040	
Net carrying value as at the end of the financial year :	099	
- costs incurred at establishment or capital increase, costs of issuing loans and other formation expenses	110	
- restructuring costs	120	

B. Intangible fixed assets

	Codes	Goodwill 05	Other intangible fixed assets 10	Of which provisions as compensation for bringing in transactions art 27 bis * 15
a) ACQUISITION VALUE				
As at the end of the previous financial year	210	551	912	
Movements during the financial year				
. additions, including own production	220		188	
. Sales and disposals (-)	230			
. transfers from one heading to another (+/-)	240	(46)	(77)	
As at the end of the financial year	299	505	1,023	
b) DEPRECIATION AND WRITE-DOWNS				
As at the end of the previous financial year	310	551	799	
Movements during the financial year				
. recorded	320		55	
. written back as being redundant (-)	330			
. acquired from third parties	340			
. written off (-)	350			
. transfers from one heading to another (+/-)	360	(46)	(72)	
As at the end of the financial year	399	505	782	
c) NET CARRYING VALUE AS AT THE END OF THE FINANCIAL YEAR (a) - b))	499	0	241	

* If there is a substantial amount under this heading

VIII. STATEMENT OF TANGIBLE FIXED ASSETS

(Assets heading IX) (in thousands of euros)

	Codes	Land and buildings	Plant, machinery and equipment	Furniture and vehicles	Leasing and similar rights	Other tangible fixed assets	Assets under construction and advance payments
		05	10	15	20	25	30
a) ACQUISITION VALUE							
As at the end of the previous financial year	010	1,070,306	30,351	127,290	9,932	212,651	
Movements during the financial year							
- acquisitions, including the resulting fixed assets	020	39,667	792	6,593	1,107	37,521	
- transfers and asset retirements	030	(24,159)	(14,746)	(43,983)		(2,556)	
- transfers from one heading to another	040		244	(244)			
As at the end of the financial year	099	1,085,814	16,641	89,656	11,039	247,616	
b) REVALUATION SURPLUSES							
As at the end of the previous financial year	110	73,580					
Movements during the financial year							
. recorded	120						
. acquired from third parties	130						
. written off (-)	140	(7,268)					
. transfers from one heading to another (+/-)	150						
As at the end of the financial year	199	66,312					
c) DEPRECIATION AND WRITE-DOWNS							
As at the end of the previous financial year	210	566,643	27,324	95,269	370	83,788	
Movements during the financial year							
. recorded	220	33,904	1,750	6,142	425	9,787	
. written off as being redundant	230	(68)					
. acquired from third parties	240	3,572					
. written off (-)	250	(20,553)	(14,725)	(44,109)		(2,156)	
. transfers from one heading to another (+/-)	260						
As at the end of the finacial year	299	583,498	14,349	57,302	795	91,419	
d) NET CARRYING VALUE AS AT THE END OF THE FINANCIAL YEAR (a) + b) - c))	399	568,628	2,292	32,354	10,244	156,197	
of which . land and buildings	410				10,244		
. plant, machinery and equipment	420						
. furniture and vehicles	430						

IX. OTHER ASSETS
(ASSETS HEADING XI)

Breakdown when there occur an important amount under this item

	05
Codes	period
010	
020	
030	
040	
050	
060	
070	

X. DEFERRED CHARGES AND ACCRUED ASSETS
(ASSETS HEADING XII)

	Codes	05
		period
1. Deferred charges	110	10,205
2. Accrued income	120	15,363,352

XI. STATEMENT OF AMOUNTS OWED TO CREDIT INSTITUTIONS (in thousands of EUR)
(Liabilities heading I)

A. For the heading as a whole :

	Codes	Period 05	Preceding period 10
- amounts owed to affiliated enterprises	010	6,527,930	6,043,230
- amounts owed to other enterprises linked by participating interests	020	343	20,714

B. Analysis of amounts owed, other than those repayable on demand, according to remaining maturity
(Liabilities sub-headings I.B. and C.)

	Codes	Period 05
. Up to three months	110	45,315,111
. More than three months and up to one year	120	7,595,075
. More than one year and up to five years	130	13,301
. More than five years	140	50,450
. Undated	150	

XII. STATEMENT OF AMOUNTS OWED TO CUSTOMERS (in thousands of EUR)
(Liabilities heading II)

1. Amounts owed to:

	Codes	Period 05	Preceding period 10
- affiliated enterprises	210	29,866,020	23,483,307
- other enterprises linked by participating interests	220	4,861	1,723

2. Geographical analysis of amounts owed :

	Codes	period 05
- in respect of Belgium	310	55,824,219
- in respect of other countries	320	54,346,489

3. Analysis according to remaining maturity :

	Codes	period 05
. Repayable on demand	410	25,699,274
. Up to three months	420	36,551,262
. More than three months and up to one year	430	9,486,223
. More than one year and up to five years	440	12,694,564
. More than five years	450	5,174,855
. Undated	460	20,564,530

XIII. STATEMENT OF DEBTS REPRESENTED BY SECURITIES

(in thousands of EUR)

(Liabilities heading III.)

1. Securities which, to the knowledge of the credit institution, are debts

	Codes	Period 05	Preceding period 010
- to affiliated enterprises	010	26,648	36,027
- to enterprises linked by participating interests	020	880	

2. Analysis according to remaining maturity

	Codes	Period 05
. up to three months	110	7,057,875
. more than three months and up to one year	120	477,874
. more than one year and up to five years	130	405,766
. more than five years	140	531,544
. undated	150	

XIV. STATEMENT OF OTHER LIABILITIES

(Liabilities heading IV)

(in thousands of EUR)

	Codes	Period 05
1. Expired debts in relation to taxes, payments and social charges against:		
a) Tax Department	210	
b) National Office of Social Security	220	
2. Taxes :		
a) taxes payable	230	76,580
b) estimated tax liabilities	240	184,478

3. Other liabilities

Breakdown when there occur an important amount under this item

	Codes	Period 05
- holiday money, remuneration and other staff charges payable	310	231,488
- dividends payable	320	875,810
- other	330	1,041,578
	340	

XV. ACCRUED CHARGES AND DEFERRED INCOME

(in thousands of EUR)

(Liabilities V)

	Codes	Period 05
1. Accrued charges	010	16,800,868
2. Deferred income	020	74,276

XVI. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

(in thousands of EUR)

(Liabilities sub-heading VI. A. 3.)

Breakdown when there occur an important amount under this item

	Codes	Boekjaar 05
. Guarantee credits	110	55,877
. Litigation	120	87,970
. Provision VAT-litigation	130	16,744
. Provision disablement benefit	140	14,076
. Other	150	6,445

XVII. STATEMENT OF SUBORDINATED LIABILITIES

(in thousands of EUR)

(LIABILITIES heading VIII)

A. For the heading as a whole :

	Codes	Period 05	Preceding period 10
- debts to affiliated enterprises	210	3,299,768	3,420,568
- debts to other enterprises linked by participating interests	220		

B.

	Codes	Period 05
- Costs attendants on subordinated liabilities	310	392,120

C. Detail of each subordinated loan :

Reference-number	Currency	Amount	Maturity date or conditions governing the maturity	a) Circumstances in which the enterprise is required to repay this loan b) conditions for the subordination c) conditions for the conversion into capital
0001	JPY	30,315	22/04/1994-perpetual Issued by KBC Bank	a) Fiscal requalification Repayment possible from the 10th year
0002	GBP	706,109	19/12/2003-perpetual Issued by KBC Bank	a) Fiscal requalification Repayment possible from 19/12/2019 c) Mandatory conversion into KBC Bank in case of Supervisory Event
0003	EUR	185,920	30/11/1998-30/11/2008 Issued by KBC Bank	a) Fiscal requalification and solvency test c) Mandatory conversion into KBC Group at the latest 30/11/2008
0004	EUR	250,000	01/08/2006-01/08/2016 Issued by KBC Bank	a) Fiscal requalification and solvency test c) Mandatory conversion into KBC Bank NV
0005	EUR	2,479	10/04/1998-01/04/2010 Issued by KBC Bank	a) Fiscal requalification
0006	EUR	372	01/04/1998-01/04/2008 Issued by KBC Bank	a) Fiscal requalification
0007	EUR	16,113	01/04/1998-01/04/2010 Issued by KBC Bank	a) Fiscal requalification
0008	EUR	10,833	01/04/1998-01/04/2008 Issued by KBC Bank	a) Fiscal requalification
0009	EUR	33,533	06/11/1998-06/11/2008 Issued by KBC Bank	a) Fiscal requalification
0010	EUR	3,022,372	Subordinated certificate On-tap Issued by KBC Bank	a) Unconditional
0011	USD	208,740	On-tap Deposits originated by KBC IFIMA	a) Fiscal requalification c) Call option issued from 25/04/1989 onwards
0012	EUR	300,000	11/05/1999-perpetual Deposits originated by KBC International Finance	a) Fiscal requalification Repayment possible from the 10th year
0013	EUR	6,000	20/12/1999-20/12/2009 Deposits originated by KBC International Finance	a) Fiscal requalification
0014	EUR	886,617	Continuous issues Deposits originated by KBC IFIMA	a) Fiscal requalification
0015	EUR	300,000	14/12/2005-14/12/2015 Deposits originated by KBC IFIMA	a) Fiscal requalification c) Call option from 14/12/2010 onwards
0016	EUR	48,957	Continuous issues Deposits originated by KBC International Finance	a) Fiscal requalification
0017	USD	8,685	Continuous issues Deposits originated by KBC International Finance	a) Fiscal requalification
0018	CZK	93,885	18/05/2005-18/05/2016 Deposits originated by KBC IFIMA	a) Fiscal requalification
0019	SKK	89,331	18/05/2005-18/05/2016 Deposits originated by KBC IFIMA	a) Fiscal requalification
0020	SKK	43,177	21/12/2005-21/12/2020 Deposits originated by KBC IFIMA	a) Fiscal requalification
0021	EUR	279,512	30/06/1999-perpetual Deposits originated by KBC Bank Funding Trust	a) Fiscal requalification and solvency test

C. Detail of each subordinated loan :

Reference-number	Currency	Amount	Maturity date or conditions governing the maturity	a) Circumstances in which the enterprise is required to repay this loan b) conditions for the subordination c) conditions for the conversion into capital
0022	EUR	299,514	10/11/1999-perpetual Deposits originated by KBC Bank Funding Trust	a) Fiscal requalification and solvency test
0023	USD	406,834	02/11/1999-perpetual Deposits originated by KBC Bank Funding Trust	a) Fiscal requalification and solvency test
0024	EUR	76,095	17/03/2004-17/03/2014 Deposits originated by KBC IFIMA	a) Fiscal requalification
0025	EUR	25,000	17/03/2004-17/03/2014 Deposits originated by KBC IFIMA	a) Fiscal requalification
0026	USD	101,895	07/02/2005-07/02/2025 Deposits originated by KBC IFIMA	a) Fiscal requalification
0027	EUR	92,250	30/06/2005-30/06/2017 Deposits originated by KBC IFIMA	a) Fiscal requalification
0028	EUR	5,000	30/06/2005-07/07/2015 Deposits originated by KBC IFIMA	a) Fiscal requalification
0029	EUR	5,815	15/07/2005-15/07/2015 Deposits originated by KBC IFIMA	a) Fiscal requalification
0030	EUR	22,105	12/08/2005-07/07/2015 Deposits originated by KBC IFIMA	a) Fiscal requalification

XVIII. STATEMENT OF CAPITAL

A. SHARE CAPITAL

	Codes	amounts 05	number of shares 10
1. Issued capital (liabilities sub-heading IX.A.)			
- As at the end of the previous financial year	010	3,763,334	xxxxxxxxxxxxxxxxxxxx
- Movements during the financial year			
	020	266,776	
	030		
	040		
	050		
	060		
- As at the end of the financial year	099	4,030,110	xxxxxxxxxxxxxxxxxxxx
2. Structure of capital			
2.1. Types of share			
- ordinaries	110	4,030,110	412,331,794
	120		
	130		
	140		
	150		
2.2. Registered or bearer shares			
* Registered			
KBC Bank and Insurance Holding NV			412,331,793
KBC Insurance NV			1
TOTAL REGISTERED	160	xxxxxxxxxxxxxxxxx	412,331,794
* Bearer	170	xxxxxxxxxxxxxxxxx	

B. UNPAID CAPITAL

	Codes	unclaimed amounts 05	claimed, unpaid amounts 10
Shareholders who still have to pay	210		
	220		
TOTAL	299		

	Codes	total amount of the capital in possession 05	corresponding number of shares 10
C. OWN SHARES held by:			
- the credit institution	310		
- the credit institution 's subsidiaries	320		
D. Commitments to issue shares			
1. In consequence of the exercise of conversion rights:			
. Amount of current convertible loans	410	185,920	
. Amount of capital to be issued	420	185,920	
. Maximum number of shares for issue	430		4,901,015
2. In consequence of the exercise of subscription rights			
. Number of outstanding subscription rights	440		
. Amount of capital to be issued	450		
. Maximum number of shares for issue	460		
E. AUTHORIZED CAPITAL UNISSUED	510	2,000,000	

	Codes	number of shares 05	voting right 10
F. SHARES OUT OF THE CAPITAL of whom:			
- shares held by the credit institution itself	610		
- sharers held by the credit institutions' daughters	620		

XIX. ANALYSIS OF THE BALANCE ACCORDING TO EUROS AND FOREIGN CURRENCY

(in thousands of EUR)

	Codes	In EUR	In foreign currency (Euro equivalent)
		05	10
TOTAL ASSETS	010	162,204,888	57,367,029
TOTAL LIABILITIES	020	158,823,968	60,747,949

XX. FIDUCIARY TRANSACTIONS IN ACCORDANCE WITH ARTICLE 27TER §1, PARAGRAPH 3

Assets and liabilities headings involved

Codes	Period
	05
110	
120	
130	
140	
150	
160	
170	
180	
190	
200	
210	
220	
230	

XXI. STATEMENT OF GUARANTEED DEBTS AND COMMITMENTS

(in thousands of EUR)

(1) Amount of subscription or carrying value of the mortgaged buildings, when these are lower
(2) Amount of subscription
(3) Book value of the premised assets
(4) Amount of the concerned assets

Collateral security constituted or irrevocably committed by the instituion on its own assets :

	Codes	Mortgages (1)	Pledges on the Trade Fund (2)	Pledges on other assets (3)	Securities on future assets (4)
		05	10	15	20
a) as guarantee for debts and commitments of the credit institution					
1. Liabilities headings					
Mobilisations					
Fixed pledge in respect of European Investment Bank credit facility	010			27,445,387	
Asset pledge requirement KBC New York	020			624,911	
Pledge Federal Reserve Bank of New York	030			53,659	
Other	040			3,215,867	
	050			2,056,167	
2. Off-balance-sheet headings					
Margins in respect of options and futures	110			2,833,844	
	120				
	130				
	140				
	150				
b) as guarantee for debts and commitments of third parties					
1. Liabilities headings					
Other	210			4	
	220				
	230				
	240				
	250				
2. Off-balance-sheet headings	310				
	320				
	330				
	340				
	350				

XXII. STATEMENT OF CONTINGENT LIABILITIES AND OF COMMITMENTS CARRYING A POTENTIAL CREDIT RISK
(Off-balance-sheet headings I. and II.)

(in thousands of EUR)

	Codes	Period 05	Preceding Period 010
. Total of contingent liabilities for affiliated companies	010	27,567,959	24,295,786
. Total of contingent liabilities for companies linked by participating interests	020	92,634	78,312
. Total of commitments in respect of associated companies	030	315	47,455
. Total of commitments in respect of companies linked by participating interests	040		

XXIII. DETAILS CONCERNING THE OPERATING RESULTS
(Profit and loss account headings I. to XV.)

	Codes	Period 05	Preceding Period 10
A.1. Employees in the personnel register			
a) Number of employees at the end of the period	100	11,905	11,942
b) Average number of employees calculated in full-time equivalents	101	10,570	10,919
c) Number of hours worked	102	14,732,074	14,520,316
A.1.Bis. Temporary personnel and persons placed at the disposal of the enterprise			
a) Number of employees registered at the end of the period	110		
b) Average number of employees calculated in full-time equivalents	111	8	5
c) Number of hours worked	112	16,206	9,003
d) Charges to the enterprise	113	554	300
2. Staff charges			
a) Remuneration and direct social benefits	210	579,087	584,553
b) Employer social security contributions	220	154,783	155,328
c) Employer premiums for extra-legal insurance	230	54,204	41,826
d) Other	240	31,420	26,940
e) Pensions	250	2,591	755
3. Provisions for pensions			
a) additions (+)	310	8,079	9,184
b) expenditure and write-backs (-)	320	(26,285)	(32,102)
B. 1. Other operating income			
Breakdown of heading XIV of the profit and loss account if there is a substantial amount under this heading			
	410		
	420		
	430		
2. Other operating charges (Profit and loss account heading XV.)			
. Taxation	510	83,766	77,782
. Other operating charges	520	1,984	2,377
Breakdown of heading XV if there is a substantial amount under this heading			
	610		
	620		
	630		
C. Operating results in respect of associated companies			
. Income	710	3,818,325	2,395,643
. Charges	720	5,725,619	3,040,822

XXIII. DETAILS CONCERNING THE OPERATING RESULTS (continued)

D. Analysis of operating income according to source

(in thousands of EUR)

	Codes	Period: Belgian branches	Period: Foreign branches	Previous period: Belgian branches	Previous period: Foreign branches
		05	10	15	20
I. Interest receivable and similar income	010	6,155,296	2,598,654	4,917,414	1,920,795
III. Income from variable-yield securities					
. shares and other variable-yield securities	110	23,458	16	18,542	13
. participating interests in associated companies	120	1,037,471		757,268	
. participating interests in companies linked by participating interests	130	15,901		11,141	
. Other shares constituting financial fixed assets	140	8,532		15,274	
IV. Commission receivable	210	848,770	91,210	793,853	71,530
VI. Profit on financial transactions					
. on the trading of securities and other financial instruments	310	156,288	4,985	71,310	33,282
. on the disposal of investment securities	320	77,629	(9,093)	64,755	5,908
XIV. Other operating income	410	155,008	7,524	129,160	22,060

Remarks :

1) The attachment to the standard form must include a an analysis by category of activities and by geographical market if there are substantial differences between these markets as regards the organization of sales of products and services that are part of the credit institution's ordinary activities

2) Headings III.B. and C. of the profit and loss account must include in the attachment to the standard form a geographical distinction by refering to the place where the head office of the enterprise is situated

Ventilation géographique des postes III.B., C. en D. du compte de résultats

III. Revenus de titres à revenu variable

	B. Participations dans des enterprises liées	C. Participations dans d'autres entreprises avec lesquelles il existe un lien de participation	D. Autres immobilisations financières	TOTAL
Belgique	368,724	5,166	3,146	377,036
Allemagne	3,000			3,000
Egypt			11	11
Grande-Bretagne	48,972			48,972
Hongrie	43,229			43,229
Hong-Kong	8,998			8,998
Irelande	151,884		4,117	156,001
Luxembourg	2,735			2,735
Pays Bas	19,088		81	19,169
Panama			19	19
Pologne	21,342			21,342
Portugal			1,157	1,157
Singapore	6,175	10,735		16,910
Tchèque	363,324			363,324
Total	1,037,471	15,901	8,531	1,061,903

XXIV. STATEMENT OF FORWARD OFF-BALANCE-SHEET TRANSACTIONS ON SECURITIES, FOREIGN CURRENCIES AND OTHER FINANCIAL INSTRUMENTS NOT INVOLVING COMMITMENTS CARRYING A POTENTIAL CREDIT RISK IN THE SENSE OF OFF-BALANCE-SHEET HEADING II.

(in thousands of EUR)

TYPE OF TRANSACTION	Codes	AMOUNT AT CLOSURE DATE OF THE ACCOUNTS 05	OF WHICH TRANSACTIONS NOT INTENDED AS HEDGES 010
1. On securities			
- Forward purchases and sales of securities	010		
2. On foreign currency (a)			
- forward exchange operations	110	103,643,021	103,631,224
- currency and interest rate swaps	120	70,789,710	70,714,513
- currency futures	130		
- currency options	140	26,400,234	26,400,234
- foreign exchange contracts	150		
3. On other financial instruments			
1. Forward interest-rate operations (b)			
- interest rate swap agreements	210	565,432,129	563,681,991
- interest rate futures	220	18,379,619	18,379,619
- forward rate agreements	230	3,835,225	3,835,225
- interest rate options	240	104,331,727	104,331,727
2. Other forward purchases or sales (c)			
- other option transactions	310	10,997,888	10,997,888
- other future transactions	320		
- other forward purchases and sales	330	474,147	

CALCULATION IN THE NOTES OF THE ACCOUNTS OF THE EFFECT ON RESULTS OF THE DEROGATION FROM THE VALUATION RULE OF ART.36BIS,§2,WITH REGARD TO FORWARD INTEREST-RATE OPERATIONS

Categories of forward interest-rate operations	Codes	Amounts as at year end of the accounts 05	Difference between market value and carrying value 010
a) within the framework of cash management	410	25,785,656	34,672
b) within the framework of ALM	420	10,553,932	256,081

a) Amounts to be deliverd
b) Nominal/Notional reference amount
c) Purchase/Sale price agreed between the parties
d) + positive difference between market value and carrying value
 - negative difference between market value and carrying value

XXV. EXTRAORDINARY RESULTS

	Codes	Period 05
A. . Gains on the transfer of fixed assets to associated companies	010	
. Losses on the transfer of fixed assets to associated companies	020	

B.

	Codes	Period 05
Other extraordinary income (subheading XVII.E. of the profit and loss account): Breakdown, if there is a substantial amount under this heading		
	110	
	120	
	130	
	140	
	150	
Other extraordinary charges (subheading XVIII.E. of the profit and loss account) : Breakdown, if there is a substantial amount under this heading		
	210	
	220	
	230	
	240	
	250	

XXVI. INCOME TAXES

	Codes	Period 05
A. Breakdown of Profit and loss account sub-heading XX.A.		
1. Income taxes for the financial year		
a. Taxes and advance levies due or paid	310	156,516
b. Capitalized excess tax and advance levies paid	320	
c. Estimated additional charges for income taxes (recorded under Liabilities heading IV.)	330	34,669
2. Income taxes for previous financial years		
a. Additional taxes due or paid	410	12,236
b. Estimated additional taxes (recorded under Liabilities heading IV.) or additional tax for which a provision has been formed (recorded under Liabilities sub-heading VI.A.2.)	420	1,729

B. MAIN DIFFERENCES BETWEEN PROFIT BEFORE TAX AS SHOWN IN THE ANNUAL ACCOUNTS AND ESTIMATED TAXABLE PROFIT

With separate mention of the differences stemming from the lapse of time between the moment the accounting profit is determined and the moment the taxable profit is determined (insofar as the profit for the period was materially affected by taxes)

	Codes	Period 05
The difference between profit before tax and estimated taxable profit stems from		
- movements in taxable reserves and provisions	510	1,941
- the specific tax treatment accorded to gains and losses on shares	520	(263,782)
- the application of the FII (Franked Investment Income) system to dividends received	530	(1,007,466)
- disallowed expenditure (other than depreciation charges, impairment losses on shares and company tax)	540	26,056
	550	

XXVI. INCOME TAXES **(continued)**

C. EFFECT OF EXTRAORDINARY RESULTS ON THE AMOUNT OF INCOME TAX FOR THE FINANCIAL YEAR

	Period
Codes	05
010	97,087
020	(40,913)
030	

D. SOURCES OF DEFERRED TAX BALANCES
(when this information is important to get an overall view of the financial position of the credit institution)

	Codes	Period 05
1. Deferred tax debit		
. Taxed provisions and write-downs	110	77,324
. Exaggerated depreciations	120	924
	130	
	140	
	150	
2. Deferred tax credit		
. Revaluation resources to be taxed	210	9,201
	220	
	230	
	240	
	250	

XXVII. OTHER TAXES AND TAXATION FOR ACCOUNT OF THIRD PARTIES

	Codes	Period 05	Previous period 10
A. Value-added tax, turnover tax and special taxes charged during the financial year			
1. To the enterprise (deductible)	310	27,837	21,543
2. By the enterprise	320	34,977	29,814
B. Amounts withheld for account of third parties for:			
1. Payroll withholding taxes	410	165,885	167,740
2. Withholding taxes on investment income	420	167,342	140,241

XXVIII. RIGHTS AND COMMITMENTS NOT REFLECTED IN THE BALANCE SHEET THAT ARE NOT REFERRED TO IN THE SECTION ABOVE OR UNDER OFF-BALANCE-SHEET HEADINGS

	Codes	Period 05
A. Material commitments to purchase fixed assets		
	010	
	020	
	030	
	040	
Material commitments to sell fixed assets		
	110	
	120	
	130	
	140	
B. Material disputes (*) and other important commitments (**) :		
	210	
	220	
	230	
	240	
C. In the event, a brief description of the supplementary retirement or survivor's pensions for staff or senior management, with an indication of the measures designed to cover the attendant costs (***).		
	310	
	320	
	330	
	340	
Pensions paid for by the credit institution itself		
. Estimated amount of the commitments for the credit institution stemming from work already performed	410	
. Basic amount and how it was calculated	420	

(*)
The most significant, pending legal disputes are commented on below. Claims filed against KBC Bank and its companies are 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 (see 'Notes on the accounting policies').
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).
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 has provided below a summary of recent developments relating to the most important cases in this category.

These cases are as follows :
the information provided is limited in order not to prejudice the position of the group in ongoing litigation

Possible outflow
In 2002, a 100-million-euro claim was filed against KBC Bank by the shareholders of a holding company that had wholly owned NV Transport Coulier, a major transport firm in the petrochemical sector declared bankrupt in 1992. According to the claimants, the bank made various errors that led to the bankruptcy of the firm. On 14 October 2005, the court issued a decision, declaring the claims inadmissible. This decision was appealed on 30 June 2006, but no ruling can be expected before 2009.

Remotely probable outflow
On 11 January 2008, the Brussels court sitting in chambers (*Raadkamer*) rendered its decision on the inquiry instituted in mid-1996 relating to the alleged co-operation by (former) directors and members of staff of KBC Bank and Kredietbank SA Luxembourgeoise (KBL) in tax evasion committed by customers of KBC Bank and KBL, ultimately deciding to refer only eleven of the people who had previously been placed under suspicion in the case to the criminal court for trial
All the other persons placed under suspicion have had charges dismissed against them because the evidence was insufficient or the period of prescription had expired. The court sitting in chambers dismissed nearly all of the original allegations of money laundering by (former) KBC/KBL employees. Of the (former) KBC/KBL employees, one person appealed his referral for trial, and the Public Prosecutor appealed the discontinuation of criminal proceedings against three persons. After the legal proceedings before the Indictment Division have been completed, in the end, it is only the criminal court which can decide, based on the merits of the case, whether these persons are guilty or whether they should be acquitted

ČSOB (and KBC Bank in one case) is involved in a number of court cases relating to the *Agreement on Sale of Enterprise*, concluded on 19 June 2000 between Investiční a Poštovní banka (IPB) and ČSOB, and to the guarantees provided in this respect by the Czech Republic and the Czech National Bank. In one of these cases, ČSOB initiated arbitration proceedings in respect of the above guarantees at the International Chamber of Commerce on 13 June 2007 against the Czech Republic concerning payment of the sum of 62.3 million euros plus interest. The Czech government has filed a counterclaim, provisionally estimated at 1 billion euros plus interest. Having examined the matter, internationally renowned law firms have, in formal legal opinions, come to the conclusion that the counterclaim is unfounded.

(**)
The credit institution irrevocably guarantees all the commitments of the Irish companies named below as at 31 December 2007; these companies may accordingly be exempted from certain publication requirements under section 17 of the Irish Companies Amendment Act

IIB Bank
KBC Asset Management International Limited
KBC Asset Management Limited
KBC Financial Services (Ireland) Limited
KBC Fund Managers Limited

The credit institution irrevocably guarantees all the commitments of the companies named below as at 31 December 2007; these companies are be exempted from publication on consolidated basis.

KBC Asset Management NV
KBC Clearing
KBC Securities NV
Antwerpse Diamantbank NV

(***)
A system of extra pension provision exists for all members of staff, including old-age pensions, death benefits, pensions for the surviving partner and orphan's pensions The amount of these provisions depends on the final average salary, the number of years in service and the age of the person when he/she takes retirement, this within the scope of a 'defined benefits' scheme

These pension provisions are financed entirely by the employer by means of yearly sums charged against profit. These sums, calculated on actuarial basis according to the the 'aggregate cost' method, are transferred to KBC's Pensioenfonds VZW, which is responsible for the supervision of the provisions that are set aside, the payment of the extra pensions and the relevant administration

The directors on the Executive Committee are also entitled to extra pension provisions, based on similar principles. A group assurance policy has been taken out for this purpose.

There is also a supplementary pension plan (capitalization system) based exclusively on personal contributions by staff made through the deduction of sums from pay. The credit institution guarantees the capitalization of the contributions made at an interest rate of 4.75% a year for the period through 30 June 1999 and at an interest rate of 3.75% from 1 july 1999,which is effective on disbursement.
The management of the provisions set aside for this purpose, the payment of pensions and the relevant administration are entrusted to the VZW Aanvullend pensioenfonds KBC and Aanvullend Pensioenfonds Directie KBC, respectively.

XXIX. FINANCIAL RELATIONSHIPS

A. WITH DIRECTORS AND PARTNERS
B. WITH NATURAL OR LEGAL PERSONS WHO CONTROL THE COMPANY DIRECTLY OR INDIRECTLY, AND ARE NOT ASSOCIATED COMPANIES
C. WITH OTHER COMPANIES THAT DIRECTLY OR INDIRECTLY CONTROL THE PERSONS REFERRED TO UNDER B.

	Codes	Period 05
A. 1. Amounts receivable from the above-mentioned persons	510	3,004
2. Liabilities incurred in their favour	520	
3. Other significant commitments entered into in their favour	530	
Most important conditions in relation to A1, A2 en A3.		
B. 1.The amount of direct and indirect remuneration and of pensions charged to the profit and loss account, on the understanding that this does not relate exclusively or primarily to the situation of a single identifiable person:		
- to the directors and managers	610	9,826
- to former directors and managers	620	60
D. Note regarding assignments carried out by the auditor and work performed by companies with which the auditor has entered into professional co-operation arrangements. Pursuant to Article 134 of the Companies Code, shown below is: The total of the fees paid by KBC Bank NV to Ernst&Young and to the companies with which it has entered into a professional co-operation arrangement :		
- Fees paid for the statutory audit assignment	810	1,839
- Fees paid for other certifications	820	149
- Fees paid for tax advice:	830	59
- Fees paid for other non-audit services	840	40

SOCIAL REPORT

Numbers of joint industrial committees which are competent for the enterprise			
	310		

I. STATEMENT REGARDING THE COMPANY'S WORKFORCE

A. EMPLOYEES IN THE PERSONNEL REGISTER

1. During the present and the preceding financial period	Codes	**1. Full-time** *period*	**2. Part-time** *period*	**3. Total (T) or total in full-time equivalents (FTE)** *period*	**4. Total (T) or total in full-time equivalents (FTE)** *period*
Average number of employees	100	7,246	3,890	11,136 (FTE)	10,230 (FTE)
Number of actual hours worked	101	10,439,225	3,126,907	13,566,132 (T)	13,400,716 (T)
Staff charges (in thousands of EUR)	102	561,008	168,042	729,050 (T)	729,530 (T)
Benefits in addition to wages (in thousands of EUR)	103	10,884	3,260	14,144 (T)	13,709 (T)

2. As at the closing date of the financial period	Codes	**1. Full-time**	**2. Part-time**	**3. Total in full-time equivalents**
a. Number of employees recorded in the personnel register	105	7,271	3,882	9,932.6
b. By nature of the employment contract				
Contract of unlimited duration	110	7,271	3,882	9,932.6
Contract of limited duration	111			
Contract for specific work	112			
Substitute's contract	113			
c. By sex				
Men	120	4,757	933	5,353.3
Women	121	2,514	2,949	4,579.3
d. By professional category				
Senior management	130	97	1	97.8
Employees	134	7,174	3,881	9,834.8
Workers	132			
Other	133			

B. TEMPORARY PERSONNEL AND PERSONS PLACED AT THE DISPOSAL OF THE ENTERPRISE

During the financial period	Codes	**1. Temporary personnel**	**2.Persons placed at the disposal of the enterprise**
Average number of personnel employed	150	8	
Number of hours worked	151	16,206	
Charges to the enterprise (in thousands of EUR)	152	554	

II. CHANGES IN THE WORKFORCE DURING THE FINANCIAL PERIOD

A. NEW EMPLOYEES

	Codes	1. Full-time	2. Part-time	3. Total in full-time equivalents
a. Number of new employees entered in the personnel register during the financial period	205	513	58	557.1
b. By nature of the employment contract				
Contract of unlimited duration	210	513	58	557.1
Contract of limited duration	211			
Contract for specific work	212			
Substitute's contract	213			
c. By sex and level of education				
Men : Primary education	220			
Secondary education	221	9	1	9.8
Higher, non-university education	222	137	1	137.8
University education	223	94	1	94.8
Women Primary education	230			
Secondary education	231	12	28	32.2
Higher, non-university education	232	179	14	189.8
University education	233	82	13	92.7

B. Employees leaving the company

	Codes	1. Full-time	2. Part-time	3. Total in full-time equivalents
a. Number of employees whose contract termination date as entered in the personnel register was in the financial period	305	377	294	553.8
b. By nature of the employment contract				
Contract of unlimited duration	310	377	294	553.8
Contract of limited duration	311			
Contract for specific work	312			
Substitute's contract	313			
c. By sex and level of education				
Men : Primary education	320			
Secondary education	321	69	89	115.9
Higher, non-university education	322	99	44	124.9
University education	323	91	11	97.5
Women Primary education	330			
Secondary education	331	25	89	78.6
Higher, non-university education	332	57	46	90.0
University education	333	36	15	46.9
d. By reason for contract termination				
Pension	340	54	170	141.1
Early retirement	341			
Dismissal	342	30	5	33.8
Other reason	343	293	119	378.9
Of which: number of former employees who continued rendering services to the enterprise at least on a part-time basis as self-employed persons	350			

III. STATEMENT CONCERNING THE IMPLEMENTATION OF MEASURES STIMULATING EMPLOYMENT DURING THE FINANCIAL PERIOD

MESURES STIMULATING EMPLOYMENT	Codes	Employed persons involved		3. Amount of financial profit *(in thousands of EUR)*
		1. Number	2. In full-time equivalents	
1. Mesures generating a financial profit (*)				
1.1. Recruitment benefit plan (to encourage the recruitment of job-seekers in risk categories)	414			
1.2. Conventional part-time early retirement plan	411			
1.3. Career Break	412			
1.4. Reduction in working hours (part-time career break)	413			
1.5 'Sociale Maribel' plan	415			
1.6. Structural reduction in social security contributions	416			
1.7. On-placement programmes	417			
1.8. Service jobs	418			
1.9. Job - training agreements	503			
1.10. Apprenticeship contracts	504			
1.11. First job agreements	419			
2. Other measures				
2.1.Training period for young people	502			
2.2. Succesive employment contracts of limited duration	505			
2.3. Conventional early retirement	506	17	17	
2.4. Reduction in personal social security contributions for low wage employees	507			
Number of employees involved in one or more measures stimulating employment				
- total for the financial period	550	17	17	
- total for the previous financial period	560	26	26	

IV. INFORMATION ON EMPLOYEE TRAINING DURING THE FINANCIAL PERIOD

Total of training initiatives at the employer's expense	Codes	Men	Codes	Women
1. Number of employees	5801	4,108	5811	3,524
2. Number of training hours	5802	105,787	5812	106,596
3. Charges to enterprise *(in thousands of EUR)*	5803	12,057	5813	9,143

V. INFORMATION ON TRAINING, GUIDANCE, OR MENTORING ACTIVITIES OF EMPLOYEES IN IMPLEMENTATION OF THE LAW OF 5 SEPTEMBER 2001 FOR THE IMPROVEMENT OF THE DEGREE OF EMPLOYMENT OF EMPLOYEES

	Codes	Men	Codes	Women
1. Number of employees who performed these activities	5804	171	5814	71
2. Number of hours spent on these activities	5805	5,593	5815	1,704
3. Number of employees who benefited from these activities	5806	4,312	5816	3,753

(*) Financial benefit to the employer regarding the iindividual entitled or substitute

Valuation Rules - KBC Bank NV

1. General

The accounting principles and valuation rules conform to Belgian accounting legislation and the provisions of the Royal Decree of 23 September 1992 on the annual accounts of credit institutions.

The annual accounts are made up as at 31 December after profit appropriation.

2. Valuation rules

CURRENCY TRANSLATION

All monetary items denominated in foreign currency are translated into their equivalent in euros at the spot rate at balance sheet date. Negative and positive valuation differences, except for those relating to the financing of shares and investments in foreign currency and to dotation capital for foreign branches, are recorded in the profit and loss account.

Non-monetary items are valued on the basis of the historical rate at acquisition or, where appropriate, on the basis of the exchange rate at which the currency used to pay the price was purchased.
For transactions that entailed funding (lending), the rate of the day is used if there is no exchange rate.

Income and charges denominated in foreign currency are stated in the profit and loss account at the rate prevailing when they were recognised. Foreign-currency income and expenditure which is hedged in advance is recorded in euros on the basis of the fixed rate.

Translation of the financial statements of foreign branches outside the euro zone:
balance sheet items are translated at the closing exchange rate prevailing at year-end, profit and loss account items are translated based on average rates. For this purpose, each month's profit or loss is translated into euros at the rate prevailing at the end of that month.

The translation difference at balance sheet date, resulting from translating the profit and loss account on the basis of average rates, is taken to the profit and loss account as profit on financial transactions.

AMOUNTS RECEIVABLE

Interest collected in advance and similar income (including such additional compensation as fees for foreign loans) for the entire loan period cannot be taken to the profit and loss account immediately, and is therefore posted to an accruals and deferrals heading. At month-end, the amount earned is written to the profit and loss account.
Origination and processing fees charged are taken to profit and loss immediately on the inception of the loans and advances concerned, credit insurance premiums are taken to the profit and loss account annually when paid.
Commissions due (payable in advance) for bank guarantees given are recorded in the profit and loss account immediately. The commissions awarded by KBC Bank for credit broking are charged to the profit and loss account when the credit is disbursed.

Amounts receivable arising from advances and cash deposits are recorded in the balance sheet in the amount made available. The difference between the amount made available and the nominal value (discount) is recognised on an accruals basis according to the straight-line method as interest receivable via the accruals and deferrals accounts.

Dated commercial credit, consumer credit, home loans and receivables arising from leasing contracts are recorded in the balance sheet in the outstanding principal amount, plus the interest past due and sundry costs to be paid by customers. Interest received but not yet due (interest collected in advance) is recorded in the profit and loss account on an accruals basis via the accruals and deferrals headings.

The other amounts receivable are recognised in the balance sheet at nominal value.

Loans and advances that are transferred through securitisation operations where the transfer qualifies as a sale under CBFA guidelines no longer constitute bank assets and consequently may not appear on the balance sheet of KBC Bank, although the amount is required to be recorded in the contingent accounts. Until the securitisation operation comes to an end, the entry in the contingent accounts is required to be adjusted at the end of each month to reflect customers' loan repayments. Any gains realised on the sale of securitised assets are taken to the profit and loss account immediately at the time of the sale.
If the sales price is made up entirely or in part of a variable element dependent on the buyer's operating profit, this element will only be taken to the profit and loss account when the operating profit is known and this element is therefore fixed.

In synthetic securitisation operations, the (credit) risk in respect of the underlying (loan) portfolio is all that is transferred to a third party, and this by means of a credit default swap, for example, and not through the effective transfer/sale of the (loan) receivables. In other words, the loans remain on the balance sheet. Transactions used to hedge the bank's own loan receivables are booked as guarantees given or received. Transactions relating to the trading book are recorded as interest rate swaps. Both types of transaction are marked to market and taken to profit and loss, unless carried out on an illiquid market (in this case, positive valuation differences are posted to an accruals and deferrals heading, and negative valuation differences to the profit and loss account).

For loans with an uncertain outcome, general provisions are set aside, specific write-downs are charged and provisions are created for loans that are linked economically. All interest and various other receivables which have remained unpaid for three months after having become payable will not be recognised in the profit and loss account.
Non-specific write-downs are calculated for domestic loans with an uncertain outcome on the basis of the principal amount whose repayment is uncertain, the percentage susceptible to reclassification (that portion of the 'uncertain outcome' portfolio that might become 'doubtful') and the loss percentage. The percentages are arrived at on the basis of their moving average over the latest twelve months.
IBNR losses are recognised to take account of incurred but not yet reported losses on normal loans.

For loans classified as irrecoverable and doubtful, specific write-downs are posted on a case-by-case basis and charged to the assets heading in the annual accounts in which the risks appear, in order to cover the losses which are considered certain or likely to ensue on the outstanding loans. Interest due and charges are written to reserves.
Loans are classified as irrecoverable and doubtful if the loan balance is payable and if debt-recovery procedures have been initiated in or out of court.

The amount of any security is equal to the principal amount registered. Personal security is recorded in the accounts in the amount that can be obtained if execution is levied. Whenever the borrower makes a payment, the current amount of security has to be adjusted. If insufficient security is provided for a loan, a risk premium in the form of a higher rate of interest will be charged. The income this generates will be posted to 'Net interest income' on an accruals basis.

For country risks, provisions are established that meet the relevant provisioning requirements imposed by the CBFA. In addition, the bank sets aside additional funds, which it considers necessary for the management of country risks. These are risks in respect of countries or groups of countries whose economic, financial, legal or political situation warrants the setting aside of provisions on prudential grounds.

Amounts provisioned for country risks are broken down by type of counterparty (credit institution or non-credit institution) and recorded as an adjusting entry under the 'Loans and advances to credit institutions' or 'Loans and advances to customers' heading, as appropriate.

SECURITIES

Securities are recognised at acquisition cost at the time of purchase, excluding costs and less subscription fees. The ancillary costs attendant on acquisition are charged directly to the result.

- *Investment portfolio*

Fixed-income investment securities are recorded at acquisition cost, less or plus the matured portion of the premium or discount. The difference between the acquisition cost and the redemption value is reflected as an interest item in the profit and loss account on an accruals basis over the remaining term to maturity of the securities. It is included in the profit and loss account on a discounted basis, based on the internal rate of return at the time of purchase.

Perpetual debt is valued at the lower of acquisition cost and market value.

If redemption of a security is uncertain or doubtful, a write-down is recorded according to the principles that apply for the valuation of amounts receivable.
If securities are sold, their carrying value is determined on a case-by-case basis. Gains or losses are posted directly to the profit and loss account.

Listed shares and other variable-yield securities are valued each month at the lower of acquisition cost and market value at balance sheet date. Other securities are valued at least once a year, based on the annual accounts for the previous year. File administrators are responsible for ensuring that any significant negative developments during the course of the year are also dealt with.

No value impairments are posted for shares hedged against a decline in price by means of an option.

- *Trading portfolio*

Securities belonging to the trading portfolio are marked to market. The valuation differences this generates are recorded in the profit and loss account under heading VI: 'Profit (Loss) on financial transactions'.

FINANCIAL FIXED ASSETS

Included in KBC Bank's holdings or participating interests are the rights (shares) held in other companies with a view to creating specific, lasting ties with them.
If there are no lasting ties and the shares are acquired for resale, then this investment will not be considered a financial fixed asset, but rather as part of the investment portfolio, regardless of the size of the shareholding and the influence that could be exerted on the management of the company in question through this shareholding.

Participating interests and shares that are considered financial fixed assets are recognised at acquisition cost. Write-downs are applied only in the event of a lasting impairment in or loss of value, established on the basis of the financial position, the profitability and the prospects of the company concerned.
Participating interests, shares and share certificates classified as financial fixed assets may be revalued if, in light of their usefulness to the company, they exhibit an incontestable and lasting increase in value.

Regardless of whether they are represented by securities, subordinated loans and advances to associated companies and companies linked by participating interests are valued according to the same principles as non-subordinated loans and advances.

FORMATION EXPENSES AND INTANGIBLE FIXED ASSETS

All formation expenses referred to in the Royal Decree on the annual accounts of credit institutions are charged directly to the profit and loss account for the financial year as administrative expenses.

Capitalised goodwill is depreciated according to the straight-line method over a period of five years, unless the Board of Directors decides otherwise.

Software developed in-house is charged immediately to the profit and loss account. Systems software is depreciated at the same rate as hardware, being written off according to the straight-line method over a period of three years. Standard software and software customised or developed by third parties or tailor-made software, as well as its implementation, is capitalised and written off according to the straight-line method over its useful economic life. Since 2000, software developed for KBC head office has been capitalised for KBC Exploitatie NV.

At KBC Bank, intangible fixed assets recorded are capitalised at acquisition cost including ancillary costs, and are written off on an accruals basis during the first year of investment.

TANGIBLE FIXED ASSETS

All tangible fixed assets are recognised at acquisition cost, less accumulated depreciation. They are recorded at acquisition cost, including ancillary, directly allocable costs (acquisition costs, non-deductible VAT, etc.).

The rates of depreciation are determined on the basis of the anticipated useful economic life of the item and are applied according to the straight-line method. All tangible fixed assets are depreciated on an accruals basis during the first year of investment. The ancillary costs are written off over the life of the asset. A write-down is charged for ancillary costs on the acquisition of land.

When tangible fixed assets are sold, realised gains or losses are taken immediately to the profit and loss account. If these assets are destroyed, the remaining amount to be written off is charged directly to the result.

Tangible fixed assets that exhibit an incontestable and lasting appreciation in value compared to their carrying value may be revalued. This surplus is written off over the average residual useful life of the assets in question.

CREDITORS

Amounts owed as a result of advances or cash deposits received are recorded in the balance sheet in the amount made available, plus or minus any difference between this amount and the redemption price of the portion that has already accrued. The difference between the amount made available and the nominal value is reflected as interest on an accruals basis in the profit and loss account.

PROVISIONS FOR LIABILITIES & CHARGES

Provisions for liabilities and charges are intended to cover losses or charges, the nature of which is clearly defined and which at balance sheet date are either likely or certain to be incurred, but the amount of which is uncertain.

- Pensions
Concerned here are commitments with regard to retirement and survivor's pensions, benefits paid out on early retirement and other similar pensions or allowances (related mainly to employees' leaving employment early and end-of-career schemes).

- Taxation
This provision covers the commitments that may arise from a change in the tax base or in the calculation of tax. It is set aside in anticipation of additional tax charges (not yet assessed) for past financial years, for the amount that is disputed.

- Other liabilities and charges

This is a residual heading in respect of the provisions referred to above and includes provisions for legal disputes, commitment credit and indirect taxes.

FINANCIAL INSTRUMENTS

- *Valuation rules for trading and non-trading activities*

Where trading activities are concerned, the unrealised profit or loss on revaluation is recognised at least at the end of every month. This revaluation takes into account any interest flows that have already been recognised on an accruals basis. In the event of a sale, liquidation or expiration, the profit/loss on the position is recognised immediately. Where illiquid currencies or securities are concerned, no profit on revaluation is recognised.

The existing strategic positions the dealing room takes for its own account via derivatives with a view to generating a profit on the long term by way of capital gains or interest spreads are valued according to the same principles used for illiquid interest rate positions.

For non-trading activities, where interest rate instruments are concerned, the gains or losses realised are only recognised on an accruals basis over the corresponding term. The valuation of non-interest-rate instruments (e.g., share option premiums) matches the valuation of the hedged position. In addition, non-trading activities carried out for the purpose of general, long-term management of interest rate products denominated in a foreign currency (macro-hedging) are also valued according to the 'lower of cost and market' principle, along with the associated on-balance-sheet products. Profit or loss on similar transactions carried out for general EUR ALM interest rate management purposes is recognised solely on an accruals basis.

Option premiums that are paid in advance are only taken to the profit and loss account on the due date or on liquidation, with the exception of option premiums for caps, floors and collars that have been concluded for hedging purposes (accruals-basis recognition). In the meantime, they are posted under the 'Other assets' or 'Other liabilities' items. Option premiums relating to trading activities are revalued at least at the end of every month.

- *Valuation of derivatives*

All derivatives are always recorded under specific off-balance-sheet headings on the transaction date. Amounts are released from the off-balance-sheet headings once the outcome of the transaction is definitive, even if the underlying term only starts at that time for certain interest rate products (e.g., FRAs).

Trading transactions are marked to market, and the mark-to-market value is recognised in the trading results. Non-trading transactions are included in interest income on an accruals basis, which is the case for interest payable and interest receivable relating to interest rate swaps and foreign currency interest rate swaps. The swap difference arising on FX swaps (and FX outrights) is also released to the results on an accruals basis. The results from interest rate futures and FRAs are included in the profit and loss account spread over the term of the underlying hedged item. Equity swaps are treated in the same way as interest rate swaps. In practice, equity swaps (just like options) are only recorded in the trading book and consequently marked to market. KBC Bank makes use of the derogation allowed by the CBFA to Article 36 bis of the Royal Decree on the annual accounts of credit institutions. This derogation makes it possible to take interest rate derivatives that do not meet the hedging criteria to the profit and loss account on an accruals basis (interest rate derivatives classified as ALM or treasury management instruments).

- *Hedging criteria for forward interest rate transactions:*

The general criteria are set out in Article 36bis of the Royal Decree on the annual accounts of credit institutions of 23 September 1992:

the hedged item or the combination of comparable hedged items must expose the credit institution to a risk of interest rate fluctuation;

the transaction must be recorded in the books as a hedge from its inception;
there must be a close correlation between fluctuations in the value of the hedged item and fluctuations in the value of the hedge; in the case of hedging options, there must be a correlation between fluctuations in the value of the hedged item and fluctuations in the value of the underlying financial instrument.

In addition, specific company criteria apply. All these criteria must be met: if one criterion is no longer satisfied, the hedge will be considered a trading transaction and be subject to the appropriate accounting treatment.

Hedging combinations that involve derivatives and are terminated before maturity will be considered trading transactions once the underlying position to be hedged no longer exists.

Future interest rate positions can be hedged if it is reasonably certain that the position will actually materialise. Moreover, the amount, term and interest rate conditions must be sufficiently certain.

- Calculation of unrealised profit/loss on revaluation

Derivatives are always valued on a contract basis; positive and negative valuation differences are not netted in the accounting records. Only for calculating capital adequacy requirements relative to market risks is the market risk calculated on a net basis per counterparty.

For forward interest rate and similar products (namely forward foreign exchange products), valuation occurs on the basis of the net present value of future, determinable cash flows using a single yield curve per currency, which is used throughout the bank. Any adjustments for operational and liquidity risks are deducted from the initial revaluation. Options are valued according to the usual valuation models. For interest rate products, calculations are always based on the assumption of a liquid market, provided the underlying currencies are liquid.

If a credit granted to a counterparty is classified as 'doubtful' or 'irrecoverable', the receivables and commitments stemming from off-balance-sheet products involving the same counterparty will be given the same classification. For loans and advances, write-downs may be recorded; for commitments, provisions will be set aside.

3. Changes in valuation rules

There were no changes to the valuation rules with a material impact on the figures.

COMMENTS ON THE NON-CONSOLIDATED ANNUAL ACCOUNTS OF KBC BANK NV - 2007

PROFIT AND LOSS ACCOUNT - NV ('000 EUR)	2007	2006	change	in %
Gross income from ordinary activities	3.476.047	3.195.187	280.860	8,79%
General administrative expenses	-1.643.938	-1.550.160	-93.778	6,05%
OPERATING RESULT	**1.832.109**	**1.645.027**	**187.082**	**11,37%**
Write-downs and provisions	-2.010	14.652	-16.662	...
PROFIT FROM ORDINARY ACTIVITIES	**1.830.099**	**1.659.678**	**170.420**	**10,27%**
Extraordinary result	56.272	110.189	-53.917	-48,93%
Income taxes	-196.967	-279.098	82.131	-29,43%
PROFIT FOR THE PERIOD AVAILABLE FOR APPROPRIATION	**1.689.404**	**1.490.769**	**198.635**	**13,32%**

Profit for financial year 2007 TO BE APPROPRIATED was up 199 million euros to 1 689 million euros.

Gross income came to 3 476 million euros, an 8.79% increase on 2006. Of this increase, 283 million euros were accounted for by dividend income, while the 118-million-euro drop in net interest earnings was offset by the 55-million-euro increase in income from financial transactions and the 61-million-euro rise in net commission and other operating income.

General administrative expenses (including 'depreciation and amortisation on intangible and tangible fixed assets' and 'other operating charges') went up in 2007 by 94 million euros or 6.1%, to 1 644 million euros. The increase was accounted for mainly by other administrative expenses (73 million euros or 11.92%) and to a less extent by staff charges (13 million euros or 1.57%).

On balance, the operating result went up by 187 million euros or 11.37%. Taking into account the limited net transfer to write-downs and provisions (2 million euros) in 2007, compared with a net reversal of 15 million euros in 2006, profit from ordinary activities went up compared to last year by 170 million euros to 1 830 million euros (+10.27%).

The extraordinary result fell from 110 million euros to 56 million euros, principally as a result of provisions set aside for financial fixed assets.

Income taxes went down by 82 million euros to 197 million euros, owing to the decline in taxable profit.

GROSS INCOME FROM ORDINARY ACTIVITIES

Gross income comprises net interest income, dividends received, earnings on financial transactions, other commission and operating income (headings I through VI and XIV).

The 8.79% increase in gross income to 3 476 million euros is the result of:

- the 283-million-euro increase in income from variable-yield securities (heading III.). At most of the subsidiaries, the dividend payout ratio for 2007 was increased under KBC group's 2006-2009 share buyback programme.

- The 118-million-euro decline in net interest income (headings I. and II.), accounted for mainly by the mounting cost of funding investments in new acquisitions.
  Net interest income as a percentage of gross income from ordinary activities fell from 44.30% to 37.32%.
- Profit from financial transactions went up by 55 million euros, or 31.13%. The high level of capital gains realised on variable-yield securities resulting primarily from the sale of Intesa San Paolo shares for an amount of 207 million euros at the start of 2007 was largely offset by the 133 million euros in losses on the sale of long-term bonds (due mainly to positions being scaled down, given the anticipated trend in interest rates).
- Net commission and other operating income (headings IV, V and XIV) went up by 61 million euros or 7.65%. This increase can be put down in part to the higher commission from sales of investment funds.

GENERAL ADMINISTRATIVE EXPENSES

General administrative expenses (including 'depreciation and amortisation on intangible and tangible fixed assets' and 'other operating charges') went up by 94 million euros or 6.05% compared with 2006.

Operating charges (headings VII. and XV.) were up 78 million euros or 11.35%, chiefly on account of higher amounts being billed via the cost-sharing structure due to a shift in activities (see personnel charges), higher automation expenses and an increase in fees (relating to acquisitions, etc.).

Depreciation charges (heading VIII.) were up 3 million euros or by 5.34%.

At KBC Bank Belgium, staff charges levelled off. This was the resultant of the decline in the number of full-time equivalents owing to personnel being shifted to KBC Group, as well as of negative factors, such as indexation (1.69%) and other pay increases. In the branches abroad, a 13-million-euro increase was recognised owing to an increase in the workforce and higher result-based bonuses.

The cost/income ratio fell from 48.52% in 2006 to 47.29% in 2007.

WRITE-DOWNS AND PROVISIONS

Total transfers to and from write-downs and provisions (headings IX through XIII, inclusive) resulted in 2007 in limited net provisioning of 2 million euros. In 2006, there had been a net reversal of 15 million euros.

Total write-downs on and provisions for credit risks (headings IX and X) went from a 3-million-euro reversal in 2006 to net provisioning of 39 million euros in 2007. This can be put down mainly to a new method for calculating general provisions (IBNR), which resulted in 61 million euros being set aside. In 2006, 4 million euros in impairment losses on securities were reversed, whereas in 2007, write-downs of 7 million euros were recognised.

In both 2007 and 2006, more was transferred from provisions and used (heading XI) than transferred to them (heading XII).

The net surplus of 44 million euros recorded in 2007 between transfers from provisions and provisions used was due mainly to the closure of the 52-million-euro provision for miscellaneous expenses and future expenditure. This was offset to some extent by provisioning for legal and tax disputes.
The 8-million-euro surplus recognised in 2006 stems from a positive balance for personnel-related provisions, which was also offset to some extent by provisioning for legal and tax disputes.

EXTRAORDINARY INCOME AND CHARGES

In 2007, extraordinary profit came to 56 million euros, 54 million euros less than in 2006, due mainly to lasting impairment losses being recognised on financial fixed assets in 2007. Gains realised on financial fixed assets ended both 2006 and 2007 at 115 million euros.

INCOME TAXES

Income taxes (heading XX) went down by 82 million euros to 197 million euros, mainly because of the lower taxable profit of KBC Bank Belgium. For an overview of taxation, please see Table XXVI in the Notes.

ASSETS / LIABILITIES

BALANCE SHEET TOTAL

At year-end 2007, total assets came to 219.6 billion euros, an increase of 36 billion euros or 19.64 % on the year-end figure for 2006. On the assets side of the balance sheet, nearly all items were up, with the exception of bonds and other fixed-income securities and shares. On the liabilities side, amounts owed to credit institutions and amounts owed to customers were the main headings that went up.

At the end of 2007, amounts receivable from abroad accounted for 59.97 % of the balance sheet total (58.35% at the end of 2006). The branches abroad held around 19.43 % of the bank's total assets, up 0.37 % year-on-year.

TRANSACTIONS WITH CREDIT INSTITUTIONS

Loans and advances to banks (asset heading III) went up by 20.3 billion euros. Approximately 44 % of this heading is accounted for by reverse repos. Time deposit accounts went up in 2007 by 8.1 billion euros, while repo transactions rose by 7.1 billion euros. Amounts owed to credit institutions (liabilities heading I) also rose by 15.6 billion euros.
Accordingly, net borrowing from credit institutions came to 13.5 billion euros at the end of the financial year, compared with 18.2 billion euros a year earlier. The net volume outstanding depends on the liquidity requirements of the bank.

LOANS AND ADVANCES TO CUSTOMERS

Asset heading IV, ‘Loans and advances to customers’, includes not only payment credit granted by the bank, but also securities for collection and balances on suspense accounts. Of the amount outstanding, 71.3 % is denominated in euros, while 55.20 % represents exposure to Belgian counterparties.

Payment credit went up by 16.8 billion euros to 99.6 billion euros. The increase is due to the 16.6-billion-euro increase in term loans.

In July 2007, a new securitisation operation involving home loans was carried out for an amount of 3.8 billion euros.

FIXED-INCOME SECURITIES

The total portfolio of fixed-income securities (asset headings II and V) fell by 9.5 billion euros to 33.4 billion euros. Securities issued by public authorities represented 64.98% of the portfolio and those issued by credit institutions 17.29%.

The investment portfolio decreased by 11.4 billion euros to 22.2 billion euros. The portfolio consists mainly of Belgian and EMU government issues. At year-end 2007, there was an unrealised loss on the investment portfolio of fixed-income securities of 169 million euros.
The trading book, consisting mainly of government securities and securities issued by credit institutions, grew in 2007 by 2 billion euros to 11.2 billion euros.

SHARES AND OTHER VARIABLE-YIELD SECURITIES

Asset heading VI, 'Shares and other variable-yield securities' came to 449.8 million euros, compared with 721 million euros at the close of 2006. The trading portfolio went down by 271 million euros.

FINANCIAL FIXED ASSETS

Participating interests, other shares and subordinated loans constituting financial fixed assets (heading VII) went up by 7.2 billion euros to 16.2 billion euros.
The main additional investments made were in the following associated companies:
the stake in IIB Bank Ltd. was upped by 118 million euros, and the investment in CSOB by 396 million euros.
New investments were made in KBC Credit Investments to the tune of 5 billion euros, in Absolut Bank of 698 million euros and in ElBank of 297 million euros.

FORMATION EXPENSES AND INTANGIBLE FIXED ASSETS

Asset heading VIII, 'Formation expenses and intangible fixed assets', is made up solely of intangible fixed assets.

TANGIBLE FIXED ASSETS

Asset heading IX went up by 19 million euros to 770 million euros. This was accounted for by the increase in real estate activities.

OTHER ASSETS

These went up by 526 million euros to 1.8 billion euros. This increase can be put down to the revaluation of trading interest rate options, which are very volatile.

ACCRUALS AND DEFERRALS

Deferred charges and accrued income are recorded under asset heading XII.
They went up by 767 million euros to 15.4 billion euros.

AMOUNTS OWED TO CUSTOMERS AND DEBTS REPRESENTED BY SECURITIES

Customer deposits, including those represented by securities, are recognised under liabilities headings II and III. These are liabilities ensuing on the attraction of working funds from customers (this includes discounting, repurchase agreements and secured advances), as well as credit balances on suspense accounts and the short position in the trading portfolio.

Total customer deposits went up by 16.1 billion euros to 118.6 billion euros at year-end 2007. Most products contributed to this increase with the exception of customer savings certificates, which remained unchanged. Savings deposits were 2.2 billion euros lower.

OTHER LIABILITIES

Other liabilities (heading IV) include liabilities relating to options premiums paid, taxation, remuneration and social security charges. This heading also includes dividends to be paid on treasury shares and invoices yet to be paid by the bank. There was an increase of 0.2 billion euros compared with financial year 2006.
For an overview, please see Table XIV in the Notes.

ACCRUALS AND DEFERRALS

Accrued charges and deferred income are recorded under liabilities heading V.
There was an increase of 1.6 billion euros compared with financial year 2006.

PROVISIONS FOR LIABILITIES AND CHARGES

Provisions for liabilities and charges (liabilities heading VI.A) fell in 2007 by 22.3 million euros to 236.1 million euros. This decline was accounted for mainly by the provision for end-of-career schemes (18 million euros). For more information on transfers to and from provisions, please see the comments on the profit and loss account.

SUBORDINATED LIABILITIES

A breakdown by type and remaining term to maturity for liabilities heading VIII is shown in Table XVII in the Notes. Total subordinated liabilities outstanding went up by 1 billion euros to 7.6 billion euros. This figure can be broken down as follows:
- convertible bonds: 0.2 billion euros
- non-convertible bonds: 4.7 billion euros
- other term borrowings: 2.7 billion euros.

This increase stems from relatively brisk sales of subordinated certificates and time deposit accounts in the branch network. Although there is no immediate need for additional tier-2 capital, it was nevertheless decided to place subordinated securities in the market. The funding cost is comparable to that for senior bonds.

CAPITAL AND RESERVES

Capital and reserves went up in 2007 by 1 547 million euros to 9 003 million euros, following a capital increase on 28 September 2007.

OFF-BALANCE-SHEET HEADINGS

CONTINGENT LIABILITIES

Off-balance-sheet items carrying an actual credit risk went up by 7 billion euros to 40.9 billion euros. This increase is accounted for by 'other guarantees' (4.5 billion euros) and relates primarily to guarantees the bank has extended to holders of financial instruments issued by subsidiaries (e.g., to finance companies for the issue of international bond loans). These are included under heading I.C. Guarantees given that are in the nature of direct credit substitutes (heading I.B) also went up by 2.3 billion euros year-on-year.

COMMITMENTS CARRYING A POTENTIAL CREDIT RISK

The undrawn margin on confirmed credit lines (heading II.C.) fell by 582 million euros to 38.3 billion euros, owing to decreased utilisation of the credit lines.

Ernst & Young

Ernst & Young
Reviseurs d'Entreprises
Bedrijfsrevisoren
Avenue Marcel Thiry 204
Marcel Thirylaan 204
B-1200 Bruxelles - Brussel

Tel : +32 (0)2 774 91 11
Fax: +32 (0)2 774 90 90

TRANSLATION

STATUTORY AUDITOR'S REPORT TO THE GENERAL MEETING OF SHAREHOLDERS OF KBC BANK NV ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

In accordance with the legal and statutory requirements, we report to you on the performance of our mandate of statutory auditor. This report contains our opinion on the financial statements as well as the required additional comments and information.

Unqualified opinion on the financial statements

We have audited the financial statements for the year ended 31 December 2007, prepared in accordance with the financial reporting framework applicable in Belgium, which show a balance sheet total of € 219.571.917.(000) and a profit for the year of € 1.686.857.(000).

Responsibility of the board of directors for the preparation and fair presentation of the financial statements

The board of directors is responsible for the preparation and fair presentation of the financial statements. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the statutory auditor

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the legal requirements and the auditing standards applicable in Belgium, as issued by the Institute of Registered Auditors (*Institut des Réviseurs d'Entreprises/Instituut van de Bedrijfsrevisoren)*. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

In accordance with these standards, we have performed procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, we have considered internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. We have evaluated the appropriateness of accounting policies used, the reasonableness of significant accounting estimates made by the company and the presentation of the financial statements, taken as a whole. Finally, we have obtained from the board of directors and the company's officials the explanations and information necessary for executing our audit procedures. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements for the year ended 31 December 2007 give a true and fair view of the company's financial position and the results of its operations in accordance with the financial reporting framework applicable in Belgium.

Additional comments and information

The preparation and the assessment of the information that should be included in the directors' report and the company's compliance with the requirements of the Company Code (*Wetboek van vennootschappen/Code des sociétés*) and its articles of association are the responsibility of the board of directors.

Our responsibility is to include in our report the following additional comments and information, which do not modify the scope of our opinion on the financial statements:

- The directors' report deals with the information required by law and is consistent with the financial statements. We are, however, unable to comment on the description of the principal risks and uncertainties which the company is facing, and on its financial 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 inconsistencies with the information that we became aware of during the performance of our mandate.
- Without prejudice to formal aspects of minor importance, the accounting records were maintained in accordance with the legal and regulatory requirements applicable in Belgium.
- We do not have to report any transactions undertaken or decisions taken in violation of the company's articles of association or the Company Code. The appropriation of the results proposed to the shareholders' meeting complies with the legal and statutory provisions.
- An interim dividend was distributed during the year in relation to which we have issued the attached report in accordance with legal requirements.

Brussels, 20 March 2008

Ernst & Young Reviseurs d'Entreprises SCCRL
Statutory auditor
Represented by

Jean-Pierre Romont
Partner

Danielle Vermaelen
Partner

08JPR0066

ERNST & YOUNG

Ernst & Young
Reviseurs d'Entreprises
Bedrijfsrevisoren
Avenue Marcel Thiry 204
Marcel Thirylaan 204
B-1200 Bruxelles - Brussel

Tel : +32 (0)2 774 91 11
Fax: +32 (0)2 774 90 90

TRANSLATION

AUDIT REPORT TO THE BOARD OF DIRECTORS OF KBC BANK NV ON THE STATEMENT OF ASSETS AND LIABILITIES PREPARED AT THE OCCASSION OF THE DISTRIBUTION OF AN INTERIM DIVIDEND

In accordance with article 618 of the Company Code and the company's bylaws, we report to you on the statement of assets and liabilities as of 30 September 2007.

Intended transaction

The Board of Directors considers distributing an interim dividend of € 1,8569 (gross) per share.

Article 38 of the coordinated bylaws provides to the Board of Directors the authority to distribute an interim dividend. More than six months have elapsed since the end of the previous financial year and the annual accounts in respect of that financial year were approved by the General Shareholders' Meeting of April 25, 2007.

Examination procedures and findings

Our examination was carried out in accordance with the recommendation of the *Institut des Reviseurs d' Entreprises / Instituut der Bedrijfsrevisoren* applicable to, amongst other, limited review engagements of a statement of assets and liabilities. Consequently, this review consisted primarily of the analysis, comparison and discussion with the management of the bank of the financial information provided to us.

The statement of assets and liabilities has been prepared in accordance with the requirements of accounting law and consequently with consistent application of the accounting policies.

We have no knowledge of any matters occurred after 30 September 2007 that would lead to any material modification to the statement of assets and liabilities.

Société civile ayant emprunte la forme d'une société coopérative à responsabilité limitée
Burgerlijke vennootschap die de rechtsvorm van een coöperatieve vennootschap met beperkte aansprakelijkheid heeft aangenomen
RPM Bruxelles - RPR Brussel - B.T.W. - T.V.A. BE 0446 334 711
Banque - Fortis - Bank 210-0905900-69

Distributable Profit

In accordance with article 618 of the Company Code and based on our work performed, the distributable profit can be determined as follows:

	€
- Profit per 30 September 2007	1.254.049.836,18
- Profit brought forward	21.861,63
- Distributable profit	1.254.071.697,81

Taking into account the number of shares (385.054.107) and the proposed dividend distribution, the distributable profit is sufficient to allow a distribution of an interim dividend from the profit of the period for a total amount of € 715.006.971,29.

Conclusion

We conclude that we have conducted a limited review of the statement of assets and liabilities of KBC Bank N.V. as of 30 September 2007 with a balance sheet total of € 209.100.462.748,16 and a result for the period of € 1.254.049.836,18. Our review was conducted in the context of the decision of distribution of an interim dividend. Consequently, this review consisted primarily of the analysis, comparison and discussion of the financial information and was carried out in conformity with the recommendation of the *Institut des Reviseurs d' Entreprises / Instituut der Bedrijfsrevisoren* applicable to limited review engagements. Our review was consequently less extensive than a full scope audit of financial statements. Our review has not revealed any information that would lead to any material modification to the interim statement.

The profit of the period, as mentioned in the statement of assets and liabilities as per 30 September 2007, increased with the profit brought forward, is sufficient to proceed with a distribution of an interim dividend of € 1,8569 (gross) per share as intended by the Board of Directors.

Finally we mention that, in accordance with article 618 of the Company Code, this report will be attached to our auditor's report on the financial statements of the current year.

Brussels, 9 November 2007

Ernst & Young Reviseurs d'Entreprises S.C.C.R.L. (B160)
Statutory auditor
represented by

Jean-Pierre Romont
Partner
08JPR0032