KBC ANNUAL REPORT 2006

KBC

GROUP PROFILE

Area of operation and activities

KBC is an integrated multi-channel bancassurance group, catering mainly for retail customers, small and medium-sized enterprises and private banking clientele. Geographically, KBC focuses on Belgium and Central 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. The group is also active in a selection of other countries in Europe in private banking and the provision of services to businesses. Elsewhere around the globe, the group has established a presence in selected countries and regions.

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

1 Based on a combined KBC-Almanij entity. The IAS 32, IAS 39 and IFRS 4 standards were not applied to the 2004 figures, which means they are not fully comparable with the 2005 and 2006 figures.
2 For 2004, underlying profit was equated to net profit.
3 Pre-merger (i.e. for the KBC Bank and Insurance Holding Company).

Shareholders, 31-12-2006*

Almancora	20.9%
Cera	6.4%
MRBB	11.7%
Other core shareholders	11.8%
KBC group companies	4.3%
Free float	44.9%
Total	100.0%

Network and personnel, 31-12-2006*

Bank branches	
Belgium (KBC Bank and CBC Banque)	927
Central and Eastern Europe (ČSOB, K&H Bank, Kredyt Bank)	874
Number of staff	
Total, in FTEs	50 000
○ Belgium	38%
○ Central and Eastern Europe	51%
○ Rest of the world	11%

Long-term credit ratings, 28-02-2007

KBC Bank	
Fitch	AA-
Moody's*	Aaa
Standard & Poor's	AA-
KBC Insurance, claims-paying ability	
Fitch	AA
Standard & Poor's	AA-

** See the table on credit ratings in this annual report.*

Key financial figures per business unit

	Belgium Business Unit	Central & Eastern Europe Business Unit	Merchant Banking Business Unit	European Private Banking Business Unit	Group Centre	Total
2005						
Net profit, group share (in millions of EUR)	1 003	409	789	192	-144	2 249
○ of which, underlying result (in millions of EUR)	1 096	327	821	190	-127	2 306
Return on allocated capital (based on underlying profit)	31%	25%	22%	27%	–	18%
2006						
Net profit, group share (in millions of EUR)	1 202	464	872	678	214	3 430
○ of which, underlying result (in millions of EUR)	1 104	426	871	181	-33	2 548
Return on allocated capital (based on underlying profit)	29%	25%	21%	29%	–	18%

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

MAIN EVENTS IN 2006

JANUARY

- Start of the 1-billion-euro share buyback programme announced at the end of 2005.

MARCH

- KBC increases its 75% shareholding in Polish insurer WARTA to 100% by buying out minority interests.
- KBC signs a broad co-operation agreement with China Export & Credit Insurance Corporation (Sinosure), enabling KBC and Sinosure to offer an ample range of export finance to customers exporting from China.
- KBC is elected 'Best Employer' along with twenty-four other companies in Belgium and receives a special prize for its efforts to promote lifelong learning.
- The 27% stake in the Belgian industrial company, Agfa-Gevaert, is sold.

APRIL

- The group's legal structure is simplified with the merger between the former Gevaert and KBC Group NV (the holding company). The group's structure now consists of a holding company (KBC Group NV) and three operating companies: KBC Bank, KBC Insurance and KBL EPB.

MAY

- The group's new management structure is introduced, with five business units being set up, viz.: *Belgium, Central & Eastern Europe, Merchant Banking, European Private Banking* and *Shared Services & Operations*; the introduction of this new structure is followed immediately by a change in external financial reporting to reflect the new structure.
- KBC closes on the purchase of a 40% minority shareholding in K&H Bank, giving it almost full ownership of this leading Hungarian bank.

JUNE

- 5.5% of the holding in the Polish Kredyt Bank is sold at the request of the Polish central bank in order to restore Kredyt Bank's free float to 20%. KBC retains 80% ownership of this bank.
- K&H Life and K&H General Insurance, the two Hungarian insurance companies of the KBC group, merge to form a single insurer, K&H Insurance.

JULY

- The sale of the investment in the Spanish Banco Urquijo to Banco Sabadell is completed, yielding KBC a capital gain of some 0.5 billion euros.

SEPTEMBER

- The private banking activities in France are strengthened through the acquisition of French wealth management firm, ABALLEA FINANCE.

OCTOBER

- KBC is awarded first prize in Belgium for ‘Best Financial Information’ by the Belgian Association of Financial Analysts.

NOVEMBER

- KBC takes another step forward in the Chinese investment fund market by setting up fund management firm, KBC-Goldstate Fund Management, a joint venture between KBC Asset Management and the Chinese company, Goldstate Securities.
- Agreement is reached on the sale of Banca KBL Fumagalli Soldan, the Italian subsidiary of KBL EPB.
- The 1-billion-euro share buyback programme is completed. In all, 11.7 million KBC shares were bought back at an average price of 85.08 euros per share.

DECEMBER

- New, ambitious financial targets are announced.
- A new share buyback programme, worth 3 billion euros, is announced for the next three financial years.
- KBC steps up its stake in Czech bank ČSOB to 97.5% by purchasing the 7.5% participation held by the European Bank for Reconstruction and Development.
- KBC enters the Romanian market by signing agreements to buy a majority stake in the leasing company, Romstal Leasing, and in the broking house, Swiss Capital.
- Standard & Poor’s upgrades the long-term ratings of KBC Bank (from A+ to AA-), KBC Insurance (from A+ to AA-) and KBC Group NV (from A to A+).

POST-BALANCE-SHEET EVENTS

- January 2007: agreements are signed to acquire a majority shareholding in Serbian A Banka, in the Hungarian retail online broker, Equitas, and in the Bulgarian insurer, DZI Insurance.
- January 2007: the new share buyback programme gets under way.
- February 2007: Moody’s upgrades the long-term ratings of KBC Bank (from Aa3 to Aaa) and KBC Group NV (from A1 to Aa1). See the table on credit ratings in this annual report.

REPORT OF THE BOARD TO THE ANNUAL GENERAL MEETING OF SHAREHOLDERS

To the reader

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

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

Retroactive adjustment of the reference figures for 2005
Following the application of fair value hedge accounting for a portfolio hedge of interest rate risk on the basis of the carved-out version of IAS 39, as approved by the EU (i.e. Portfolio hedging) in the fourth quarter of 2005, KBC decided to retroactively adjust certain figures for 2005. More details are given in the 'Additional information' section.

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.

Availability of this annual report on www.kbc.com
This annual report will be available on the KBC group website (www.kbc.com). Navigation tools and a search engine, as well as other tools, will be available to use with this electronic version.

OF DIRECTORS

MEETING

CONTENTS

STATEMENT BY THE
OF THE BOARD OF
THE PRESIDENT OF

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

All the reporting requirements relating to IFRS, corporate governance, etc., have resulted in masses of information being published in annual reports, so much information in fact that at times the reader cannot see the wood for the trees. We have nonetheless endeavoured to keep this annual report as concise as possible – without leaving out any essential information.

Where our results are concerned, we can be brief: KBC has never done as well as in 2006. Even disregarding one-off items (which in 2006 were virtually all positive), our underlying group profit still went up by 11%; this was on top of an already excellent 2005. Including one-off items, profit soared by 52% to as much as 3.4 billion euros. The main components of this result are analysed later on in this annual report.

On many different occasions in the past, we have set out our strategy and presented our goals, and we feel that we have been true to that strategy and to those goals. Not only have we exceeded all the profitability targets we set ourselves, we have also amply overshot our solvency targets (at the end of 2006, our tier-1 ratio came to 8.7% and the solvency of our insurer was almost four times the legally required minimum). At the end of 2006, we decided to make a number of our financial targets even more ambitious. We also remained true to our word and substantially reduced our debt at holding-company level.

As regards acquisitions, our strong position in Central and Eastern Europe kept us from getting caught up in the bidding war for new acquisitions in the region. We concentrated rather on strengthening our presence on markets we had already entered (by buying out minority shareholders in our banks in Hungary and the Czech Republic and in our insurers in Poland and Slovakia) and on achieving further organic growth by, among other things, expanding our branch network in the region as planned. We did make some new acquisitions – admittedly modest in scale – in Romania, for instance, and – at the start of 2007 – in Serbia, Hungary and Bulgaria. In keeping with our strategy, we also continued to streamline our European private banking network, stepping up our presence in France and exiting countries (such as Spain and Italy), where we felt our activities were not of sufficient scale.

Lastly, our share buyback programme announced at the end of 2005 was completed according to plan. In 2006, we repurchased a total of 11.7 million of our own shares. Some were cancelled that year, and the rest are slated for cancellation in 2007. At the end of 2006, we announced a new share buyback programme, worth 3 billion euros, and will be providing more details on this later on in the annual report.

CHAIRMAN DIRECTORS AND THE EXECUTIVE COMMITTEE

As regards the structure of our group, we continued to simplify it, pursuing plans initiated in 2005. The former Gevaert merged with the holding company, and KBC Asset Management – previously a separate business segment – became a subsidiary of KBC Bank. As a result, our group's legal structure is now more transparent, with one holding company (KBC Group NV) in control of three operating entities (KBC Bank, KBC Insurance and KBL EPB).

This simplification was accompanied by the introduction of a new management structure, one which not only reflects the international dimension of our group, but is above all an ideal instrument for managing it even more effectively. The group is now divided up into five business units (Belgium, Central & Eastern Europe, Merchant Banking, European Private Banking and Shared Services & Operations), each of which has its own objectives, management committee and CEO. Our annual report will guide you through this new structure.

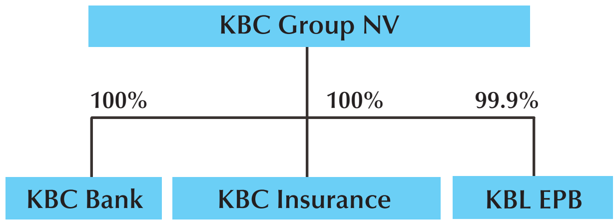
In closing, we would like to take this opportunity to express our gratitude to our 50 000 employees for our group's excellent performance in 2006. We would also like to extend our sincere thanks to our shareholders and our customers, some 11 million worldwide, for the confidence they have placed in our group.
A special word of thanks, lastly, goes to Willy Duron, who retired on 1 September 2006 and who, as our CEO, had actively worked to enhance the future of our group, helping to make sure that it can continue, independently, to generate lasting profitability and create sustainable shareholder value.

We invite you to become better acquainted with our group and to find out more about our strategy through the window of this annual report.

André Bergen,
President of the Executive Committee
of KBC group

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

GROUP STRUCTURE, AND INTERNATIONAL PRESENCE



KBC GROUP STRUCTURE

Simplification of the group structure

KBC Group NV was created on 2 March 2005 through the merger of the KBC Bank and Insurance Holding Company and its parent company, Almanij. This resulted in a more streamlined group with one single entity controlling the underlying companies, KBC Bank, KBC Insurance, KBC Asset Management, Kredietbank SA Luxembourgeoise (or KBL European Private Bankers, i.e. KBL EPB) and Gevaert. Since then, the structure has continued to be simplified, with Gevaert being integrated into the holding company and KBC Asset Management being moved to KBC Bank (previously KBC Asset Management had been majority-owned by KBC Group NV). The group's legal structure is now even more transparent, with the holding company (KBC Group NV) left controlling three direct subsidiaries, namely KBC Bank, KBC Insurance and KBL EPB (see table).

New management structure since May 2006

Over the past few years, KBC has evolved from a predominantly Belgian company into an international concern, one with different *metiers* and distribution channels. At the end of 2005, the group therefore decided to put in place a new, more internationally oriented management structure, without altering its legal structure (see above).

The new management structure is split into five units: the Belgium Business Unit, the Central & Eastern Europe Business Unit, the Merchant Banking Business Unit, the European Private Banking Business Unit and the Shared Services & Operations Business Unit. Each is managed by its own management committee, which operates under the Group Executive Committee and oversees both the banking and the insurance activities. The Shared Services & Operations Business Unit includes group-wide product factories and departments providing support to the other business units. The management committee of each business unit is headed by a Chief Executive Officer (CEO), and these CEOs, together with the Group CEO and Group CFRO, together constitute the Group Executive Committee (see below). Separate sections of this annual report are devoted to each of the business units.

STRATEGY

Activities, target customer groups and target geographic areas

The KBC group focuses on providing bancassurance and asset management services to retail and private banking customers and mid-cap SMEs. It also provides services to, and engages in niche activities for, the corporate segment, as well as pursuing market activities.

The group concentrates on its home markets of Belgium and Central and Eastern Europe, where its business portfolio spans the full range of activities and target customer groups (see above). In Central and Eastern Europe, the focus lies on the core countries of the Czech Republic, Slovakia, Hungary and Poland. However, where feasible and opportune, the group also seeks to establish a presence in other countries in this region. In private banking, the group is active in selected Western European countries. In addition, KBC has established a specific presence in certain countries or regions (the United States, Western Europe, Southeast Asia), where it engages primarily in corporate banking and certain niche activities.

STRATEGY

The following are some of the developments that have occurred over the past year that reflect this strategy:

- the position in the Central and Eastern European countries where KBC already has a presence (the Czech Republic, Slovakia, Hungary and Poland) was strengthened through organic growth (e.g., in the coming years, the bank branch network in the region will be expanded through the addition of nearly 300 branches) and by buying out minority shareholders (in ČSOB, K&H Bank, WARTA and ČSOB Pojišťovna; together, some 0.7 billion euros);
- the presence in Central and Eastern Europe was stepped up by means of (relatively small) acquisitions in Romania and, at the start of 2007, in Serbia, Hungary and Bulgaria;
- non-core activities were sold off: for instance, the 27% stake in the industrial company, Agfa-Gevaert, was sold, along with the entire investment in KBL EPB's subsidiaries in Spain and Italy (see below);
- the European private banking policy of achieving a minimum critical mass in selected countries continued to be adhered to, with the group expanding in France through the acquisition of private banker, ABALLEA FINANCE, and disinvesting from both Spain and Italy by selling Banco Urquijo and Banca KBL Fumagalli Soldan.

The specific strategies pursued by each business unit are set out in the relevant sections of this annual report.

Focus on operational excellence

KBC is convinced that it can safeguard its independence by continuing to achieve operational excellence. Accordingly, it took a number of initiatives in this regard in 2006.

KBC seeks to achieve operational excellence by putting in place swift, error-free, core processes that respond efficiently to market demand and can be quickly and adequately adapted to changes in the marketplace. Accordingly, a number of operational excellence projects are currently ongoing within the group that are designed to streamline processes and enhance efficiency. KBC also aims to speed up cross-border activities and processes and to intensify the transfer of effective business processes and know-how to Central and Eastern Europe.
Looking a few years down the road, these process enhancements and other initiatives should be good for additional pre-tax profit of at least 200 million euros a year.

New financial targets for 2007–2009

As the group has exceeded its financial targets almost continually over the past few years, and because it is convinced that this is due mainly to its intrinsic strength (besides the favourable economic cycle), KBC decided to review its financial targets at the end of 2006. The old targets had indeed not taken account of the effects of the strategic exercise conducted at the end of 2005 (which led to the new management structure being introduced, among other things), nor of the consequences of the now completed 1-billion-euro share buyback programme.

The following profitability and efficiency targets were consequently revised:

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

All the targets are based on underlying profit (see 'Group results for 2006'), the base being underlying profit for 2006.

FRANS FLORQUIN ANDRÉ BERGEN JAN VANHEVEL ETIENNE

The solvency targets, i.e. at least twice the legally required minimum for both the banking and the insurance activities, as well as the target for the combined ratio for the non-life activities (maximum 95%), have remained unchanged. The solvency targets take account of the Basel I capital requirements.

Group financial targets for 2007-2009

	Target	Period
Return on equity (ROE)	18.5%	Average in 2007–2009
Growth in earnings per share	12%	CAGR* in 2007–2009
Cost/income ratio, banking	55%	By 2009
Combined ratio, non-life insurance	95%	By 2009
Tier-1 ratio, banking	8%	In 2007–2009
Solvency ratio, insurance	200%	In 2007–2009

For a definition of the above ratios, please see 'Additional information'. Where relevant, profit refers to underlying profit.
** CAGR: compound annual growth rate.*

The capital plan and the share buyback programme

At the end of 2005, the group announced a 1-billion-euro share buyback programme. Completed in November 2006, this resulted in a total of 11.7 million KBC shares being repurchased at an average price of 85.08 euros a share. At the Extraordinary General Meeting of Shareholders on 27 April 2006, 3.5 million of these shares were cancelled and at the General Meeting to be held on 26 April 2007, a motion will be submitted to cancel the remainder.

The capital planning review conducted at the end of 2006 showed once again that, based on earnings forecasts and the present dividend policy and strict solvency requirements (see above), the group will build up a considerable capital surplus in the years ahead. A capital surplus is defined as the difference between the capital available and the capital needed to achieve the internal solvency targets in both the banking and the insurance activities. At the end of 2006, the capital surplus according to this definition came to some 3 billion euros, and the group assumes that, all else remaining equal, this will increase in the years ahead (among other things, as a result of accumulated earnings). Consequently, KBC decided to return a substantial proportion of this amount to its shareholders again via a new share buyback programme.

This new programme will be for a total of 3 billion euros and will be spread over a period of 3 years (2007, 2008 and 2009). The shares will be repurchased in the open market. No dividend will be paid on these shares, which will have a positive impact on earnings and the dividend per share. Once the par value of the repurchased shares exceeds 10% of issued capital, any shares above this limit will be cancelled. The new programme is, however, subject to changes (amount, timing, etc.), if market circumstances demand (for instance, if opportunities crop up to make major acquisitions with good earnings potential). The 0.5-billion-euro capital gain realised in 2006 on the sale of Banco Urquijo will be used to fund part of the share buyback programme in 2007.

VERWILGHEN HERMAN AGNEESSENS CHRIS DEFRANCQ GUIDO SEGERS

MEMBERS OF THE EXECUTIVE COMMITTEE

The members of the Executive Committee (EC) at year-end 2006 are shown in the table. You can also find a brief CV for each of them on the www.kbc.com website, under Corporate Governance. More information on the management of KBC is available in the 'Corporate Governance' section of this annual report.

The Executive Committee in brief:

- Members: 7
- President: Group CEO
- Age limit: 65
- Appointments: members of the EC are appointed by the Board of Directors. Some also sit on the Board as executive directors.
- Meetings: once a week
- Resolutions: passed by consensus
- Responsibilities: these are divided up among the members (see table), but this does not detract from their collective responsibility.

At the end of August 2006, Willy Duron, KBC Group CEO, retired. The Board of Directors and the Executive Committee would like to thank Mr Duron for his contribution as the driving force behind the development and integration of the group. André Bergen succeeded Willy Duron on 1 September 2006.

Name	Date of birth	Main diploma	Joined KBC in[1]	Responsibility[3]
André Bergen	1950	Master's Degree in Economics (KULeuven)	1977 and 2003[2]	Group CEO
Herman Agneessens	1949	Doctorate in Law (KULeuven)	1971	Group CFRO
Chris Defrancq	1950	Master's Degree in Mathematics (UG) and in Actuarial Sciences (KULeuven)	1998	Group COO
Frans Florquin	1947	Master's Degree in Applied Economic Sciences (KULeuven)	1972	CEO, Belgium Business Unit
Guido Segers	1950	Master's Degree in Applied Economic Sciences (KULeuven)	1974	CEO, Merchant Banking Business Unit
Jan Vanhevel	1948	Doctorate in Law and Master's Degree in Notarial Sciences (KULeuven)	1971	CEO, Central & Eastern Europe Business Unit
Etienne Verwilghen	1947	Civil Engineering Degree (UCLouvain)	1983	CEO, European Private Banking Business Unit

1 KBC or one of its predecessors (Kredietbank, CERA, ABB, KBL, Gevaert).
2 Between 1980 and 2003, André Bergen worked for Generale Bank (now Fortis Bank) and Agfa-Gevaert, among other companies.
3 The EC's responsibilities are divided up among its members (see table), but this does not detract from their collective responsibility.
Abbreviations: KULeuven: Katholieke Universiteit Leuven (Belgium); UG: Ghent University (Belgium); UCLouvain: Université catholique de Louvain (Belgium); CEO: Chief Executive Officer; COO: Chief Operations Officer; CFRO: Chief Financial and Risk Officer.

INTERNATIONAL PRESENCE OF THE GROUP

The table presents an overview of the group's international network, showing the relevant business units at year-end.

Main group companies*, 31-12-2006

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

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

SHAREHOLDER INFORMATION

Shareholders, 31-12-2006[1]

	Number	%
Ordinary shares		
Almancora	75 980 000	20.9%
Cera	23 345 499	6.4%
MRBB	42 562 675	11.7%
Other core shareholders	42 715 837	11.8%
Subtotal	184 604 011	50.8%
KBC group companies[2]	15 680 600	4.3%
Free float	162 932 457	44.9%
Total	363 217 068	100.0%
○ of which entitled to dividend[3]	352 870 300	
Mandatorily convertible bonds (MCBs)[4]	2 606 452	

1 Based on the value date and most recent disclosures. Taking account of existing shares, mandatorily and non-mandatorily convertible bonds, the maximum number of shares comes to 365 823 520.
2 Does not include shares in the trading books of KBC Securities, Ligeva and KBC Financial Products (included in the free float). For more information on the KBC shares held by KBC group companies, see 'Consolidated annual accounts', Note 38.
3 For information on how the number of shares entitled to dividend was calculated, see the 'Company annual accounts' section.
4 Number of shares on conversion. More information in this regard is available in the 'Company annual accounts' section.

Analyses of the KBC group

Analyses of our group are available from the three international rating agencies (Fitch, Moody's and Standard & Poor's).
References to brokers' analyses of our group are also available at www.kbc.com (under Investor Relations).

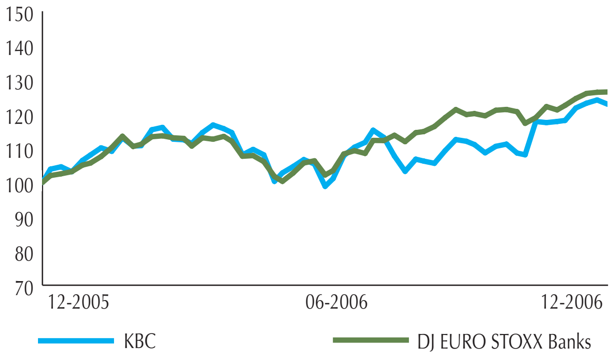
Financial calendar

2006 financial year	Earnings release: 22 February 2007
	2006 Annual Report available: 11 April 2007
	AGM: 26 April 2007
	Dividend payment: 30 April 2007
	2006 Corporate Social Responsibility Report available: 31 May 2007
1Q 2007	Earnings release: 16 May 2007
2Q 2007	Earnings release: 10 August 2007
3Q 2007	Earnings release: 9 November 2007
4Q 2007	Earnings release: 14 February 2008

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

SHARE PRICE IN 2006

*31-12-2005 = 100**



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

KBC share in 2006

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

Number of shares at year-end ('000)	2004 (pre-merger*)	2005	2006
Number of shares outstanding	310 849	366 567	363 217
Number of shares entitled to dividend	310 711	366 432	352 870

* *On 2 March 2005, the KBC Bank and Insurance Holding Company merged with Almanij to form KBC Group NV. On the merger, Almanij shareholders received new KBC Group NV shares (KBC shares) based on an exchange ratio of 1.35 KBC shares for each Almanij share. The legal status of the new KBC shares is the same as that of the KBC Bank and Insurance Holding Company shares prior to the merger.*

Share price (in EUR)	2004 (pre-merger)	2005	2006
Year high	59.8	79.0	93.3
Year low	37.3	56.0	76.2
Year average	49.2	66.4	85.9
At year-end	56.5	78.7	92.9

Equity market capitalisation and volume traded	2004 (pre-merger)	2005	2006
Equity market capitalisation at year-end (in billions of EUR)	17.6	28.8	33.7
Average daily volume traded (number of shares)	382 174	667 299	670 652
Average daily volume traded (in millions of EUR)	19.0	43.8	57.6

Annual return (including dividends)	KBC Group NV	BEL 20	DJ EURO STOXX Banks
1 year (2005-2006)	21%	28%	27%
3 years (2003-2006)	40%	29%	24%
5 years (2001-2006)	24%	14%	14%

Dividend and dividend policy

At the General Meeting of Shareholders on 26 April 2007, the Board of Directors will propose that a gross dividend of 3.31 euros be paid out per share entitled to dividend. KBC Group NV aims to pay an increasing cash dividend over time. For information on the number of shares entitled to dividend, please see the 'Company annual accounts' section.

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

An overview of changes in the number of treasury shares is given below. Movements in the portfolio of treasury shares in 2006 were due to options on KBC shares being exercised by employees, which led to the sale of an equal number of treasury shares by KBC Group NV, and to shares being repurchased under the 1-billion-euro share buyback programme. For more information, see 'Strategy' above.

Total number of treasury shares held by KBC Group NV at year-end 2005	3 841 584
Treasury shares sold in 2005 for employees exercising options on KBC shares	-1 518 252
Treasury shares repurchased under the 1-billion-euro share buyback programme	11 729 723
Treasury shares cancelled in 2006 under the 1-billion-euro share buyback programme	-3 500 000
Other movements	0
Total number of treasury shares held by KBC Group NV at year-end 2006	10 553 055

Credit ratings, 28-02-2007

	Long-term rating (+ outlook)		Short-term rating
Fitch			
KBC Bank	AA-	(Stable)	F1+
KBC Insurance (claims-paying ability)	AA	(Stable)	F1+
KBC Group NV	AA-	(Stable)	F1+
Moody's			
KBC Bank	Aaa	(Stable)	P-1
KBC Group NV	Aa1	(Stable)	P-1
Standard & Poor's			
KBC Bank	AA-	(Stable)	A1+
KBC Insurance (claims-paying ability)	AA-	(Stable)	–
KBC Group NV	A+	(Stable)	A1

2006 highlights

- On 19 May 2006, Fitch upgraded the ratings of KBC Group NV from A+ to AA- (long-term rating) and from F1 to F1+ (short-term rating), based on new criteria for awarding ratings to bancassurers and other institutions.
- On 18 December 2006, Standard and Poor's upgraded the ratings of KBC Bank from A+ to AA- (long-term rating) and from A1 to A1+ (short-term rating). The long-term ratings of KBC Insurance and KBC Group NV were also upgraded, from A+ to AA- and from A to A+, respectively.
- On 23 February 2007, Moody's upgraded the long-term ratings of KBC Bank from Aa3 to Aaa and of KBC Group NV from A1 to Aa1 after the adoption of a new methodology that takes more account of elements of support. This methodology is under review, however, which could give rise to further changes in ratings.

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GROUP RESULTS FOR 2006

OVERVIEW

Income statement, KBC group

In millions of EUR	IFRS		Underlying result*	
	2005	2006	2005	2006
Net interest income	4 219	4 158	3 861	4 072
Gross earned premiums, insurance	3 550	3 321	3 550	3 321
Dividend income	235	211	155	115
Net gains from financial instruments at fair value through profit or loss	642	1 370	1 150	1 350
Net realised gains from available-for-sale assets	458	513	338	326
Net fee and commission income	1 819	1 865	1 941	2 008
Net post-tax income from discontinued operations	0	0	0	0
Other income	574	1 119	457	452
GROSS INCOME	11 498	12 556	11 451	11 644
Operating expenses	-4 914	-4 925	-4 794	-4 976
Impairment	-103	-175	-54	-175
○ on loans and receivables	-35	-177	-35	-177
○ on available-for-sale assets	6	-6	6	-6
Gross technical charges, insurance	-3 059	-2 843	-3 059	-2 843
Ceded reinsurance result	-69	-63	-69	-63
Share in results of associated companies	16	45	16	45
PROFIT BEFORE TAX	3 369	4 595	3 490	3 632
Income tax expense	-925	-1 002	-999	-931
PROFIT AFTER TAX	2 443	3 593	2 491	2 701
Minority interests	-194	-163	-185	-153
NET PROFIT, GROUP SHARE	2 249	3 430	2 306	2 548
Risk-weighted assets, banking (period-end)	117 730	128 968	117 730	128 968
Capital (period-end)	15 751	17 219	15 751	17 219
Return on equity (ROE)	18%	24%	18%	18%
Cost/income ratio, banking	60%	53%	58%	58%
Combined ratio, non-life insurance	96%	96%	96%	96%
Loan loss ratio, banking	0,01%	0,13%	0,01%	0,13%

For a definition of the ratios, please see the 'Additional information' section.

* *To gain a better insight into a number of components of the results, underlying figures have been provided in addition to the figures drawn up according to the IFRS. These figures differ as regards the breakdown of gross income and do not include non-recurring items. More information on how the underlying figures are calculated appears below.*

A complete overview of the income statement and balance sheet, details of changes in equity, a cashflow statement, detailed segment information and various notes are available in the 'Consolidated annual accounts' section. The information in that section has been prepared in accordance with the International Financial Reporting Standards, as adopted for use in the European Union (endorsed IFRS).

To gain a better insight into the underlying trend of results, the IFRS information in this section has been supplemented with (non-IFRS) information relating to the 'underlying result'.

The adjustments compared to the IFRS figures relate to the income generated by market activities, the treatment of certain ALM hedging instruments and (the elimination of) non-recurring items:

- With the IFRS figures, for instance, gross income from market activities has been divided up among different components: realised and unrealised gains appear under 'Net gains from financial instruments at fair value through profit or loss' ('Net gains from financial instruments at fair value'); the funding costs and the fee and commission expense relating to this income, however, appear under 'Net interest income' and 'Net fee and commission income', respectively. Moreover, a portion of the amounts appearing under 'Dividend income', 'Net realised gains from available-for-sale assets' and 'Other income' likewise relates to market activities. All market-activity-related components (realised and unrealised gains, funding costs, fee and commission expense, dividends, net realised gains from available-for-sale assets and other income) have been grouped together under 'Net gains from financial instruments at fair value' in the underlying figures.
- With the IFRS figures, many of the ALM hedging instruments (i.e. those that do not qualify for 'fair value hedge accounting for a portfolio hedge of interest rate risk') are regarded as trading instruments and, consequently, interest relating to these instruments appears under 'Net gains from financial instruments at fair value', whereas interest relating to the underlying asset appears under 'Net interest income'. Interest on the relevant ALM hedging instruments has, therefore, been moved to 'Net interest income' in the underlying figures.
- Under IFRS, changes in the fair value (due to marking-to-market) of the above ALM hedging instruments are recognised under 'Net gains from financial instruments at fair value', whereas not all underlying assets are recognised at fair value. These fair value changes are eliminated in the underlying figures (also see table).
- The underlying figures do not take account of any non-recurring items (i.e. items that do not occur regularly in the normal course of business), either. An overview appears in the table.

Reconciliation of net profit according to IFRS and underlying net profit

In millions of EUR	2005	2006
Net profit, group share	2 249	3 430
Non-recurring items: amounts before tax and minority interests		
○ Fair value changes in ALM hedging instruments	-168	81
○ Sale of stake in FBD Holdings	68	0
○ Sale of assets by (former) Gevaert	40	71
○ Sale of Dictaphone shares	0	66
○ Impairment on Agfa-Gevaert shares	-49	0
○ Sale of 5.5% holding in Kredyt Bank	0	35
○ Settlement of a dispute concerning unpaid credit granted to the Slovakian authorities	101	0
○ Pension scheme	-100	0
○ Sale of buildings by ČSOB	0	29
○ Merger of Gevaert and KBC Group NV: overfunding pension fund	0	56
○ Sale of Banco Urquijo	0	501
○ Sale of participating interest in BCC/Banksys	0	60
○ Sale of building by WARTA	0	23
○ Other	-14	47
Non-recurring items: taxes and minority interests	66	-86
Underlying net profit, group share	2 306	2 548

FINANCIAL HIGHLIGHTS – FY 2006

2006 was another year of solid organic growth. On a comparable basis, the loan portfolio grew by 14% (home loans in this portfolio were up 18%), while assets under management and the outstanding life insurance reserves grew by 14% and 13%, respectively. Volume growth was buoyant in all geographical areas and in both the consumer and commercial segments. Activity on the capital markets also picked up.

IFRS-reported gross income came to 12.6 billion euros. Adjusted for non-recurring income items (in various results headings) and net of technical insurance charges, gross income increased by 415 million euros (+5%). Net interest income (+5%), gains from financial instruments at fair value (+17%, mostly institutional trading profit), and fee and commission income (+3%) were the main contributors to this increase.

Costs remained well under control. At 4.9 billion euros, operating expenses were on a par with the year-earlier figure. Adjusted for extraordinary items, an increase of 182 million euros (+4%) was recorded. Aside from normal cost inflation, factors boosting the cost level included higher variable expenses for the stronger capital market activities. The underlying cost/income ratio for the banking activities came to 58%.

Impairment recorded on assets amounted to 175 million euros compared with 103 million euros for 2005. Loan-loss charges increased, especially in Central and Eastern Europe (Hungary), but remained at low levels. The corresponding loan-loss ratio came to 0.13%.

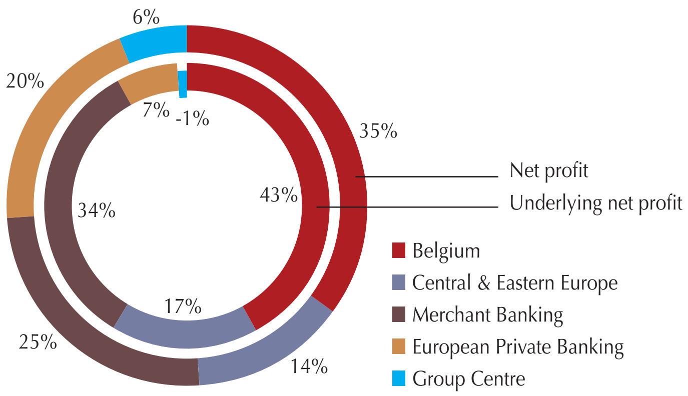
For non-life insurance, another solid technical result was recorded, with the combined ratio coming to 96%.

Income tax expense increased 8% to 1.0 billion euros.

Minority interests in the group result decreased following various buy-outs of minority shareholders.

Net profit for 2006 came to 3.4 billion euros, while underlying profit amounted to 2.6 billion euros (an increase of 11%). Underlying profit growth in Central and Eastern Europe came to 30%, testifying to the region's role as a strong growth driver for the group.

BREAKDOWN OF (UNDERLYING) NET PROFIT BY BUSINESS UNIT (2006)



On an underlying basis, a return on equity of 18% was achieved. The underlying return of the capital allocated to the Belgium Business Unit amounted to 29% (roughly on a par with 2005), proving that the franchise provides a strong platform for generating earnings that can be invested in future expansion. The corresponding return on equity in the other business units (net of all funding costs) stood at 25% for Central & Eastern Europe, 21% for Merchant Banking and 29% for European Private Banking.

SCOPE OF CONSOLIDATION, ACCOUNTING POLICIES, CURRENCY TRANSLATION AND OTHER INFORMATION

In 2006, the average value of the Czech koruna relative to the euro increased by 5% compared with the average for 2005. Since non-euro profits are hedged against changes in the exchange rate, the impact on net earnings was negligible. Other currency value changes were not that relevant.

The funding cost of the 2006 share buyback programme had a negative net earnings impact of about 12 million euros.

During 2006, a number of changes were made to the scope of consolidation. These related mainly to the buy-out of minority interests in subsidiaries, as well as to the divestment from non-core assets. The combined earnings accretion of these transactions – apart from the amount of one-off divestment gains – came to around 50 million euros (recurring).

Earnings per share and equity per share at 31 December 2006 were calculated on the basis of 354.3 (period average) and 350 (at the end of the period) million shares, respectively. For this purpose, the number of mandatorily convertible bonds was added to the number of ordinary shares, while the number of treasury shares held was deducted. On the other hand, diluted earnings per share were calculated on the basis of 357.5 million shares (period average). In this case, the number of outstanding share options was included.

GROSS INCOME

Net interest income (4 158 million euros under IFRS) was 1% lower than in 2005, due in part to the higher interest charges incurred to finance the increased activity on the capital markets (which also generated higher trading revenues). On an underlying basis (i.e. disregarding interest income from market activities and also adjusting for interest charges paid on certain ALM hedging instruments), net interest income went up by 5% (8% in Belgium and 7% in Central and Eastern Europe). The (underlying) net interest margin for the banking activities narrowed by 3 basis points to 1.43%.

Gross earned premiums in non-life insurance came to 1 748 million euros, up 6% year-on-year (for both Belgium and Central and Eastern Europe). Reported premium income in life insurance (1 572 million euros) does not include certain types of life product in compliance with IFRS (mostly unit-linked products). When the premium income for these products is included, premium income in life insurance came to 4.1 billion euros, 64% of which was accounted for by unit-linked products. The drop compared to 2005 is due in part to the tax introduced on investment insurance in Belgium in 2006, which had resulted in exceptionally high unit-linked life insurance production at the end of 2005. In 2006, the life reserves grew by 13% compared with the end of 2005 (+11% in Belgium, +35% in Central and Eastern Europe and +43% in the European Private Banking Business Unit).

Net gains from financial instruments at fair value through profit or loss (1 370 million euros) were up markedly on their 2005 level, due chiefly to the significantly better performance of the Merchant Banking Business Unit on the capital markets (an underlying increase of 37%) and upward fair-value adjustments of ALM hedging instruments (positive impact of 81 million euros, but excluded from the underlying figures).

Net realised gains from available-for-sale assets came to 513 million euros, 187 million euros of which can be considered ‘extraordinary’ (relating to, among other things, the sale of the assets of the former Gevaert). In 2005, such gains amounted to 458 million euros, approximately

Gross income, KBC group

In millions of EUR		IFRS	Based on the underlying result*	
	2005	2006	2005	2006
Net interest income	4 219	4 158	3 861	4 072
Gross earned premiums, insurance	3 550	3 321	3 550	3 321
Dividend income	235	211	155	115
Net gains from financial instruments at fair value through profit or loss	642	1 370	1 150	1 350
Net realised gains from available-for-sale assets	458	513	338	326
Net fee and commission income	1 819	1 865	1 941	2 008
Net post-tax income from discontinued operations	0	0	0	0
Other income	574	1 119	457	452
Total gross income	11 498	12 556	11 451	11 644
○ Belgium Business Unit	5 472	5 480	5 558	5 361
○ Central & Eastern Europe Business Unit	2 590	2 746	2 468	2 696
○ Merchant Banking Business Unit	2 485	2 758	2 522	2 752
○ European Private Banking Business Unit	885	1 331	882	821
○ Group Centre	66	241	20	13

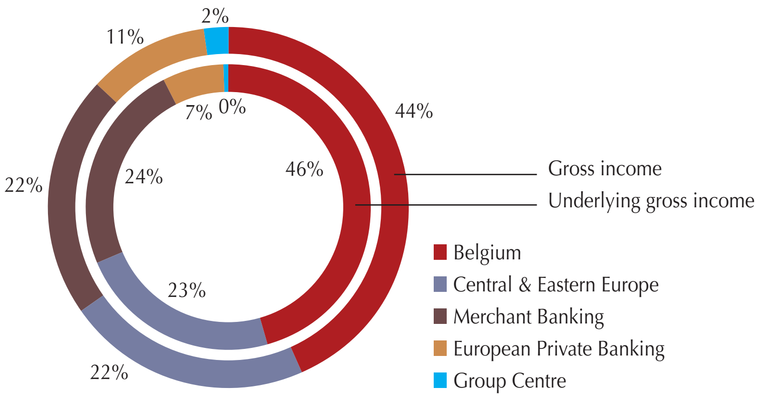
* *To gain a better insight into a number of components of the results, underlying figures have been provided in addition to the figures drawn up according to the IFRS. These figures differ as regards the breakdown of gross income and do not include non-recurring items. More information on how the underlying figures are calculated appears in this section.*

120 million euros of which were considered ‘extraordinary’. Excluding extraordinary items, gains were 3% down on the 2005 figure.

Net fee and commission income amounted to 1 865 million euros (up 3% year-on-year on an underlying basis). The increase came to 8% for the Belgium Business Unit, to 12% for the Central & Eastern Europe Business Unit and – excluding the deconsolidation effect of Banco Urquijo – to 16% for the European Private Banking Business Unit. The upward trend was driven by a number of factors, including buoyant sales of investment products and services. In the Merchant Banking Business Unit, however, underlying net fee and commission income dropped by 19%, due to significantly lower hedge fund management fees. Consequently, assets managed in this business unit dropped from 2.1 to 0.7 billion euros.

Other income amounted to 1 119 million euros, 545 million euros more than for 2005, primarily on account of the capital gain realised on the sale of Banco Urquijo (excluded from the underlying figures). On an underlying basis, other income was roughly on a par with the 2005 level.

BREAKDOWN OF (UNDERLYING) GROSS INCOME BY BUSINESS UNIT (2006)



OPERATING EXPENSES

Operating expenses for 2006 were roughly the same as for 2005. Adjusted for non-recurring cost items, an increase of approximately 4% was recognised. Apart from normal cost inflation, factors boosting the cost level included higher profit-related staff expenses chiefly for the capital market activities (Merchant Banking Business Unit).

The underlying cost increase came to 5% for the Belgium Business Unit and to 2% for the Central & Eastern Europe Business Unit (4%, discounting the impact of exchange rate fluctuations and the use of provisions set aside for risks and charges). Underlying expenses in the Merchant Banking Business Unit were up 16% – increased profits generated on the capital markets also resulted in higher staff charges – while the European Private Banking Business Unit saw a 5% decrease in expenses (+4%, excluding deconsolidation effects). The improvement in Group Centre costs was due to the downscaling of Gevaert's activities in 2005.

In 2006, the banking activities recorded a cost/income ratio of 53% (58% on an underlying basis, roughly the same level as in 2005). The underlying cost/income ratio stood at 58% for the Belgium Business Unit, at 65% for the Central & Eastern Europe Business Unit, at 50% for the Merchant Banking Business Unit, and at 73% for the European Private Banking Business Unit.

Operating expenses, KBC group

In millions of EUR	IFRS		Based on the underlying result*	
	2005	2006	2005	2006
Staff expenses	-2 849	-2 970	-2 734	-3 021
General administrative expenses	-1 599	-1 631	-1 594	-1 631
Depreciation and amortisation of fixed assets	-389	-359	-389	-359
Provisions for risks and charges	-77	36	-77	36
Total operating expenses	-4 914	-4 925	-4 794	-4 976
○ Belgium Business Unit	-1 834	-1 824	-1 744	-1 824
○ Central & Eastern Europe Business Unit	-1 318	-1 338	-1 318	-1 338
○ Merchant Banking Business Unit	-1 076	-1 234	-1 065	-1 234
○ European Private Banking Business Unit	-568	-542	-568	-537
○ Group Centre	-119	14	-99	-42

* *To gain a better insight into a number of components of gross income, underlying figures have been provided in addition to the figures drawn up according to the IFRS. These figures differ as regards the breakdown of gross income and do not include non-recurring items. More information on how the underlying figures are calculated appears in this section.*

IMPAIRMENT

In 2006, impairment on loans and receivables amounted to 177 million euros, resulting in a loan-loss ratio of 0.13% (compared with 0.01% for 2005). The loan-loss ratio came to 0.07% for the Belgium Business Unit (-0.05%, i.e. a net write-back, in 2005), to 0.58% for the Central & Eastern Europe Business Unit (0.37% in 2005), to -0.01% for the Merchant Banking Business Unit (-0.04% in 2005) and to -0.10% for the European Private Banking Business Unit (-0.46% in 2005). The non-performing-loan ratio was 1.6%, down from 2.2% at the end of 2005. The percentage of cover for non-performing loans afforded by loan-loss provisions came to around 100% (99% in 2005).

Net impairment on available-for-sale assets, goodwill and other assets was very limited in 2006. In 2005, impairment on other assets and on goodwill was to a large extent related to the assets of Gevaert (Group Centre).

Impairment, KBC group

In millions of EUR		IFRS	Based on the underlying result*	
	2005	2006	2005	2006
Impairment on loans and receivables	-35	-177	-35	-177
Impairment on available-for-sale assets	6	-6	6	-6
Impairment on goodwill	-20	-1	-20	-1
Impairment on other assets	-54	9	-5	9
Total impairment	-103	-175	-54	-175
○ Belgium Business Unit	2	-42	2	-42
○ Central & Eastern Europe Business Unit	-88	-137	-88	-137
○ Merchant Banking Business Unit	22	2	22	2
○ European Private Banking Business Unit	23	4	23	4
○ Group Centre	-62	-1	-13	-1

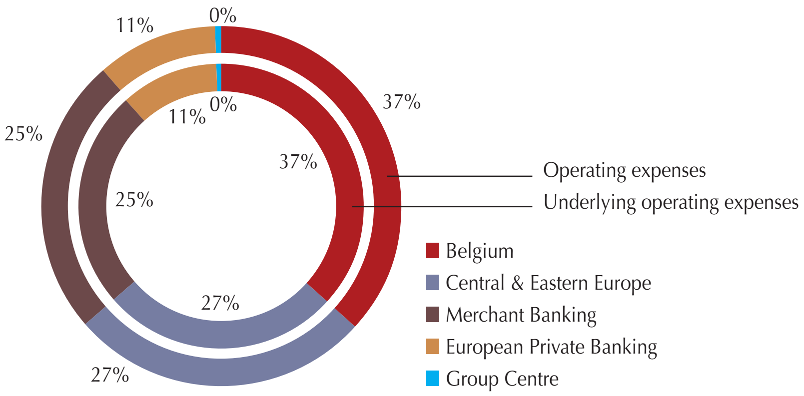
* *To gain a better insight into a number of components of gross income, underlying figures have been provided in addition to the figures drawn up according to the IFRS. These figures differ as regards the breakdown of gross income and do not include non-recurring items. More information on how the underlying figures are calculated appears in this section.*

RESULT OF THE INSURANCE BUSINESS

In 2006, net insurance results amounted to 535 million euros, 16% higher than the year-earlier figure (also see the table under 'Breakdown of results according to the group's legal structure'). Per business unit, the insurance results came to 392 million euros for Belgium (+10%), 45 million euros for Central & Eastern Europe (5 million euros in 2005), 90 million euros for Merchant Banking (down 7 million euros due to lower gains realised on the investment portfolio), 11 million euros for European Private Banking (8 million euros in 2005) and a negative 3 million euros for the Group Centre.

In non-life insurance, a solid technical result was recorded in all business units. The claims ratio for the group came in at 64% and the combined ratio stood at 96% (95% for the Belgium Business Unit, 99% for the Central & Eastern Europe Business Unit and 92% for the Merchant Banking Business Unit – more or less the same as for 2005). The non-life retention ratio was stable year-on-year at 93%, while the claims reserve ratio went up to 176% from 174%.

BREAKDOWN OF (UNDERLYING) OPERATING EXPENSES BY BUSINESS UNIT (2006)



BREAKDOWN OF RESULTS BY BUSINESS UNIT

The results of the Belgium, Central & Eastern Europe, Merchant Banking and European Private Banking business units are detailed in the ensuing sections. Almost all of the results of the Shared Services & Operations Business Unit are allocated to the other business units. The results of the Group Centre, which include the holding company's debt-service charges, certain charges not allocated to other business units and the results associated with holding a number of non-strategic participating interests, appear in the summary table and are given in more detail in the *Quarterly Report – KBC Group, 4Q 2006*, which can be downloaded from the KBC website (www.kbc.com).

Net profit per KBC group business unit

In millions of EUR	IFRS		Based on the underlying result*	
	2005	**2006**	**2005**	**2006**
Belgium Business Unit	1 003	1 202	1 096	1 104
Central & Eastern Europe Business Unit	409	464	327	426
Merchant Banking Business Unit	789	872	821	871
European Private Banking Business Unit	192	678	190	181
Group Centre	-144	214	-127	-33
Net profit	2 249	3 430	2 306	2 548

* *To gain a better insight into a number of components of gross income, underlying figures have been provided in addition to the figures drawn up according to the IFRS. These figures differ as regards the breakdown of gross income and do not include non-recurring items. More information on how the underlying figures are calculated appears in this section.*

BREAKDOWN OF RESULTS ACCORDING TO THE GROUP'S LEGAL STRUCTURE

Under IFRS, the main breakdown is based on the legal structure of the group (see table). More information and detailed figures are given under 'Notes on segment reporting' in the 'Consolidated annual accounts' section.

Net profit according to KBC group's legal structure

In millions of EUR	**2005**	**2006**
Banking	1 745	2 201
Insurance	462	535
European Private Banking	184	668
Holding-company activities	-141	27
Total net profit	2 249	3 430

BALANCE SHEET, SOLVENCY AND ASSETS UNDER MANAGEMENT

Selected balance-sheet and solvency items, KBC group

In millions of EUR	2005	2006
Total assets	325 801	325 400
Loans and advances to customers	119 475	132 400
Securities	125 810	121 414
Deposits from customers and debt securities	171 572	180 031
Gross technical provisions, insurance	14 779	15 965
Liabilities under investment contracts, insurance	7 615	9 156
Parent shareholders' equity	15 751	17 219
Equity per share (in EUR)	43.8	49.2
Tier-1 ratio, banking	9.4%	8.7%
Solvency ratio, insurance	385%	374%

At the end of 2006, KBC group's total assets came to 325 billion euros, roughly on a par with the year-earlier figure. Loans and advances to customers (132 billion euros at the end of 2006) and securities (121 billion euros) were the main headings on the asset side. Compared to the end of 2005, loans and advances to customers (excluding the volume of reverse repurchase agreements and Banco Urquijo) increased by roughly 14% (+8% in the Belgium Business Unit, +26% in the Central & Eastern Europe Business Unit, and +13% in the Merchant Banking Business Unit). The portfolio of home loans, in particular, again recorded brisk growth, expanding by a 18% year-on-year (+12% in the Belgium Business Unit and +39% in the Central & Eastern Europe Business Unit). During the same period, the securities portfolio shrank by roughly 3%; it contains both held-for-trading instruments and securities from the investment portfolios of the bank and the insurer. At the end of 2006, the insurer's investment portfolio (mostly securities) amounted to approximately 29 billion euros, up 11% on the year-earlier figure. 33% of the portfolio was accounted for by investments made for unit-linked insurance products, 46% by bonds and other fixed-income securities, 16% by shares, 4% by loans and 1% by real estate.

The main heading on the liabilities side was deposits from customers and debt securities ('customer deposits'), which came to 180 billion euros at the end of 2006, up 9% on the year-earlier level (+4% in the Belgium Business Unit and +11% in the Central & Eastern Europe Business Unit), excluding the volume of repurchase agreements and Banco Urquijo. Time deposits (27%), demand deposits (20%) and savings deposits (16%) were the main deposit products. Technical provisions and liabilities under the insurer's investment contracts totalled 25 billion euros, which represents an increase of 12% on the previous year. Most of this figure (21 billion euros) was accounted for by the life insurance reserves, which grew by 13% in 2006.

For customers, investment funds – which do not appear on the balance sheet – are an alternative to, for instance, traditional bank deposits or life insurance products, which do appear on the balance sheet. At the end of 2006, investment funds managed by KBC for retail customers came to no less than 85 billion euros; total assets under management (which include the assets of investment funds, as well as the assets managed for private and institutional investors) rose by 6% to 209 billion euros in 2006 (see table for breakdown).

At 31 December 2006, equity came to 17.2 billion euros (compared to 15.8 billion euros a year earlier). Unrealised gains on available-for-sale assets accounted for 2 billion euros of this amount. The main changes in equity in 2006 relate to the inclusion of net profit for the financial year (+3.4 billion euros), the dividends for 2005 that were paid out in 2006 (-0.9 billion euros) and the treasury shares repurchased under the share buyback programme (-1.0 billion euros; treasury shares are deducted from equity under IFRS).

As regards the group's solvency indicators at year-end 2006, it had a tier-1 ratio of 8.7% for the banking activities and a solvency ratio of 374% for the insurance activities, both above the relevant in-house (8% and 200%, respectively) and statutory targets (4% and 100%, respectively). More details are given in the 'Value and risk management' section.

Assets under management, KBC group

In millions of EUR	2005	2006
By business unit		
Belgium	122 423	142 866
Central & Eastern Europe	7 200	9 979
Merchant Banking	2 056	737
European Private Banking	64 679	55 008
Total	196 358	208 590
By product or service*		
Investment funds for private individuals	76 663	85 177
Assets managed for private individuals	74 305	73 932
Assets managed for institutional investors	30 688	34 061
Group assets managed by KBC Asset Management	14 701	15 420
Total	196 358	208 590

* *The breakdown for 31 December 2005 has been adjusted retroactively.*

BELGIUM BUSINESS UNIT

DESCRIPTION

This business unit groups all the banking and insurance activities in Belgium. Specifically, it comprises KBC Bank (retail and private banking activities), KBC Insurance and a number of Belgian subsidiaries, including CBC Banque, Centea, KBC Asset Management, Fidea and ADD. More details on this network are provided below.

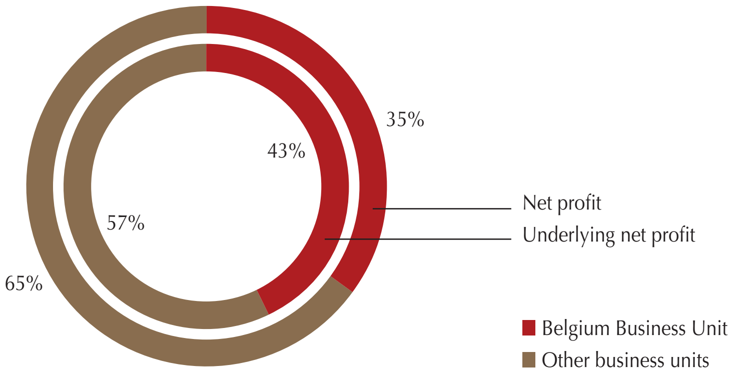
CONTRIBUTION TO GROUP RESULTS

Results, Belgium Business Unit

In millions of EUR	IFRS		Underlying result*	
	2005	2006	2005	2006
Net interest income	2 082	2 078	1 786	1 928
Gross earned premiums, insurance	2 358	2 036	2 358	2 036
Dividend income	102	63	102	63
Net gains from financial instruments at fair value through profit or loss	-320	-49	131	43
Net realised gains from available-for-sale assets	256	249	188	249
Net fee and commission income	830	895	830	895
Net post-tax income from discontinued operations	0	0	0	0
Other income	164	208	164	148
GROSS INCOME	**5 472**	**5 480**	**5 558**	**5 361**
Operating expenses	-1 834	-1 824	-1 744	-1 824
Impairment	2	-42	2	-42
○ on loans and receivables	22	-32	22	-32
○ on available-for-sale assets	-18	-10	-18	-10
Gross technical charges, insurance	-2 210	-1 946	-2 210	-1 946
Ceded reinsurance result	-13	-13	-13	-13
Share in results of associated companies	3	5	3	5
PROFIT BEFORE TAX	**1 421**	**1 659**	**1 597**	**1 541**
Income tax expense	-415	-454	-498	-434
PROFIT AFTER TAX	**1 005**	**1 205**	**1 098**	**1 107**
Minority interests	-2	-3	-2	-3
NET PROFIT, GROUP SHARE	**1 003**	**1 202**	**1 096**	**1 104**
○ Banking	647	810	803	712
○ Insurance	356	392	293	392
Risk-weighted assets, banking (period-end)	36 123	39 858	36 123	39 858
Allocated capital (period-end)	3 681	4 027	3 681	4 027
Return on allocated capital	28%	31%	31%	29%
Cost/income ratio, banking	61%	56%	55%	58%
Combined ratio, non-life insurance	95%	95%	95%	95%

* *To gain a better insight into a number of the components of the results, underlying figures have been provided in addition to the figures drawn up according to the IFRS. These figures differ as regards the breakdown of gross income and do not include non-recurring items. For information on how the underlying figures are calculated, please see 'Group results for 2006'.*

SHARE IN (UNDERLYING) NET PROFIT OF GROUP (2006)



In 2006, the Belgium Business Unit contributed 1 202 million euros (35%) to group profit, a 20% increase on the year-earlier figure. Disregarding one-off items (in 2005, primarily the sale of the shareholding in insurer FBD and, in 2006, the sale of the investment in Banksys and BCC – the relevant impact on profit is given in the 'Group results for 2006' section) and fair value changes in certain derivatives, the (underlying) net profit of the Belgium Business Unit came to 1 104 million euros, slightly higher than the excellent profit figure recorded for 2005. In 2006, 23% (or 4 billion euros) of group capital was allocated to this business unit, 9% more than in 2005. The return on the capital allocated came to 31% (as against 28% in 2005).

The following analysis is based on the underlying result.

Underlying net profit generated by the banking activities (KBC Bank, CBC Banque, Centea and KBC Asset Management) fell by 11% to 712 million euros, while the insurance activities of this business unit (mainly KBC Insurance and Fidea) yielded a net profit contribution of 392 million euros, up 34% on the year-earlier figure.

In 2006, the net interest income of this business unit rose 8% to 1 928 million euros, mainly on account of higher volumes (home loans, for instance, went up by 12%), while the interest margin narrowed from 1.97% in 2005 to 1.88% in 2006. Net fee and commission income (895 million euros) accounted for 17% of gross income and was again higher in 2006 (up by 8% on 2005), thanks in part to sales of investment funds. These sales boosted assets under management in this business unit from 122 billion euros at year-end 2005 to 143 billion euros a year later.

Net gains from financial instruments at fair value through profit or loss fell from 131 million euros to 43 million euros. Net realised gains from available-for-sale assets came to 249 million euros (a 32% increase on the year-earlier figure) and were generated primarily by the insurance activities (part of investment income). Dividend income came to 63 million euros and other income to 148 million euros.

Gross earned insurance premiums totalled 2 billion euros. For non-life insurance, the figure amounted to 0.8 billion euros (+6% on 2005), again higher than the growth forecast for the overall Belgian non-life insurance market (4%). In the life insurance business, premium income amounted to 1.2 billion euros (-23% compared with 2005), but, as required under IFRS, these figures do not reflect investment contracts without a discretionary participation feature (DPF) (these can be more or less equated to unit-linked life insurance policies). For these products, neither premium income nor technical charges are shown, only the realised margin (under 'Net fee and commission income'). If the premium income from such products is included, total premium income for the life insurance activities came to 3.2 billion euros, a decline of 46% on 2005. This decline occurred primarily in unit-linked life insurance products (which went from 4.3 to 2.0 billion euros), but products offering a guaranteed rate of interest (good for premium income of 1.2 billion euros) also fell by 23% compared with 2005. The main factor accounting for this decline was a tax introduced on investment insurance in Belgium in 2006 (which had resulted in exceptionally high unit-linked life insurance production at the end of 2005).

The operating expenses of the Belgium Business Unit edged up (by 5%) to 1 824 million euros, due mainly to higher result-based expenses (stemming from the group's higher profit and the revamping of the employee profit-participation scheme), ICT expenses and wage inflation. The cost/income ratio for the banking activities of this business unit accordingly ended at 58%, compared with 55% in 2005. The combined ratio for the non-life insurance activities was low from an historical perspective (95%, more or less unchanged year-on-year). Impairment recorded on loans and receivables, lastly, was limited (32 million euros), so that the loan loss ratio ended at just 0.07%, also very low in historical terms.

NETWORK, MARKET POSITION AND ACTIVITIES

Network and market position in Belgium, 31-12-2006	
Network	
Bank branches, KBC Bank and CBC Banque*	927
Bank agencies, Centea	708
Insurance agencies, KBC Insurance	566
Customers (estimate)	
Bank customers	3.3 million
Insurance customers	1.5 million
Market share (estimate)	
Traditional bank products, loans and deposits	21%
Investment funds	34–35%
Life insurance	15%
Non-life insurance	9%

* *Retail, corporate and private banking branches combined.*

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

Besides traditional bank products, KBC also markets the insurance products of KBC Insurance. To sell these products, KBC has – besides its bank branches that sell standard insurance products – an extensive network of tied insurance agents (566 agencies at year-end 2006), who handle claims settlement as well. In addition, the group offers the insurance products of subsidiary Fidea through independent brokers and Centea agents. As regards the electronic networks, more information is given below. The group serves some 3.3 million bank customers and around 1.5 million insurance customers in Belgium through all these networks.

In 2006, KBC had a share of around 20% of the Belgian deposit market, a share of 22% of the lending market and a share of as much as 34% of the market in investment funds, a market it leads in Belgium. In the capital-guaranteed funds market, KBC boasts an extremely strong position, with an estimated share of 54% in 2006.

In lending, home loans again proved particularly successful. There was a net increase in the portfolio of as much as 12%, giving KBC an estimated market share of 24% (around the same as a year earlier). In deposit accounts, KBC has around 19% of the market (again, on a par with 2005), while its share of the savings certificate market comes to some 16%.

According to provisional estimates, KBC is the third largest life insurer in Belgium, with an estimated market share of 15% measured by premium income. KBC attributes this strong position mainly to its share of the market in unit-linked life insurance, which is put at 43%. However, as pointed out above, there was a decline in unit-linked life insurance products in 2006. This, though, was due to the exceptional production achieved at the end of 2005 (bringing the market share in that year to almost 64%), which can be attributed in part to the prospect of a tax being introduced on life insurance products in 2006. KBC assumes moreover that the decline in this type of product has been set off by an increase in other types of savings products, such as bank investment funds or deposits, so that its net effect on a bancassurer like KBC is minor. For other life insurance products (mainly class-21, guaranteed-rate products), KBC puts its market share at 7% (8% in 2005).
In non-life insurance, where the group is prominent in virtually all classes (except for shipping, aviation and transport

and insurance for large industrial sites), KBC's market share comes to some 9% (12% for third-party liability insurance for motor vehicles and 13% for fire and other property damage), up slightly year-on-year.

HIGHLIGHTS

Cross-selling still buoyant

The success of KBC's bancassurance model in Belgium can be attributed to the group's effective distribution channels and the unique model for co-operation between the bank branches and the insurance agents, whereby the branches sell standard insurance products to retail customers and refer their customers to the insurance agents for non-standard products. The agents sell the full range of insurance products and, together with a call centre and departments at KBC Insurance head office, handle claims settlement.

Agents and brokers are the main distribution channels for non-life insurance in Belgium, accounting for 66% and 22% of direct premium volume.

While life insurance – as an alternative for deposits or investment funds – is, by its nature, extremely suited to the product mix offered by bank branches (no less than 82% of the direct – i.e. without reinsurance – premium volume was generated by bank branches in 2006), non-life insurance also lends itself to being sold via the bank network, and the cross-selling of such products has proved to be very successful. In total, the bank branches accounted for some 12% of non-life insurance premium volume in Belgium in 2006 (9% for the entire group).

Cross-selling indicators in Belgium*

	31-12-2005	31-12-2006
Guaranteed-rate life insurance sold via the bank channel	67%	54%
Unit-linked life insurance sold via the bank channel	99%	99%
Non-life insurance sold via the bank channel	11%	12%

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

New products

KBC endeavours to offer its customers an optimal range of products and services and therefore screens the existing offering on an ongoing basis, making changes when necessary.

For instance, it has introduced a more flexible home loan offering, making it easier for customers to extend or shorten the term of their home loans within certain limits at no charge.

A particularly popular product innovation introduced in 2006 was the personalised KBC Bank card that customers could design themselves via the Internet by adding their own photos or pictures from a large photo gallery. At the end of 2006, 140 000 customers already had their own personalised cards. Plans are to introduce this initiative in the group's banks in Central and Eastern Europe in future.

In savings and investment products, KBC remains an innovator, not just on the retail market – where its KBC-Duo-Investment (a time deposit account and an investment fund) proved to be highly popular, for instance – but also on the private banking market, where a variety of structured funds with innovative formulas were launched and new estate planning services were introduced (such as special accident insurance to cover the waiting period required for *inter vivos* gifts made via the bank or otherwise). A number of innovations were made in the area of sustainable investment, as well; more information on this is available in the 'Sustainable and socially responsible business and human resources' section.

MANAGEMENT COMMITTEE
OF THE BELGIUM BUSINESS UNIT

1 GUIDO POFFÉ
2 FRANS FLORQUIN
3 OMER BOSMAN (SECRETARY)
4 JOHAN TYTECA
5 DANNY DE RAYMAEKER
6 JOHAN THIJS
7 DIRK VAN LIEMPT

In non-life insurance, the main product innovation was the inclusion of mandatory natural disaster cover in all fire policies. KBC took advantage of this opportunity to enhance the KBC Home Policy to add cover for such risks as storm damage to contents located outside the home (such as garden furniture). The changes made to the home insurance policy also made it possible to reduce the number of product versions, a move consistent with the sweeping trend to switch to the most up-to-date product versions. This should also significantly facilitate migration to a new ICT platform for non-life insurance in future.

Increasing use of electronic banking and insurance services

The brick-and-mortar networks in Belgium are supplemented by electronic channels, such as ATMs, telephones and especially the Internet. The success of such channels is reflected in, among other things, the ever growing number of users of KBC-Online (as well as CBC-Online and Centea-Online), the main Internet banking and insurance facility offered by KBC in Belgium. At the end of 2006, there were over 500 000 customers actively using the system, another 16% increase year-on-year.

E-banking indicators – Belgium

	31-12-2005	31-12-2006
Share of payments transactions via electronic channels	91%	91%
Number of KBC- and CBC-Matic ATMs	1 204	1 240
Number of cash withdrawals at KBC- and CBC-Matic ATMs per month	2.7 million	3.2 million
Active subscribers to KBC's Internet and PC banking facilities	440 000	510 000
Active subscribers to KBC's phone banking facilities	47 000	42 000

In 2006, the range of electronic bancassurance services offered via KBC-Online was expanded with various new features, including a facility for managing lists of beneficiaries of EU credit transfers, a new portfolio application that provides more detailed overviews, the possibility to view account records over a longer period of time (up to one year), and a 'Remittance folder' for sending more than one transfer order to the bank at a time. The KBC website also proved to be very popular once again: every month, this site registered 12 million hits, and 25 million pages were visited. In 2006, KBC used this website to support numerous campaigns, updated the look-and-feel of the site for young people, and optimised the search function. Just as in previous years, KBC again catered for senior citizens, who make up the fastest growing group of KBC-Online subscribers. In 2006, around 8 000 senior citizens took special classes or attended road shows organised by KBC to promote electronic bancassurance.

In 2006, KBC joined other financial institutions in Belgium in opening up its proprietary ATM network for non-customers. It also began extensive modernisation of its KBC-Matic ATMs and will gradually replace all existing machines with models that are very advanced both as regards design and ease of use, with a view to speeding up transaction times and facilitating use by the disabled. It also intends to install more ATMs at non-bank locations, such as hospitals, shopping centres, airports and holiday parks.

KBC also offers e-banking and e-insurance services specifically for companies; more information on these services is provided in the 'Merchant Banking Business Unit' section.

Growing customer satisfaction

Since the network was rationalised (as a result of the merger in 1998), KBC has been focusing on improving customer satisfaction by increasing customer-friendliness, providing error-free service, enhancing accessibility, ensuring clear communication and proactively identifying customer needs. A special project (Prisma) has been started up to promote the concept of customer centricity within the organisation, and a new Customer Focus Division has been set up that will measure customers' experience on a continuous basis.

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: over the past three years, for instance, the percentage of highly satisfied customers (customers that have given KBC a score of 8 or more out of 10) has gone up from 62% to 69%. This improvement can be put down to various factors, including KBC's proactive approach. In 2006, for example, KBC conducted no fewer than 800 000 proactive relationship and advisory discussions with customers in Belgium on their banking and insurance needs. KBC is of course not resting on its laurels and aims to achieve even better results in the future. The satisfaction surveys taken have ramifications, as the satisfaction scores are taken into account in the policy for remunerating branch employees.

KBC Bank again won awards in 2006. *Global Finance* magazine named KBC Bank 'Best Bank in Belgium' in its selection of the World's Best Banks, to cite one example. The criteria for this award included profitability, growth, innovation and strategy, as well as the opinion of external analysts.

OUTLOOK

According to the Management Committee of the Belgium Business Unit

KBC expects real GDP in Belgium to grow in the coming years by some 2% per annum. This, combined with a population that is very prosperous from an international perspective, a high savings ratio and a still low – but increasing – level of indebtedness among retail customers, continues to present good prospects on our first home market.

We will of course continue to safeguard our strong market position, but we are also confident that we can outperform the market in certain strategic areas, such as savings and investment. We are convinced that our successful bancassurance concept will leverage our performance. Not only does it create a stronger than average bond with our customers, thanks to our exclusive bank and insurance network, it also allows us to respond flexibly at any time to new market circumstances and to switch easily between classic deposit products, life insurance products and investment products. In order to stimulate the cross-selling of insurance products even more, we recently started screening customers' overall insurance portfolios and discussing our findings with them, and we have increased the resources (both personnel and systems support) allocated to cross-selling. In the near future, we will also devote particular attention to instalment credit and, in insurance, to longevity products.

Where costs are concerned, we assume that, while the achievements of the past few years as regards reducing staffing levels, integrating ICT and rationalising the network will continue to have a positive effect, the relevant initiatives have run their course and will not generate any substantial extra savings. On balance, we aim to keep the increase in costs limited, more or less in line with wage inflation and – taking account of the expected trend in income – by 2009 to achieve a cost/income ratio of under 55% for our banking activities and a combined ratio of 95% for our non-life insurance activities. Assuming that the exceptionally low level of loan losses over the past few years will not be sustainable, we expect a slight deterioration in this regard. In terms of return on allocated capital, our target for the coming years is an average of 26%.

CENTRAL & EASTERN EUROPE BUSINESS UNIT

DESCRIPTION

This business unit groups all banking and insurance activities (i.e. retail bancassurance and merchant banking) pursued in Central and Eastern Europe. More details on the bank and insurance network in this region are provided below.

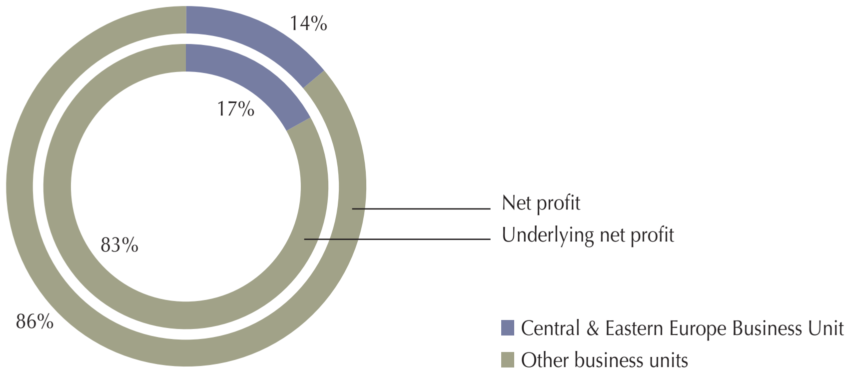
CONTRIBUTION TO GROUP RESULTS

Results, Central & Eastern Europe Business Unit

In millions of EUR	IFRS		Underlying result*	
	2005	2006	2005	2006
Net interest income	926	989	939	1 001
Gross earned premiums, insurance	870	959	870	959
Dividend income	3	6	3	6
Net gains from financial instruments at fair value through profit or loss	263	247	230	237
Net realised gains from available-for-sale assets	33	29	33	29
Net fee and commission income	276	311	276	311
Net post-tax income from discontinued operations	0	0	0	0
Other income	219	206	118	154
GROSS INCOME	**2 590**	**2 746**	**2 468**	**2 696**
Operating expenses	-1 318	-1 338	-1 318	-1 338
Impairment	-88	-137	-88	-137
○ on loans and receivables	-77	-146	-77	-146
○ on available-for-sale assets	-2	0	-2	0
Gross technical charges, insurance	-594	-643	-594	-643
Ceded reinsurance result	-42	-43	-42	-44
Share in results of associated companies	22	34	22	34
PROFIT BEFORE TAX	570	619	448	569
Income tax expense	-69	-101	-38	-92
PROFIT AFTER TAX	501	518	410	477
Minority interests	-92	-54	-83	-52
NET PROFIT, GROUP SHARE	409	464	327	426
○ Banking	404	419	322	401
○ Insurance	5	45	5	25
Risk-weighted assets, banking (period-end)	18 199	23 358	18 199	23 358
Allocated capital (period-end)	1 508	1 890	1 508	1 890
Return on allocated capital	31%	27%	25%	25%
Cost/income ratio, banking	65%	64%	70%	65%
Combined ratio, non-life insurance	99%	99%	99%	99%

* *To gain a better insight into a number of components of the results, underlying figures have been provided in addition to the figures drawn up according to the IFRS. These figures differ as regards the breakdown of gross income and do not include non-recurring items. For information on how the underlying figures are calculated, please see 'Group results for 2006'.*

SHARE IN (UNDERLYING) NET PROFIT OF GROUP (2006)



In 2006, the Central & Eastern Europe Business Unit contributed 464 million euros (14%) to group profit, a 13% increase on the year-earlier figure. Group profit for 2006 included a number of non-recurring items that will be dealt with in the individual country reports in this section. Disregarding these profit components and fair value changes in certain derivatives (see 'Group results for 2006'), the net profit of the Central & Eastern Europe Business Unit came to 426 million euros, 30% more than in 2005. In 2006, 11% (or 1.9 billion euros) of group capital was allocated to this business unit, around 25% more than in 2005 (mainly on account of the brisk growth in credit volumes – see below). The return on the capital allocated came to 27% (as against 31% in 2005).

The following analysis is based on the underlying result.

Underlying net profit generated by the banking activities (ČSOB, K&H Bank, Kredyt Bank and NLB) went up by 25% to 401 million euros, while the insurance activities in Central and Eastern Europe (ČSOB Pojišťovna, ČSOB Poisťovňa, K&H Insurance, WARTA and NLB Vita) yielded a net profit contribution of 25 million euros, compared with 5 million euros a year earlier.

The gross income of the Central & Eastern Europe Business Unit went up by 9% to 2 696 million euros. Net interest income grew by 7% on account of the much higher volumes (home loans, for instance, went up by 39%) and in spite of a narrower average interest margin (2.53%, compared with 2.69% for 2005). Net fee and commission income was up again in 2006, by 13% year-on-year, owing in part to brisker sales of investment funds. Assets under management in the Central & Eastern Europe Business Unit exhibited robust growth (39%) and came to 10 billion euros at the end of 2006.

Net gains from financial instruments at fair value through profit or loss came to 237 million euros (more or less on a par with the 2005 figure). Net realised gains on available-for-sale assets came to 29 million euros (again, roughly the same as for 2005). Dividend income went up to 6 million euros. Other income (without taking one-off items into account) included the proceeds from the sale of a portfolio of problem loans in Poland (Kredyt Bank, 37 million euros) and totalled 154 million euros, 31% more than in 2005.

Gross earned insurance premiums amounted to 959 million euros. For non-life insurance, the corresponding figure came to 655 million euros (+6% compared with 2005), with the bulk being generated in Poland (458 million euros in premium income) and the Czech Republic (111 million euros). Gross earned life insurance premiums, including premiums for unit-linked insurance products (see 'Belgium Business Unit'), came to 409 million euros (+32% compared with 2005); in the IFRS figures, only 304 million euros of this amount is included. Most of the premium income from life insurance was earned in Poland (145 million euros) and in the Czech Republic (156 million euros).

Operating expenses edged up by 2% to 1 338 million euros, due mainly to higher staff expenses, which were partly offset by reversals of provisions for risks and charges. The resultant cost/income ratio of the banking activities came to 65%, compared with 70% in 2005. The combined ratio for the non-life insurance activities, at 99%, remained at around the same level as a year earlier. Impairment on loans and receivables amounted to 146 million euros, the bulk of which was recorded in Hungary (98 million euros). The loan loss ratio in Central and Eastern Europe consequently came to 0.58%.

The profit contribution of the Central & Eastern Europe Business Unit is shown in the table per country (Czech Republic and Slovakia, Hungary and Poland; in each case, calculations have been made on the basis of a 100% shareholding in the companies concerned). More information on the results per country is given below. The 'Central and Eastern Europe, other' heading comprises primarily the results of NLB in Slovenia, the funding for the goodwill on acquisitions made in Central and Eastern Europe, allocated overheads and minority interests in the Central and Eastern European group companies.

DIRECT PRESENCE

INDIRECT PRESENCE VIA MINORITY SHAREHOLDING IN NLB

Results of the Central & Eastern Europe Business Unit by country, IFRS

In millions of EUR	Czech Republic and Slovakia		Hungary		Poland		Central and Eastern Europe, other	
	2005	2006	2005	2006	2005	2006	2005	2006
Net interest income	544	658	236	219	226	213	-79	-101
Gross earned premiums, insurance	243	269	81	83	532	592	13	15
Dividend income	3	2	0	1	1	3	-1	0
Net gains from financial instruments at fair value through profit or loss	101	105	97	111	49	41	17	-10
Net realised gains from available-for-sale assets	19	11	1	4	15	14	-2	0
Net fee and commission income	215	221	87	107	-24	-17	-1	-1
Net post-tax income from discontinued operations	0	0	0	0	0	0	0	0
Other income	187	110	14	11	11	81	7	4
GROSS INCOME	1 310	1 376	515	536	809	927	-45	-93
Operating expenses	-612	-654	-316	-298	-344	-377	-46	-9
Impairment	-44	-50	-37	-99	9	13	-15	-1
○ on loans and receivables	-46	-54	-37	-98	14	7	-7	-1
○ on available-for-sale assets	-2	0	0	0	0	0	0	0
Gross technical charges, insurance	-201	-193	-58	-62	-323	-356	-12	-32
Ceded reinsurance result	-11	-6	-2	0	-29	-37	0	0
Share in results of associated companies	0	2	2	1	0	0	19	31
PROFIT BEFORE TAX	441	475	104	78	123	170	-99	-104
Income tax expense	-96	-106	-26	-20	15	-14	37	39
PROFIT AFTER TAX	345	369	79	58	138	156	-62	-65
Minority interests	-6	-4	0	0	0	0	-86	-50
NET PROFIT, GROUP SHARE	340	366	79	58	138	156	-148	-116
○ Banking	346	337	73	52	101	120	-116	-89
○ Insurance	-6	29	6	6	37	37	-32	-27
Risk-weighted assets, banking (period-end)	10 139	14 182	4 803	5 241	3 257	3 936	–	–
Allocated capital (period-end)	792	1 082	354	393	361	414	–	–
Return on allocated capital	41%	34%	16%	8%	30%	32%	–	–
Cost/income ratio, banking	53%	55%	70%	63%	78%	72%	–	–
Combined ratio, non-life insurance	103%	103%	97%	100%	98%	98%	–	–

To gain a better insight into a number of components of the results, underlying figures have been provided in addition to the figures drawn up according to the IFRS. These figures differ as regards the breakdown of gross income and do not include non-recurring items. For information on how the underlying figures are calculated, please see 'Group results for 2006'.

Results of the Central & Eastern Europe Business Unit by country, underlying result

In millions of EUR	Czech Republic and Slovakia		Hungary		Poland		Central and Eastern Europe, other	
	2005	2006	2005	2006	2005	2006	2005	2006
Net interest income	562	671	236	223	226	213	-84	-106
Gross earned premiums, insurance	243	269	81	83	532	592	13	15
Dividend income	3	2	0	1	1	3	-1	0
Net gains from financial instruments at fair value through profit or loss	63	92	97	107	49	41	21	-3
Net realised gains from available-for-sale assets	19	11	1	4	15	14	-2	0
Net fee and commission income	215	221	87	107	-24	-17	-1	-1
Net post-tax income from discontinued operations	0	0	0	0	0	0	0	0
Other income	86	81	14	11	11	58	7	4
GROSS INCOME	1 189	1 347	515	535	809	904	-45	-91
Operating expenses	-612	-654	-316	-298	-344	-377	-46	-9
Impairment	-44	-50	-37	-99	9	13	-15	-1
○ on loans and receivables	-46	-54	-37	-98	14	7	-7	-1
○ on available-for-sale assets	-2	0	0	0	0	0	0	0
Gross technical charges, insurance	-201	-193	-58	-62	-323	-356	-12	-32
Ceded reinsurance result	-11	-6	-2	0	-29	-37	0	0
Share in results of associated companies	0	2	2	1	0	0	19	31
PROFIT BEFORE TAX	320	446	104	77	123	148	-99	-102
Income tax expense	-65	-99	-26	-20	15	-12	37	38
PROFIT AFTER TAX	255	347	79	58	138	136	-62	-64
Minority interests	3	-1	0	0	0	0	-86	-50
NET PROFIT, GROUP SHARE	257	346	79	58	138	136	-148	-114
○ Banking	264	317	73	52	101	119	-116	-87
○ Insurance	-6	29	6	6	37	17	-32	-27
Risk-weighted assets, banking (period-end)	10 139	14 182	4 803	5 241	3 257	3 936	–	–
Allocated capital (period-end)	792	1 082	354	393	361	414	–	–
Return on allocated capital	29%	31%	16%	8%	30%	27%	–	–
Cost/income ratio, banking	60%	57%	70%	63%	78%	72%	–	–
Combined ratio, non-life insurance	103%	103%	97%	100%	98%	98%	–	–

NETWORK, MARKET POSITION AND ACTIVITIES

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

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

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

Over the past few years, KBC has built up an extensive banking and insurance network in strategically chosen countries in Central and Eastern Europe and, via its subsidiaries, is now one of the biggest financial groups in the region. Unlike many of its competitors there, KBC not only has banking subsidiaries, it also has an insurance company in each of the main countries, enabling it to develop its bancassurance concept to the full.

At the end of 2006, KBC's Central and Eastern European banking network comprised 874 branches belonging to its subsidiaries ČSOB in the Czech Republic and Slovakia, K&H Bank in Hungary, and Kredyt Bank in Poland. This number does not take account of KBC's presence in Slovenia and the other republics of the former Yugoslavia through its minority interest in Nova Ljubljanska banka (a total of some 400 branches) and its presence in Serbia via the recently acquired A Banka (around 40 branches, see below). Besides selling products through these bank branches, 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 the various electronic channels, such as the Internet and phone-banking.

KBC has built up a second home market in Central and Eastern Europe not just in banking, but in insurance as well. At year-end 2006, this network included ČSOB Pojišťovna in the Czech Republic, ČSOB Poisťovňa in Slovakia, WARTA in Poland, NLB Vita in Slovenia (a joint venture with Nova Ljubljanska banka), and K&H Insurance in Hungary. Together, these companies have a network of some 6 000 tied insurance agents. At the start of 2007, a deal was concluded for the acquisition of DZI Insurance, Bulgaria's largest insurance company (see below), with a network of around 8 000 agents.

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

The estimated market shares for bank products, investment funds and insurance in the various countries are shown in the table.

Thanks to this extensive banking and insurance network, KBC has captured a prominent market position in selected countries and serves nearly 5 million banking customers (not counting NLB) and over 3 million insurance customers in the region. The group expects that this region will not only achieve significantly higher economic growth than Western Europe, but also that it will continue to catch up as regards the penetration of bank and insurance products (see table). KBC consequently remains convinced that its presence in this region gives it a strong motor to drive growth in the future.

Macroeconomic data and projections for Central and Eastern Europe*

	Czech Rep.	Slovakia	Hungary	Poland	Slovenia	Serbia	Romania	Bulgaria
Population, 2006 (in millions)	10.2	5.5	10.0	38.1	2.0	7.4	21.7	7.6
Expected annual real GDP growth, 2007–2008	4.5%	5.9%	2.8%	4.7%	3.8%	5.5%	5.6%	5.2%
Per capita GDP, in purchasing power parities (EU-15 =100; 2006 estimate)	64	55	57	44	78	23	30	32
Penetration of bank products (EU-15 =100; 2006 estimate)	50	42	46	31	50	25	22	40
Penetration of insurance products (EU-15 =100; 2005)	46	42	36	36	67	17	18	29

* *Source: KBC calculations. Penetration of bank products: average of deposits and domestic loans as a per cent of GDP; penetration of insurance products: insurance premiums as a per cent of GDP.*

HIGHLIGHTS

New governance structure

All activities in Central and Eastern Europe have been under the management of the Central & Eastern Europe Business Unit since the group's new management structure was put in place. This business unit is headed by its own Management Committee, whose members include the CEO of the business unit (also a member of the Group Executive Committee) and the Country Managers and staff of the Central Europe Directorate (which supports the business unit's CEO). The Management Committee is responsible for setting the objectives and budgets, overseeing the results of the business unit, initiating and monitoring projects, etc.

Every Central and Eastern European country is run by its own Country Team, which includes the Country Manager and members of the senior management of the relevant bank and insurance subsidiaries. All the committees deal with both banking and insurance activities, reinforcing the bancassurance concept in all countries where KBC operates.

Highlights in the Czech Republic and Slovakia

- The net profit contribution rose by 8% to 366 million euros in 2006. Disregarding one-off items (in 2005, the settlement of a dispute over an unpaid loan in Slovakia and in 2006 the sale of buildings by ČSOB; the impact these items had on the results is reported in 'Group results for 2006') and fair value changes in certain ALM hedging instruments, the increase came to 35% and net profit to 346 million euros. The banking activities (ČSOB) contributed 92% to underlying profit, the insurance activities (ČSOB Pojišt'ovna in the Czech Republic and ČSOB Poist'ovňa in Slovakia) 8%. Return on allocated capital came to 34% (underlying, 31%), the cost/income ratio and loan loss ratio of the banking activities to 55% (underlying, 57%) and 0.36%, respectively, while the combined ratio in non-life insurance came to 103%.

- KBC stepped up its presence in the Czech Republic and Slovakia by increasing its investment in ČSOB to 97.5% by exercising the option it held on the 7.5% shareholding of the EBRD. After completing the ongoing buyout of the remaining (2.5%) minority shareholders in 2007, KBC will become the sole owner of ČSOB. KBC also stepped up its shareholding in ČSOB Poist'ovňa in Slovakia (directly and indirectly, via ČSOB) by some 11%, giving it almost full ownership of this insurer. In keeping with its new structure, KBC also intends to hive ČSOB's Slovakian activities off in a separate entity in the future (2008). For operational purposes, a Slovakia Country Team already exists.

- The branch networks continued to be enlarged in both the Czech Republic and Slovakia. In Slovakia, some twenty new branches will be opened in the years ahead. The network of insurance agents will also continue to be optimised in both countries. As in all Central and Eastern European entities, co-operation between the banking and insurance activities is intensifying and this is bearing fruit. In the Czech Republic, for instance, almost seven out of every ten mortgage loans granted by ČSOB in 2006 were sold along with home insurance from a group company, while nearly six out of every ten were sold with life insurance.

- With a market share of 22% and 7% (the weighted average of the market share in lending and deposits), ČSOB is the second biggest bank in the Czech Republic and the fourth largest in Slovakia. Progress continued to be made in investment funds, with the market share in the Czech Republic growing from 27% to 28%, and in Slovakia from 8% to 10%. In life insurance, the market share in the Czech Republic amounted to 9% and in Slovakia to 4%; in non-life insurance, the corresponding figure in each case is approximately 4%. These market shares were more or less unchanged from 2005. These provisional figures are based on estimates.

- *The Banker* named ČSOB 'Best Bank of the Year 2006 – Czech Republic'. It was also awarded the title 'Best Foreign Exchange Bank in the Czech Republic' by *Global Finance*. In December, ČSOB also won the 'Best Bank, Czech Republic' award from *Finance New Europe* magazine.

Highlights in Hungary

- The net profit contribution fell 27% to 58 million euros in 2006, mainly because of additional impairment recorded for loans (which went up from 37 to 98 million euros). No non-recurring items were recorded for 2005 or 2006. The banking activities (K&H Bank) contributed 90% to profit, the insurance activities (K&H Insurance) 10%. Return on allocated capital came to 8%, the cost/income ratio and loan loss ratio of the banking activities to 63% and 1.50%, respectively, while the combined ratio in non-life insurance came to 100%.

- KBC reinforced its presence in Hungary by finalising the acquisition of ABN-AMRO's 40% stake in K&H Bank (510 million euros), which has given it nearly full ownership of this Hungarian bank. KBC has also acquired the remaining shares (1.2%) in K&H General Insurance and merged this non-life insurer with K&H Life, the group's Hungarian life insurance company, to form a single insurer, K&H Insurance. This structural simplification will benefit the bancassurance concept in Hungary. At the beginning of 2007, agreement was reached on KBC Securities' acquisition of the Hungarian online retail broker, Equitas.

- In the years ahead, the bank branch network will be expanded significantly. K&H Bank has decided to open a total of some 150 branches over the next three years on top of the ten already opened in 2006. This more or less constitutes a doubling of the bank branch network in Hungary, and will bring the total to some 340 branches by 2009.

- K&H Bank has managed to keep its substantial share of the banking market more or less intact (around 10%) and has even significantly expanded its share of the market in investment funds (from 12% to 18%). In insurance, it has a market share of some 4%, both in the life and the non-life segments, around the same as for 2005. These provisional figures are based on estimates.

- Since 2005, all of KBC group's Central and Eastern European subsidiaries have sported the same corporate logo, but have kept their own strong brand names. In Hungary, this successful rebranding was rewarded with a bronze 'Effie' in 2006.

Highlights in Poland

- The net profit contribution rose by 13% to 156 million euros in 2006. The one-off items in 2006 included mainly the income from the sale of a WARTA building in Poland (the impact this had on results is reported in 'Group results for 2006'). No non-recurring items had been recorded for 2005. Excluding non-recurring components, net profit consequently remained more or less unchanged at 136 million euros. The banking activities (Kredyt Bank) contributed 87% to underlying profit, the insurance activities (WARTA) 13%. Return on allocated capital came to 32% (underlying, 27%), the cost/income ratio and loan loss ratio of the banking activities to 72% and -0.21% (net reversal of impairment), respectively, while the combined ratio in non-life insurance came to 98%.

- KBC reinforced its insurance presence in Poland by acquiring Kulczyk Holding's 24.6% shareholding in WARTA in the first quarter of 2006 (for 104 million euros). This, together with the buyout of the remaining minority shareholders in WARTA (0.3%), means that WARTA is now wholly owned by KBC. On the other hand, in response to a request from the Polish central bank to restore Kredyt Bank's free float to 20%, KBC sold 5.5% of its holding in Polish Kredyt Bank in 2006. KBC Bank does not plan to reduce its current 80% shareholding in Kredyt Bank any further.

- There was brisk volume growth in retail investment funds (+62%) and co-operation with WARTA intensified in cross-selling and other areas. Where cross-selling is concerned, a number of initiatives were taken in 2006. In December, for instance, a pilot project got under way for WARTA agents to sell car loans when customers take out car insurance.

- The network is due to undergo considerable expansion, with plans in place to open around 120 branches in the years ahead. When this is done, Kredyt Bank will have a network of over 450 bank branches. With co-operation intensifying considerably between Kredyt Bank and WARTA, this network will become increasingly intertwined with WARTA's network of agents. Particular attention will also be devoted to Żagiel's points of sale. This Kredyt Bank subsidiary's consumer finance approach provided the foundation for setting up a group-wide consumer finance department, with headquarters in Warsaw (see the 'Shared Services & Operations Business Unit' section).

- The market shares in Poland remained more or less unchanged, with a share of some 4% for traditional bank products, 4% for investment funds, 11% for non-life insurance and 2.5% for life insurance. These provisional figures are based on estimates.

- In September 2006, Kredyt Bank was selected by *Newsweek Polska* as one of the three most retail-customer-friendly banks. It was also nominated as having the 'Best Management Report 2005' and came in second in *Forbes*' 'Best bank for individual clients' ranking. WARTA also received a variety of prizes in 2006, including the title 'Superbrand Polska 2005' for the exceptional name recognition enjoyed by the WARTA brand.

Developments in other countries in the region

- Slovenia. In May 2006, KBC reclassified its 34% minority interest in Nova Ljubljanska banka (NLB) as a purely financial investment, since it was very uncertain at that point whether it would be able to acquire a majority shareholding in NLB in the near future.

- Romania. At the end of December, KBC closed a deal to buy a majority interest in the Romanian firm, Romstal Leasing, for around 70 million euros. Romstal has a share of around 4% of the Romanian leasing market and focuses on leasing cars and other rolling stock. KBC also acquired Romstal's majority interest in INK Insurance Broker, the seventh biggest insurance broker in Romania. At the end of 2006, it signed another agreement in Romania to acquire Swiss Capital, the country's seventh biggest broking house. This acquisition will serve as a bridgehead to the fast-growing Romanian market for KBC Securities. All the above acquisitions are still subject to the approval of the relevant authorities.

MANAGEMENT COMMITTEE CENTRAL & EASTERN EUROPE BUSINESS UNIT

1 MARKO VOLJČ
2 JOHN HOLLOWS
3 JAN VANHEVEL
4 DIRK LAUREYNS (SECRETARY)
5 RONNIE RICHARDSON
6 PAVEL KAVANEK
7 JOHAN DAEMEN
8 DANIEL KOLLAR

- Serbia. In early January 2007, KBC closed a deal to acquire a majority shareholding in Serbian A Banka, which has a network of 40 branches in all big and mid-sized cities in Serbia. This acquisition is wholly consistent with KBC's plans to expand in the republics of the former Yugoslavia. This acquisition is also subject to the approval of the relevant authorities.

- Bulgaria. At the end of January 2007, KBC signed a deal to acquire a 70% stake in Bulgaria's biggest insurance company, DZI Insurance (around 185 million euros). It will subsequently make a public bid for the remaining shares. DZI Insurance has an extensive multi-channel network throughout the country and is the leading non-life and life insurer, with an estimated market share of 18% and 26%, respectively. This acquisition is also subject to the approval of the relevant authorities.

OUTLOOK

According to the Management Committee of the Central & Eastern Europe Business Unit

KBC expects real growth in Central and Eastern Europe to average just over 4% in the coming years, around twice as much as in Belgium. This, together with the growing penetration of financial products in the region, will ensure that Central and Eastern Europe remains an important, if not the main, motor driving the growth of our group. At the same time, our core countries' membership of the European Union will strengthen the regulatory framework and therefore create a more stable economic environment, which will naturally enhance these countries' risk profile.

In keeping with the relevant strategy, we will continue to focus on increasing our market share in the core countries. Besides achieving organic growth, which will include expanding our networks in the region by 250-300 branches in the years to come (with a focus on Hungary, Poland and Slovakia), we will continue to look for complementary banks and insurance companies to acquire in countries where we have already established a presence. We plan to look in neighbouring countries as well, including those taking part in the second wave of EU accession, since we consider that they will be a strong force in safeguarding our important position in Central and Eastern Europe. Where acquisitions are concerned, we will of course continue to adhere to our strict criteria as regards profitability and growth potential.

We are confident that the net profit contribution of this business unit in the years ahead will grow by at least 15% a year. This is based on the conviction that the anticipated convergence of interest margins will be compensated by volume growth and by an increase in fee and commission income, both in the retail and the SME banking activities. We also expect the planned efficiency improvements and tight centralised management to reduce the cost/income ratio to around 55% in 2009 (for the combined ratio for non-life insurance, our target is 96%). In order to achieve this, we will, among other things, be introducing best practices from one country in other countries in the region (for instance, the consumer finance approach in Poland or the asset management know-how in Belgium), and will strengthen co-operation between the banking and insurance activities by developing our bank networks and our network of tied insurance agents. We are taking into account a potential increase in loan losses (which have been relatively low in the recent past), but in general we are comfortable with the present quality of our loan portfolio, thanks to our strict lending policy and the efforts made to strengthen and centralise risk management. On balance, we aim to achieve a return on allocated capital of approximately 30% for the Central and Eastern European activities.

MERCHANT BANKING BUSINESS UNIT

DESCRIPTION

This business unit groups the services provided to large corporate customers and all market activities, except those performed by the group's Central and Eastern European subsidiaries. Specifically, it encompasses the merchant banking activities of KBC Bank in Belgium, its branches abroad and the specialised merchant banking subsidiaries of KBC Bank, as well as the activities of the insurance companies Secura and Assurisk, and a number of financing companies. More details on the merchant banking network are provided below.

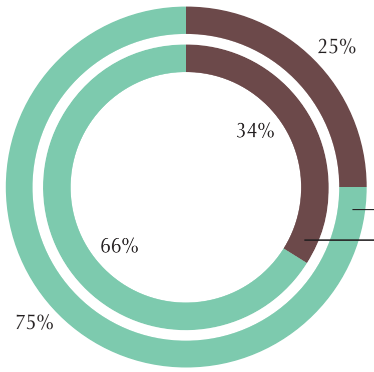
CONTRIBUTION TO GROUP RESULTS

Results, Merchant Banking Business Unit

In millions of EUR	IFRS		Underlying result*	
	2005	2006	2005	2006
Net interest income	1 008	772	969	1 017
Gross earned premiums, insurance	293	318	293	318
Dividend income	95	107	15	12
Net gains from financial instruments at fair value through profit or loss	667	1 278	724	992
Net realised gains from available-for-sale assets	89	31	82	27
Net fee and commission income	231	142	353	286
Net post-tax income from discontinued operations	0	0	0	0
Other income	103	109	86	101
GROSS INCOME	2 485	2 758	2 522	2 752
Operating expenses	-1 076	-1 234	-1 065	-1 234
Impairment	22	2	22	2
○ on loans and receivables	27	3	27	3
○ on available-for-sale assets	-4	-2	-4	-2
Gross technical charges, insurance	-181	-198	-181	-198
Ceded reinsurance result	-30	-29	-30	-29
Share in results of associated companies	1	1	1	1
PROFIT BEFORE TAX	1 221	1 300	1 269	1 294
Income tax expense	-340	-334	-356	-329
PROFIT AFTER TAX	882	966	913	965
Minority interests	-92	-94	-92	-94
NET PROFIT, GROUP SHARE	789	872	821	871
○ Banking	692	781	724	781
○ Insurance	97	90	97	90
Risk-weighted assets, banking (period-end)	54 347	59 892	54 347	59 892
Allocated capital (period-end)	3 775	4 160	3 775	4 160
Return on allocated capital	22%	21%	22%	21%
Cost/income ratio, banking	49%	50%	48%	50%
Combined ratio, non-life insurance	92%	92%	92%	92%

* *To gain a better insight into a number of components of the results, underlying figures have been provided in addition to the figures drawn up according to the IFRS. These figures differ as regards the breakdown of gross income and do not include non-recurring items. For information on how the underlying figures are calculated, please see 'Group results for 2006'.*

SHARE IN (UNDERLYING) NET PROFIT OF GROUP (2006)



In 2006, the Merchant Banking Business Unit contributed 872 million euros (25%) to group profit, an 11% increase on the year-earlier figure. Disregarding fair value changes in certain derivatives (see 'Group results for 2006'), the net profit of the Merchant Banking Business Unit came to 871 million euros, 6% more than for 2005. No non-recurring items were recorded for 2005 or 2006. In 2006, 24% (or 4.2 billion euros) of group capital was allocated to this business unit, 10% more than in 2005. The return on the capital allocated came to 21% (as against 22% in 2005).

The following analysis is based on the underlying result.

The banking activities (which account for the bulk of this business unit's activities) increased underlying net profit by 8% to 781 million euros. Confined to the reinsurance activities of Secura and Assurisk, the insurance activities of the business unit saw their net profit contribution slip by 7% to 90 million euros (due primarily to lower investment income).

The gross income of the Merchant Banking Business Unit went up by 9% to 2 752 million euros, thanks primarily to the sharp increase in net gains from financial instruments at fair value through profit or loss (up 37% to 992 million euros) on the back of buoyant capital market activity. Derivatives trading was particularly strong. Net interest income in the business unit grew by 5% to 1 017 million euros, while net fee and commission income fell by 67 million euros, due in part to the lower fee income from the management of hedge funds (assets under management decreased from 2.1 to 0.7 billion euros). Premium income from reinsurance activities increased by 9% to 318 million euros.

Operating expenses rose by 16% to 1 234 million euros, due mainly to higher result-based costs relating to market activities. There was a net reversal of impairment on loans and receivables of 3 million euros in 2006, resulting in a loan loss ratio of approximately 0%, which will clearly be unsustainable in the years to come. Thanks to solid technical results in the reinsurance business, the combined ratio came to 92% at year-end 2006, matching the excellent year-earlier figure.

The Merchant Banking Business Unit encompasses corporate banking (commercial banking activities, i.e. services provided to SMEs and large companies, which accounted for about two-thirds of this business unit's underlying net profit in 2006) and market activities (investment banking activities, including currency dealing, securities trading, corporate finance and private equity, which accounted for roughly the other third of net profit). More information on this breakdown is provided in the *Quarterly Report – KBC Group, 4Q 2006* (available at www.kbc.com).

NETWORK, MARKET POSITION AND ACTIVITIES

Through a network of specialised departments, foreign branches, representative offices and subsidiaries, the Merchant Banking Business Unit engages in corporate banking, market activities and reinsurance. Adopting the same approach as it takes to customers of the other business units, KBC also uses numerous electronic channels to cater for its merchant banking clientele (see below).

Corporate banking

In Belgium, corporate banking services are provided mainly by sixteen KBC Bank corporate branches (and the thirteen main branches – *succursales* – of CBC Banque, though this is included under the Belgium Business Unit) that target primarily large SMEs. The group also has four branches that focus solely on social profit institutions (in the social services, health care, education and other sectors) and public sector institutions, and a central multinationals branch that caters for around sixty-five companies. Besides providing general bank services, the Merchant Banking Business Unit also operates in certain niche markets, such as acquisition finance, structured finance, real estate services, and financing the diamond trade. Like the other business units, it collaborates with the Shared Services & Operations Business Unit in the area of payments, leasing, asset management, trade finance, etc. (see below).

Through this network, KBC has become one of the top three players on the Belgian corporate market. An estimate of its share of the corporate lending market in Belgium is provided in the table.

Position on the corporate banking market in Belgium, 31-12-2006

Network	
Corporate branches (including branches catering for the social profit segment and CBC Banque *succursales*)	33
Customers (estimate)	
Bank customers	19 000
Market share (estimate)	
Corporate lending	21%

With KBC Bank branches and subsidiaries in Western Europe, Southeast Asia and the US, the group has a focused corporate banking presence outside Belgium. Most of these establishments, which target local mid-cap customers and customers that already do business with the group's Belgian or Central and Eastern European network, specialise in certain niche activities (government finance, health care, real estate, financial institutions, trade finance and/or acquisition finance, depending on the establishment concerned). In addition, various KBC Bank departments and subsidiaries provide specialised corporate banking services, such as project finance and structured trade finance (via KBC Finance Ireland, which has offices in a number of major cities, including Dublin, London, Hong Kong and Sydney), acquisition finance (via specialised teams in Belgium, London, Paris, Frankfurt, Dublin and, more recently, in Central and Eastern Europe), lending to the diamond trade (via the Antwerp Diamond Bank, with offices in the leading diamond centres of Antwerp, Mumbai, New York, Hong Kong and Dubai), real estate services, etc.

Despite the fact that, outside Belgium, the group's position in Western European countries is relatively limited, the corporate banking network outside Belgium and Central and Eastern Europe accounts for a total of slightly more than 50% of the group's loan portfolio (with relatively large loan portfolios in a number of countries, including Ireland, the US and the UK).

Market activities

Global Treasury encompasses the dealing room activities in Western Europe, the US and the Far East, with the dealing room in Brussels accounting for the bulk of these activities. Global Treasury 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 exotic options, structured issues and Collateralised Debt Obligations (CDOs). KBC is also a prominent player on the primary Eurobond market (participating in more than 250 syndicated bond loans in 2006), including deals in a number of Central and Eastern European currencies. KBC is also a major issuer on the international capital markets. For instance, in 2006, KBC raised more than 11 billion euros mainly from European and Asian institutional investors and private banking clients under a Euro Medium Term Note programme (issued by IFIMA and guaranteed by KBC Bank).

In addition, KBC 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 mid-caps with growth capital).

Insurance

The Merchant Banking Business Unit also includes two of the group's insurers, Secura and Assurisk. Secura is a reinsurance company that limits its activities to a number of core markets in Europe. Assurisk is a captive reinsurance company, which – in addition to a few niche activities – concentrates on accepting group-related risks and optimising the reinsurance of the group's insurance companies.

HIGHLIGHTS

Optimisation of the corporate network

KBC continually seeks to optimise its corporate network. After the various rationalisation exercises of recent years, which led to a more streamlined corporate branch network in Belgium and elsewhere, the only change in 2006 concerned the closure of a branch in Manila. At the same time, the decision was taken to open a branch in Spain in 2007. Besides catering for network clients, this branch will also target Spanish companies that do business with Central and Eastern Europe or Belgium.

Specific acquisitions and robust growth

KBC intends to consolidate its existing range of activities and market position by means of focused acquisitions. For instance, KBC Financial Products added to its range of activities in 2006 by entering into the life insurance settlement business, a typically American phenomenon where life insurance policies are bought from the policyholders. The company also turned in a strong performance in virtually all its core activities, achieving good results in the credit derivatives business (including the issue of new CDOs), trading in convertible bonds and – thanks in part to the robust trading environment on the Asian markets – the business in equities and their derivatives.

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

Aside from the acquisitions already referred to, 2006 was another busy year for KBC's existing merchant banking activities (see examples below).

In order to provide customers with comprehensive and tailored services, a Risk Solution Unit was set up in 2006 to offer tailored products and services to companies for hedging currency, interest rate and commodities risks. All the origination activities were also grouped together in a central entity (the Debt Capital Markets Unit) that co-ordinates all of KBC's capacity in bonds, private placements, convertible bonds, etc., with a view to providing an integrated package of funding solutions to companies.

2006 was an especially successful year for private equity, and KBC Private Equity substantially increased its business. At the end of 2006, the private equity portfolio contained more than 60 direct active investments worth almost 500 million euros. It was an equally successful year for acquisition finance, with KBC able to strengthen its position in the Benelux by structuring and concluding a large number of deals as mandated lead arranger and by participating in numerous other important deals in the Benelux and beyond.

2006 was also an extremely busy year for trade finance, payments and leasing. These services – which are not provided solely to merchant banking customers – were integrated into the new Shared Services & Operations Business Unit (more information is provided in the relevant section).

MANAGEMENT COMMITTEE OF THE MERCHANT BANKING BUSINESS UNIT

1 PATRICK ROPPE
2 DARREN CARTER
3 PIETER VANDENDRIESSCHE
4 PETER HANNES (SECRETARY)
5 LUC GIJSENS
6 GUIDO SEGERS
7 LIAM DONLON
8 GUY VAN EECHAUTE

E-bancassurance services for businesses

The provision of electronic services to private customers is covered in the 'Belgium Business Unit' section. KBC also offers various e-banking and e-insurance services specifically for companies, including KBC@Isabel – an offline application developed by KBC and integrated into Isabel (a multi-bank network facilitating communication among banks and companies) – and KBC-Online for Business, an online application – likewise developed by KBC – 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.

Other important electronic services for businesses include KBC-Flexims, an Internet channel for sending and receiving documentary credit, documentary collection and bank guarantee applications, amendments or payments to and from KBC, and w1se Corporate e-Banking ®, an Internet-based e-banking program for companies operating internationally. Examples relating to market activities include Go&Deal, an Internet platform for online foreign exchange and deposit trading, and Tradeweb for bond-trading activities.

More awards for KBC Bank

In July, KBC received the 'Best Equity House in Belgium Award' from *Euromoney*, partly in recognition of its leading position in the IPO business. *Euromoney* awards these prizes to the best-performing financial institutions in each major market and sector. KBC also received two Euronext awards in 2006 for being the biggest broker and for assisting in the most IPOs (in the main table of Euronext).

OUTLOOK

According to the Management Committee of the Merchant Banking Business Unit

We are convinced that our merchant banking business model will enable us to achieve further income growth on our home markets of Belgium and Central and Eastern Europe in the years ahead, despite a certain amount of pressure on margins. Pooling the talents of and encouraging co-operation among specialists in the Merchant Banking Business Unit will also foster a great deal of synergy and clearly create added value for our company.

As far as costs are concerned going forward, we aim to achieve a cost/income ratio of 50%. We are confident that we can continue to benefit from the positive effect of the rationalisation and initiatives of recent years (streamlining the network, focusing on medium-sized enterprises and fee income, etc.). We aim to offset the anticipated limited increase in costs in the years ahead by concentrating more on higher-income products, by putting an even stronger emphasis on relationship banking, by tapping into new niche activities (such as the life insurance settlement business) and by fostering more synergy with the group's Central and Eastern European network. Indeed, our presence in Central and Eastern Europe continues to be a major asset for us in attracting the business of Western European companies. As regards credit charges, we do not see any signs at the moment that might point to a sharp increase in loan losses.

We realise of course that a certain amount of volatility will be inevitable in the contribution to profit, certainly in relation to market activities and specific niche activities. On balance, however, the aim is to achieve an average return on allocated capital of roughly 19% for this business unit.

EUROPEAN PRIVATE BANKING BUSINESS UNIT

DESCRIPTION

This business unit comprises the activities of both the KBL European Private Bankers group (KBL EPB) – i.e. Kredietbank SA Luxembourgeoise and its subsidiaries in Western Europe – and the insurance company, VITIS Life. More details on the European Private Banking network are provided below.

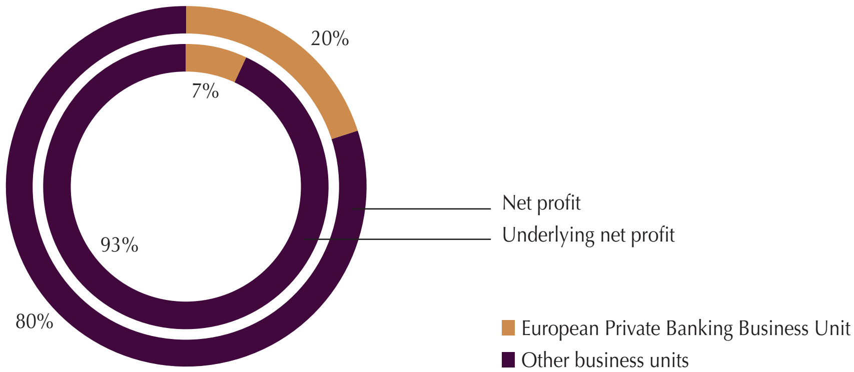
CONTRIBUTION TO GROUP RESULTS

Results, European Private Banking Business Unit

In millions of EUR	IFRS		Underlying result*	
	2005	2006	2005	2006
Net interest income	258	358	233	160
Gross earned premiums, insurance	63	40	63	40
Dividend income	13	15	13	15
Net gains from financial instruments at fair value through profit or loss	8	-100	30	89
Net realised gains from available-for-sale assets	35	22	35	22
Net fee and commission income	450	481	450	481
Net post-tax income from discontinued operations	0	0	0	0
Other income	57	515	57	14
GROSS INCOME	885	1 331	882	821
Operating expenses	-568	-542	-568	-537
Impairment	23	4	23	4
○ on loans and receivables	-3	-2	-3	-2
○ on available-for-sale assets	28	7	28	7
Gross technical charges, insurance	-90	-65	-90	-65
Ceded reinsurance result	0	0	0	0
Share in results of associated companies	3	3	3	3
PROFIT BEFORE TAX	254	732	251	227
Income tax expense	-55	-45	-54	-42
PROFIT AFTER TAX	199	687	197	184
Minority interests	-7	-9	-7	-3
NET PROFIT, GROUP SHARE	192	678	190	181
○ Banking	184	668	182	170
○ Insurance	8	11	8	11
Risk-weighted assets, banking (period-end)	8 772	5 842	8 772	5 842
Allocated capital (period-end)	653	461	653	461
Return on allocated capital	28%	119%	27%	29%
Cost/income ratio, banking	72%	43%	72%	73%

* *To gain a better insight into a number of components of the results, underlying figures have been provided in addition to the figures drawn up according to the IFRS. These figures differ as regards the breakdown of gross income and do not include non-recurring items. For information on how the underlying figures are calculated, please see 'Group results for 2006'.*

SHARE IN (UNDERLYING) NET PROFIT OF GROUP (2006)



In 2006, the European Private Banking Business Unit contributed 678 million euros (20%) to the group result, more than three times as much as a year earlier. The sale of Banco Urquijo constituted a non-recurring component of 2006 group profit, however, yielding a realised gain of 0.5 billion euros (no non-recurring items had been recorded for 2005). Discounting these profit components (see 'Group results for 2006'), the net profit of the European Private Banking Business Unit came to 181 million euros, 5% less than in 2005.

In 2006, 3% (or 0.5 billion euros) of group capital was allocated to this business unit, 29% less than in 2005. The return on the capital allocated came to 119% (as against 28% in 2005). On an underlying basis, the return on the capital allocated came to 29% (as against 27% in 2005).

The following analysis is based on the underlying result.

Underlying net profit generated by the banking activities (KBL European Private Bankers group, which accounts for the bulk of this business unit) fell by 7% to 170 million euros. Confined to VITIS Life in Luxembourg, the insurance activities of the business unit increased their net profit contribution from 8 to 11 million euros.
The total gross income of the European Private Banking Business Unit came to 821 million euros (down 7% on 2005). The main component, net fee and commission income, went up by 7% to 481 million euros (discounting changes in the scope of consolidation – namely the deconsolidation of Banco Urquijo – the increase came to as much as 16%) on the back of the strong performance in private banking and the custody business. Disregarding Banco Urquijo, the assets under management by this business unit went from 51 billion euros to 55 billion euros (37 billion euros of these assets are in the Benelux). In keeping with corporate strategy, non-core activities (commercial lending, market activities, etc.) continued to be phased out, which had an adverse impact on various components of gross income.

Operating expenses fell 5% to 537 million euros, partly because of changes in the scope of consolidation, resulting in a cost/income ratio of 73%, roughly the same as a year previously. As was the case in 2005, impairment on loans and receivables was negligible.

NETWORK, MARKET POSITION AND ACTIVITIES

KBL EPB network, 31-12-2006*

	Country	Since
Brown Shipley & Co	United Kingdom	1986
KBL France	France	1998
KB Luxembourg (Monaco)	Monaco	1996
Kredietbank SA Luxembourgeoise	Luxembourg	1949
Kredietbank (Suisse)	Switzerland	1980
Merck Finck & Co	Germany	1999
Puilaetco Dewaay Private Bankers	Belgium	2004
Theodoor Gilissen Bankiers	Netherlands	2003

** Principal subsidiaries.*

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

In Belgium, the KBC group provides private banking services according to two different models. Clients can opt either for the twenty-five specialised private banking branches of KBC Bank and CBC Banque or for Puilaetco Dewaay Private Bankers, a pure-play private bank belonging to the KBL EPB group that has some seven billion euros in assets under management, making it one of the top private banks in Belgium.

MANAGEMENT COMMITTEE EUROPEAN PRIVATE BANKING

1 JACQUES PETERS
2 JEAN-PAUL LOOS
3 ETIENNE VERWILGHEN
4 PHILIPPE PAQUAY

The KBL EPB group has no direct presence in Central and Eastern Europe, where private banking activities continue to be directed by the KBC Bank subsidiaries in the region. More details are provided below on VITIS Life, the Luxembourg life insurance company.

HIGHLIGHTS

Further optimisation of the European network and a focus on the core businesses

KBC seeks to optimise its European private banking network by acquiring sufficient critical mass in each country to assure long-term profitability. As stated above, it focuses on the Benelux and certain Western European target countries.

In 2006, organic growth was enhanced wherever possible through the acquisition of either specific portfolios or entire companies. In France, for instance, KBL France acquired wealth management company, ABALLEA FINANCE. With offices in Brest and Quimper, ABALLEA FINANCE has around 0.2 billion euros in assets under management, strengthening the KBL EPB group's presence in France.

After an in-depth review of KBL EPB's presence in Spain (Banco Urquijo), the conclusion was reached that Banco Urquijo was too diversified to fit in well with the European Private Banking Business Unit, but too small in terms of market share to build a significant domestic retail bancassurance-oriented platform in Spain. The review indicated that a sale would create the most value for KBC group's stakeholders. In July, KBC completed the sale of Banco Urquijo to Banco Sabadell for nearly 0.8 billion euros, resulting in a gain of some 0.5 billion euros for the group.

In November, KBC also signed an agreement with the Spanish BANIF on the sale of Banca KBL Fumagalli Soldan, KBL EPB's Italian subsidiary. In view of its sub-optimal size, this subsidiary was likewise found to be inconsistent with the general strategic plan. It sold for some 44 million euros, yielding KBC a gain of around 14 million euros. This sale will probably be finalised in the first quarter of 2007. In the UK, Brown Shipley & Co sold its Jersey subsidiary in order to focus exclusively on its core business in the UK.

Sharpening the focus of the business is something the entire KBL EPB group is working on, and this is reflected in such measures as the continued, general downscaling of various non-core activities, such as commercial lending and market activities.

To ensure the successful development of its European network of private bankers, KBL EPB has created a range of services for group members arranged around a Hub Service Centre (the Hub) in Luxembourg. The aim of this Hub is to provide 'state of the art' services in terms of quality, flexibility, cost management, specialised ICT tools and back-office operational support by centralising these activities on a common platform. The support provided by the Hub is very important for the growth of the European private banking network, as it enables all group companies to concentrate on their core activities and facilitates substantial economies of scale.

KBL EPB is also closely involved in the rapidly expanding fund industry in Luxembourg. To improve support for this second core business, a Global Investor Services (GIS) department has been set up. Its aim is to enhance the development and promote sales of new products for the investment fund industry and to strengthen use by the KBL EPB network of KBC and KBL products by means of cross-selling and the cross-fertilisation of ideas with a view to optimising the range of private banking products.

Synergies within the KBC group in the insurance and investment fund businesses

Through VITIS Life, KBC also provides insurance to high-net-worth clientele in Luxembourg. Since mid-2006, this company has been part of the European Private Banking Business Unit. Co-operation with the other KBL EPB group companies has given VITIS Life important new distribution alternatives and markets, and brought an attractive range of life insurance products within the reach of KBL EPB's clients.

In addition, major synergies have been achieved in the area of investment funds. Not only has the management of KBL's classic equity and bond funds been taken over by KBC Asset Management, KBL EPB group's clientele have now also gained access to the entire range of KBC investment funds.

Innovation and awards

Like all group companies, KBL EPB sets great store by innovation. In 2006, its companies again came out with various innovative products. Brown Shipley in the UK, for instance, launched the AIM Portfolio Service, a product for investing in small dynamic companies, while Theodoor Gilissen in the Netherlands came out with the Alternative Energy Note, a product structured around funds investing specifically in companies in the alternative energy industry. Merck Finck in Germany, for its part, set up a real estate advisory service to help customers find and value real estate.

As in 2005, a number of KBL EPB group companies again won awards in 2006. In France, for instance, the weekly *Le Revenu* awarded KBL France's Aeden investment funds a bronze trophy in two subcategories.

Assets under management

Notwithstanding the sale of Banco Urquijo in 2006, assets under management by the KBL EPB group came to 55 billion euros by year-end 2006, up by 8% compared with 2005. With this result, the KBL EPB group now accounts for some 26% of total assets under management by the KBC group (see 'Group results for 2006').

OUTLOOK

According to the Management Committee of the European Private Banking Business Unit

Assuming market conditions remain normal, we expect this business unit to achieve continuous growth in assets under management in the years ahead. Given the further downscaling of non-core businesses (such as commercial lending and the dealing room activities in Luxembourg), we are targeting a gross margin of around 100 basis points on assets under management.

Where acquisitions are concerned, we will continue to concentrate on achieving sufficient (critical) mass in each country, with a view to coping with any market downturns. Consequently, besides achieving organic growth, we also aim to acquire specific portfolios where possible. Geographically, we will continue to focus on the Benelux and certain Western European target countries.

Besides harnessing further synergies, we are also increasing efficiency by, for instance, centralising IT in the private banking Hub in Luxembourg, with a view to reducing the cost/income ratio to below 60% in 2009.

On balance, we aim to achieve a return on allocated capital of approximately 34% for this business unit.

SHARED SERVICES & OPERATIONS BUSINESS UNIT

DESCRIPTION

This business unit provides support to and serves as a product factory for the other business units. It encompasses a number of divisions that provide products and services to the entire group, such as Asset Management, ICT, Payments, Trade Finance, Leasing and Consumer Finance. They are described in greater detail below, along with the Group Organisation Division.

Most of the expenses and income of the Shared Services & Operations Business Unit are passed on to the other business units and consequently reflected in their results.

ACTIVITIES AND HIGHLIGHTS

Organisation

The task of the Group Organisation division in the Shared Services & Operations Business Unit is to support the group and advise it on possibilities for making structural improvements in the way the group is organised. In 2006, this division played an active part in setting up the new organisational structure and in the Operational Excellence programme. The latter encompassed a number of group-wide initiatives for optimising process management and improving processes by making them more straightforward, cheaper, faster and more customer-friendly.

In addition, the Group Organisation division performed a number of consultancy services in 2006. These related to, among other things, enhancing the efficiency and effectiveness of the organisation, improving commercial clout in the Central and Eastern European network, bettering the commercial approach taken by insurance agents in Belgium, and adapting the business-ICT management model to the new structure.

Asset Management

The group-wide Asset Management product factory is responsible for the group's range of personal, institutional and collective asset management products and services, including research (much of the economic research for the group is conducted here), product development, advice, risk management and marketing.

The group's asset management businesses, whether located in its Belgian or Central and Eastern European home markets, operate under the umbrella of this product factory, which supports the development of local subsidiaries' activities and focuses on disseminating product knowledge and harnessing synergies, with the objective of enhancing efficiency and increasing market share. The aim is to enable KBC to offer every customer the right product at the right time and to remain a fast mover on the asset management market by having an in-depth knowledge of this market.

On both its home markets, KBC sells its funds through its banking and insurance networks. Elsewhere, KBC seeks to establish a presence in selected countries through 'white labelling' or co-operation with other parties. This was illustrated in 2006 by KBC's taking a further step onto the market in China where KBC Asset Management set up a joint venture with the Chinese-owned Goldstate Securities – KBC-Goldstate Fund Management – to offer capital-protected and various types of balanced funds in that country.

Asset Management is also present in Ireland, the United States, Germany, the Netherlands, Taiwan, Hong Kong, and elsewhere.

2006 was another very busy year for KBC in this line of business, with no fewer than 209 new investment (sub)funds being launched on the Belgian market and 93 in Central and Eastern Europe. As a result, at year-end, its market share came to over 34% in Belgium, 28% in the Czech Republic, 10% in Slovakia, 18% in Hungary and 4% in Poland (provisional estimates). KBC also won no fewer than 125 new mandates from institutional and top-drawer private clients, giving it a total of 534 mandates from these customer groups at the end of the year.

KBC also again won several prizes for its asset management activities in 2006. In February, for instance, it was named 'Best Manager of Capital-Protected Funds' by *TIJD AWARD*; in November, it won the title of 'Best Distributor in the Benelux' from the international magazine, *Structured Finance*. KBC Asset Management was also awarded an AM2 rating from Fitch, the second best rating, confirming the professionalism of the investment and asset management activities of this product factory.

ICT

All of the group's ICT services are brought together in the Group ICT division, which is responsible for the group-wide provision of such in-house ICT services as communication, data processing and tailor-made systems development.

Like the other shared services and operations, this group-wide product factory focuses on fostering synergy within the group. For ICT, in particular, this calls for group-wide standardisation, among other things, with a view to exploiting economies of scale to the utmost and significantly enhancing efficiency.

The overall objective is to take stock of and harmonise ICT operations within the group in the years ahead, which should result in more general investments being made rather than local initiatives being taken, as in the past. Besides achieving cost-savings, this should enable the KBC group to offer similar products and services in all the markets in which it is present.

A number of steps were already taken towards achieving this goal in 2006. They included establishing a KBC-owned offshore development centre in India, introducing a uniform ICT purchasing policy and implementing a business-ICT management model.

Other examples of group-wide projects launched in 2006 include a new non-life policy administration and claims settlement system, a company-wide credit risk-monitoring system, a new securities processing platform and a shared system for leasing activities. Also in the pipeline is a project to standardise the architecture of payment platforms, in anticipation of the Single Euro Payments Area, or SEPA.

Payments

The main task of this group-wide product factory is to respond to challenges posed by the fast-changing, consolidating European payments landscape. These challenges include the future introduction of the euro in Central and Eastern Europe, new EU legislation on payments and the transition to the SEPA.

Group Payments is responsible for payments products within the group from product development through to sales support (aside from contacts with the customers themselves). These products include domestic and cross-border payments, payment cards, cash processing, demand accounts and international cash management (including the w1se Corporate e-Banking ® Internet application). The Group Payments unit also overarches all local payments divisions, which are responsible specifically for adapting the product mix for local distribution to meet local needs, and for making local preparations for the SEPA and the introduction of the euro. This product factory naturally also oversees all local projects and ICT investment.

Like the other shared services and operations, Group Payments actively seeks out opportunities for synergy, whether through the use of shared platforms, by exploiting economies of scale via a collective purchasing policy, optimising processes or exchanging best practices.

In 2006, a number of important advances were made towards developing a group-wide approach to payments: for instance, the cross-border payments of the Central and Eastern European group companies were gradually migrated to Fin-Force and payment card transactions were routed to SiNSYS, a specialist in the pan-European processing of payment card transactions. 2006 also marked another important milestone in the transition to the SEPA, with the decision to switch Belgian payment cards from Bancontact/Mister Cash to Maestro, doing away with the distinction between domestic and foreign payment card transactions.

MANAGEMENT COMMITTEE OF THE SHARED SERVICES & OPERATIONS BUSINESS UNIT

1 STEFAN DUCHATEAU
2 BART VANHAEREN
3 CHRIS ALBERT (SECRETARY)
4 CARL TILKIN-FRANSSENS
5 ANTOON TERMOTE
6 HERWIG HUYSMANS
7 CHRIS DEFRANCQ
8 WILLIAM BRONDEEL
9 KAREL HEYNDRICKX

Trade Finance

This group-wide product factory is responsible for drawing up policy on the product mix, processing and sale of payment and finance instruments for export and import transactions (including letters of credit, documentary collections, domestic and international guarantees and medium- and long-term export finance). This product factory groups the trade finance teams located in the various countries where the group is present (with the focus on Belgium and Central and Eastern Europe). The establishment of a single overarching group-wide entity has already attracted new business – both new customers and new transactions.

Trade Finance also seeks to exploit synergies within the group and to transfer existing practices and know-how to the Central and Eastern European and other entities. KBC has, for instance, been able to give its customers (both exporters and importers) in Belgium best-in-class service for some time now by making clear commitments and offering clear guarantees (e.g., providing compensation if commitments are not met), and it plans to introduce this policy onto the Central and Eastern European markets in the near future.

This product factory also aims to cater for customers operating on various of the group's home markets, by providing them with uniform, consistent service. This is illustrated by the roll-out in the Czech Republic and Slovakia of the successful Internet tool, Flexims. In the years ahead, this application will be introduced in the other Central and Eastern European home markets.

Leasing

Leasing, another group-wide product factory, is responsible for the development, processing, sales support or direct selling of all leasing products within the group. Present in fourteen countries in Western, Central and Eastern Europe, the Leasing 'factory' ensures that local and international customers and vendors are catered for in all countries where needed, and streamlines and co-ordinates the activities of all of the group's leasing companies. It is also responsible for the strategy, budgets, benchmarking and processes of all leasing product lines (general leasing, European vendor finance and full service car leasing).

In Belgium, the KBC Bank and CBC Banque branch networks are the main distribution channel for leasing products. Leasing products are also sold outside Belgium via KBC Bank's branches in Western Europe. In Central and Eastern Europe, dealers (garages, for instance) are the main distribution channel, and efforts are currently being made to step up sales via the group's bank branches. At European level, in addition to local leasing activities, the company focuses on cross-border collaboration with vendors.

2006 was a very busy leasing year for the KBC group; among other things, it acquired Romstal Leasing in Romania (see the 'Central & Eastern Europe Business Unit' section), took over the activities of Leasing Exchange in the Netherlands, and opened KBC Lease Italia in Verona. Besides this, various innovative products were launched, such as an operational, full-service, extra long-term car leasing facility and a financial renting product with higher residual value for passenger cars, a product designed for members of the liberal professions and the self-employed.

Consumer Finance

At the end of December, KBC decided to launch a new group-wide product factory for consumer finance in order to respond better to the growing consumer credit market in Belgium and Central and Eastern Europe. Forecasts for the Central and Eastern European region, for instance, predict a continued strong increase in demand for credit cards and instalment loans (in the past two to three years, annual growth of 30% has been recorded in the Czech Republic, and as much as 50% in Slovakia), but KBC is anticipating a strong increase in Belgium, too. Ultimately, KBC intends to increase its share of the Belgian and Central and Eastern European consumer finance market – which in a number of countries is still below its *natural* share – and become a major player in this market.

The Consumer Finance product factory has group-wide responsibility for revolving credit cards (such as PINTO VISA cards), car loans, instalment loans and so-called Point-of-Sale (POS) loans, among other things. The aim is to sell these products not just through the traditional bank channels, but also through typical consumer finance channels, such as in-store finance. The group already provides in-store finance in Poland, where Żagiel – a Kredyt Bank subsidiary – sells POS credit through 25 000 shops, and also grants instalment loans and issues cards via a call centre and 150 of its own branches. This has made Żagiel one of the biggest players on the consumer finance market in Poland.

Its strategy will be adapted for and implemented in the various countries, depending on KBC's market position there and the outlook for growth. In the early stages, the group will primarily target Polish, Czech and Belgian consumers, but other countries will not be overlooked. In future, KBC may make acquisitions or set up greenfield operations.

Outlook

According to the Management Committee of the Shared Services & Operations Business Unit

The Shared Services & Operations Business Unit focuses on achieving additional synergies within the group with a view to boosting sales volumes and enhancing operational excellence. This holds true especially for the Asset Management, Trade Finance, Leasing and Consumer Finance product factories. Where ICT is concerned, the objective is to create scope within the current budgets – which have been frozen at their present level – to set up group-wide applications and introduce a common architecture. In the area of payments, lastly, the focus lies not only on projects relating to the SEPA, but also on optimising the processes in Central and Eastern Europe in anticipation of the introduction of the euro.

VALUE AND RISK MANAGEMENT

VISION AND PRINCIPLES

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

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

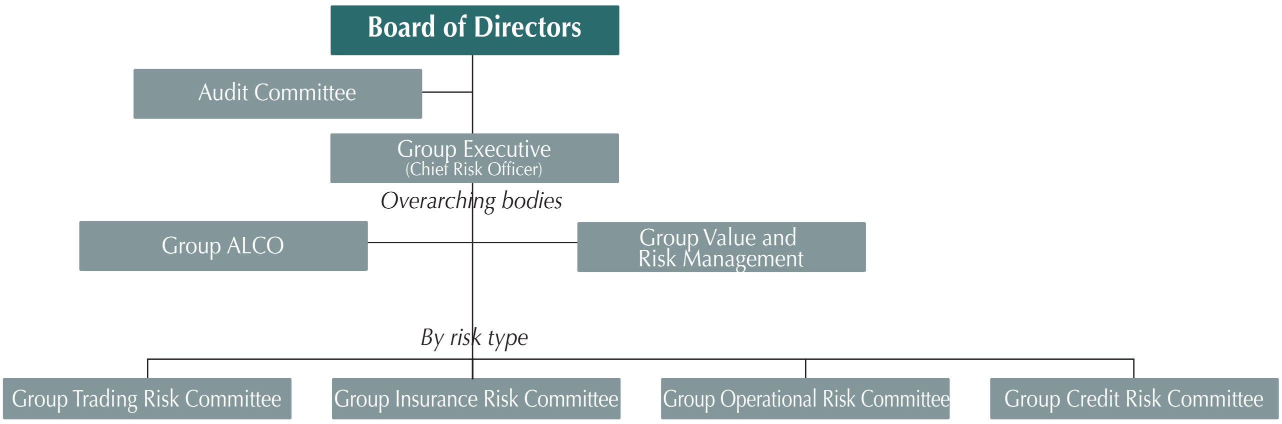
- Value, risk and capital management are inextricably linked to one another. Every company's aim is to create value. To achieve this aim, decisions are taken and activities developed, even though there is no certainty as to where they will lead. To ensure its own continuity, a company must have adequate capital to be able to deal with any unforeseen consequences of adverse developments.
- Risk management should be approached from a comprehensive, group-wide angle, taking into account all the risks a company is exposed to and 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, 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.

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

RISK GOVERNANCE MODEL

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 three tiers:

- *The Board of Directors (assisted by the Audit Committee), the Group Executive Committee and the Group ALCO (Asset/Liability Management Committee)*. These committees concentrate on global risk management and on monitoring value creation and capital adequacy for the entire group. Regular reporting to the Audit Committee ensures that there is an ample flow of information to the relevant members of the Board of Directors. Each year, the full Board sets the risk tolerance limits. The Group Executive Committee is responsible for the implementation of the value and risk management strategy and outlines the structure of such management. The Chief Financial and Risk Officer (CFRO), a member of the Group Executive Committee, has been entrusted with the specific task of supervising risk management and the internal control structure. The Group ALCO takes the investment and finance decisions, monitors the relevant risk exposure and is responsible for developing capital management.
- *Specialised risk committees*. These committees concentrate on developing a group-wide framework for one particular type of risk or cluster of activities and monitor the associated risk management process. Chaired by the CFRO, the risk committees are composed of representatives from line management and the Group Value and Risk Management Directorate. The various committees are as follows:
  - the Group Trading Risk Committee, which monitors all risks associated with trading activities;
  - the Group Credit Risk Committee, which supervises the composition and quality of the loan portfolio (including credit risk in respect of (re)insurance);
  - the Group Operational Risk Committee, which oversees operational risk management;
  - the Group Insurance Risk Committee, which monitors specific insurance risks.



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

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

CREDIT RISK MANAGEMENT

Description

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

Managing credit risk, banking

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

Supervision and monitoring. How the credit is managed is determined primarily by the risk class, with a distinction being made between the Probability of Default (PD) and the Expected Loss (EL). The latter takes account not only of the PD, but also of the amount expected to be left outstanding on default and the non-recoverable loss in that event. Companies borrow in local or foreign currency, depending on their needs and the customs and practices in effect on the market. Credit to individuals is generally granted in the local currency, except in some countries in Central and Eastern Europe, where credit in foreign currency is proving to be extremely popular on account of the significant gap between interest rates in the local currency and interest rates in euros (or other currencies). In view of the currency risk inherent in such credit, it is closely monitored (borrowing percentage, stress tests, etc.).

The 'normal' loan portfolio is split up into classes ranging from 1 (lowest risk) to 9 (highest risk), and this for both the EL and the PD (for KBL EPB, external ratings are still being used for the time being). Loans to large corporations in this portfolio are reviewed periodically; just how often and how intensively depends on the class of risk concerned. Reviews of loans to small and medium-sized enterprises are based primarily on risk signals (such as a significant change in the risk class).

Defaulting borrowers are put into PD classes 10, 11 or 12. PD class 10 is for 'still performing' borrowers, i.e. loans for which interest payments and principal repayments are not more than ninety 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 bankrupt. For the larger loans, an overview of all borrowers in default is submitted to the Group Executive Committee every quarter.

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

Portfolio management. Monitoring is conducted on a portfolio basis; *inter alia* by means of quarterly reports on the consolidated loan portfolio. The largest risk concentrations are, in addition, monitored via various periodic and *ad hoc* reports. Limits are in place at borrower or counterparty level, at sector level and for specific activities (such as acquisition finance) or geographic areas.
As part of the credit function, the portfolio management desk seeks to actively manage and monitor the loan portfolio. Using a model, this unit pinpoints risk concentrations and seeks to enhance the diversification of the loan portfolio using such instruments as credit derivatives. The portfolio management desk also co-ordinates credit securitisation operations. At the end of 2006, there was one securitisation operation outstanding involving own loans (Phoenix Funding, a securitisation operation involving IIB Homeloans' mortgage loans, for an amount outstanding of 0.3 billion euros).

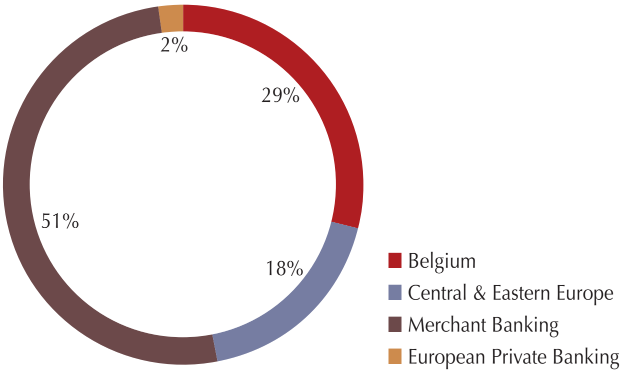
Overview of the loan portfolio, banking

The loan portfolio (see table) includes all (committed and uncommitted) payment credit, standby credit, guarantee credit, credit derivatives (protection sold) and corporate and bank bonds in the investment book of KBC Bank and KBL EPB. It does not include government bonds, trading book securities, interprofessional transactions (deposits with financial institutions, exchange transactions, etc.), short-term commercial transactions (e.g., documentary credit) or intragroup transactions. The loan portfolio according to this definition therefore differs significantly from the balance sheet item 'Loans and advances to customers' (which does not include such items as 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, or 'repo', transactions with non-banks, for instance).

At the end of 2006, the total portfolio of credit granted came to 186 billion euros, 6% more than a year earlier. Excluding currency fluctuations, the (real) increase came to 7%. If the sale of Banco Urquijo is not taken into account, the (real) increase came to around 9%.

The Merchant Banking Business Unit accounted for nearly 51% of credit granted, followed by the Belgium Business Unit (29%), the Central & Eastern Europe Business Unit (18%) and the European Private Banking Business Unit (2%).
Virtually all (99.3%) of the loan portfolio is accounted for by credit to borrowers in investment-grade countries (i.e. countries with a rating of AAA through BBB-).
Payment credit is the major type of credit (84%), followed by corporate and bank bonds (8%), guarantee credit (6%) and standby credit (3%).
The loan portfolio is also well diversified across the different sectors. Only five sectors account for more than 5% of the portfolio of credit granted, viz.: the financial sector (which has a rather low risk profile), 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 boasts a broad geographic spread). Exposure to more cyclic-

LOAN PORTFOLIO, BREAKDOWN BY BUSINESS UNIT (31-12-2006)



ally sensitive or high-risk sectors is limited (e.g., the automobile industry accounts for 3% of the portfolio, telecom for 2% and aviation for under 1%).

The table also shows how the portfolio breaks down according to the borrower's internal rating. This breakdown is not based on the amount granted, rather on the exposure expected to result on default by the borrower, and does not include all group companies (see footnote to table). The (limited portfolio of) as yet unrated borrowers have been put into PD class 5.

As set out above, KBC records specific impairment for certain loans (2 001 million euros at 31 December 2006). In addition, on the portfolio of loans for which no specific impairment has been recorded, KBC records portfolio-based impairment (222 million euros at year-end 2006).

At year-end 2006, 1.6% of the portfolio was non-performing (compared with 2.2% at year-end 2005; the decline occurred mainly in Central and Eastern Europe). Of these non-performing loans, almost 70% was covered by specific impairment for non-performing loans. When, besides specific impairment for non-performing loans, specific impairment for performing loans and portfolio-based impairment is also taken into account, as much as 100% of the non-performing loans were covered.
The loan loss ratio reflects the net change in impairment relative to the average outstanding loan portfolio. For 2006, this ratio came to 0.13%. A more detailed breakdown of this ratio is given in the table.

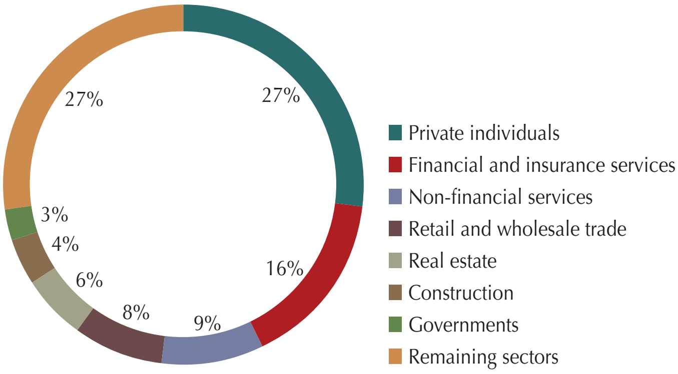
Loan portfolio, KBC Bank and KBL EPB

	31-12-2005	31-12-2006
Total loan portfolio, in billions of EUR		
Amount granted	174.8	185.7
Amount outstanding	126.9	138.6
Loan portfolio breakdown by business unit (as a % of the portfolio of credit granted)		
Belgium Business Unit	29%	29%
Central & Eastern Europe Business Unit	16%	18%
Merchant Banking Business Unit	52%	51%
European Private Banking Business Unit	4%	2%
Total	100%	100%
Loan portfolio breakdown by credit type (as a % of the portfolio of credit granted)[1]		
Payment credit	82%	84%
Standby credit	4%	3%
Guarantee credit	7%	6%
Credit derivatives sold	0.1%	0.1%
Bonds (only corporate and bank issues)	7%	8%
Total	100%	100%

Loan portfolio, KBC Bank and KBL EPB (cont.)

	31-12-2005	31-12-2006
Loan portfolio breakdown by counterparty sector ((cont.) as a % of the portfolio of credit granted)[2]		
Private individuals	23%	27%
Financial and insurance services	17%	16%
Governments	3%	3%
Corporates	58%	54%
○ Non-financial services	11%	9%
○ Retail and wholesale trade	9%	8%
○ Real estate	6%	6%
○ Construction	4%	4%
○ Automobile industry	3%	3%
○ Chemical industry	3%	2%
○ Electricity	3%	3%
○ Agriculture, stock farming and fishing	2%	2%
○ Food industry	2%	2%
○ Other	15%	15%
Total	100%	100%
Loan portfolio breakdown by risk class (part of the portfolio[3], as a % of Exposure at Default, estimate)		
PD 1 (lowest risk)	–	23%
PD 2	–	7%
PD 3	–	23%
PD 4	–	14%
PD 5	–	20%
PD 6	–	7%
PD 7	–	3%
PD 8	–	2%
PD 9	–	0.4%
Total	–	100%
Loan portfolio breakdown by country rating of the counterparty or guarantor (as a % of the portfolio of credit granted)		
Investment-grade countries (AAA through BBB ratings)	99.5%	99.3%
Non-investment-grade countries (BB through D ratings)	0.5%	0.7%
Total	100.0%	100.0%
Impaired loans (PD 10 + 11 + 12; in millions of EUR or %)		
Impaired loans	3 977	3 324
Specific impairment	2 532	2 001
Portfolio-based impairment	290	222
Loan loss ratio, negative figures indicate a positive impact on profit		
○ Belgium Business Unit	-0.05%	0.07%
○ Central & Eastern Europe Business Unit[4]	0.37%	0.58%
○ Merchant Banking Business Unit	-0.04%	-0.01%
○ European Private Banking Business Unit	-0.46%	-0.10%
○ Total	0.01%	0.13%

LOAN PORTFOLIO, BREAKDOWN BY SECTOR (31-12-2006)



Loan portfolio, KBC Bank and KBL EPB (cont.)

	31-12-2005	31-12-2006
Non-performing loans (PD 11 + 12; in millions of EUR or %)		
Amount outstanding	2 848	2 221
Specific impairment for non-performing loans	2 056	1 541
Non-performing ratio		
Belgium Business Unit	1.7%	1.5%
Central & Eastern Europe Business Unit	4.5%	2.4%
Merchant Banking Business Unit	1.8%	1.3%
European Private Banking Business Unit	1.6%	1.9%
Total	2.2%	1.6%
Cover ratio		
Specific impairment for non-performing loans	72%	69%
Specific and portfolio-based impairment for performing and non-performing loans	99%	100%

For a definition of the above ratios, please see the 'Additional information' section.
1 2005 figures were adjusted retroactively to reflect changes in definitions.
2 About half of the difference between 2005 and 2006 in the figures for private individuals can be put down to methodological changes.
3 Excluding KBL EPB and a number of KBC Bank subsidiaries (among which Centea, Antwerp Diamond Bank, K&H Bank and Kredyt Bank).
4 For the Czech Republic and Slovakia, the loan loss ratio comes to 0.36%, for Hungary to 1.50% and for Poland to -0.21%.

Other credit exposure in banking

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

Short-term commercial transactions. 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 2006, commercial exposure came to 1.3 billion euros. Despite the high proportion of non-investment-grade banks in this exposure (roughly 60%), 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 2.3 billion euros at the end of 2006. KBC Financial Products (KBC FP) accounted for 0.9 billion euros of the total. At KBC FP, this exposure 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). Because counterparty risk only arises with long positions, issuers in respect of which a short position exists on balance (at KBC FP, for instance, short positions came to around 1 billion euros at the end of 2006) are not taken into account in reporting. The issuer risk exposure of other entities (aside from KBC FP) came to 1.4 billion euros. For those other entities, this exposure is measured on the basis of the market value of the securities. Issuer risk is curtailed through the use of limits both per issuer and per rating category.

Counterparty risk in interprofessional transactions (deposits with professional counterparties and derivatives trading). This reflects the potential loss on transactions should the counterparty default on its obligations. The amounts shown in the table are the group's pre-settlement risks, measured on the basis of the 'mark-to-market' value of the position plus an add-on, determined according to the capital-weighting method (Basel I). At the end of 2006, the group's total pre-settlement risk came to some 23.2 billion euros (excluding KBL EPB and before deduction of collateral). Deposits account for slightly less than 40% of this amount. The bulk (87%) 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. The risk-mitigating impact of netting and collateral techniques came to around 6.5 billion euros and 0.9 billion euros, respectively, at the close of 2006.

Government securities in the investment portfolio. Exposure to governments (37.0 billion euros at the end of 2006) is accounted for mainly by EU states (particularly Belgium), which poses a minimal credit risk. Local or regional governments account for only a fraction of the exposure (0.6 billion euros). The considerable exposure to governments is consistent with reinvestment policy (see ALM). However, there are limits for this type of credit exposure, as well, certainly for governments with a lower than 'AA' rating.

Other credit exposure, KBC Bank

	31-12-2005	31-12-2006
Short-term commercial transactions		
Amount (in billions of EUR)	1.1	1.3
By origin (%)		
○ Belgium Business Unit	2%	3%
○ Central & Eastern Europe Business Unit	4%	7%
○ Merchant Banking Business Unit	94%	90%
○ Total	100%	100%
Issuer risk[1]		
Amount (in billions of EUR)	3.1	2.3
By origin (%)		
○ Belgium Business Unit	0%	0%
○ Central & Eastern Europe Business Unit	5%	6%
○ Merchant Banking Business Unit	95%	94%
○ Total	100%	100%
Counterparty risk in interprofessional transactions[2]		
Amount (in billions of EUR)	19.5	23.2
By origin (%)		
○ Belgium Business Unit	5%	5%
○ Central & Eastern Europe Business Unit	16%	16%
○ Merchant Banking Business Unit	79%	79%
○ Total	100%	100%
Government bonds in the investment portfolio, incl. KBL EPB		
Amount (in billions of EUR)	39.1	37.0
By origin (%)		
○ Belgium Business Unit	9%	8%
○ Central & Eastern Europe Business Unit	20%	20%
○ Merchant Banking Business Unit	70%	71%
○ European Private Banking Business Unit	1%	1%
○ Total	100%	100%

1 Excluding OECD government bonds.
2 The breakdown by origin is a rough estimate.

Country risk, banking

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

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

Method used to calculate country risk

The following risks are included:
- credit (including so-called medium-term export credit, IFC 'B' loans and performance risks);
- bonds and shares in the investment portfolio;
- placements and (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.

The table provides an overview of country risk at year-end 2006, broken down by geographic area and remaining tenor.

Country risk (excluding local-currency transactions), KBC Bank and KBL EPB, 31-12-2006

In millions of EUR	Total	Western Europe (excl. euro area)	Central and Eastern Europe	Asia	North America	Middle East	Latin America	Africa	Oceania	International institutions
By transaction type										
IFC 'B' loans	25	0	0	6	0	1	14	4	0	0
Performance risks	1 031	23	591	28	20	33	159	168	9	0
Other loans	15 371	3 325	7 236	2 277	1 732	464	108	129	70	31
Bonds and shares	5 341	1 612	782	547	1 791	139	199	10	67	193
Interprofessional transactions (weighted)	8 828	6 411	926	666	513	97	161	28	6	19
MLT export finance	53	0	26	3	0	12	2	8	0	1
Short-term commercial transactions	1 225	52	150	429	10	490	23	46	2	25
Total	31 876	11 424	9 711	3 956	4 067	1 235	666	393	154	270
Breakdown by remaining tenor										
Not more than 1 year	14 208	7 123	2 597	2 323	1 095	525	292	131	47	74
More than 1 year	17 667	4 301	7 114	1 632	2 971	710	374	261	107	196
Total	31 876	11 424	9 711	3 956	4 067	1 235	666	393	154	270

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 and the credit process (acceptance and monitoring). A number of models are uniform throughout the group (for instance, the models for governments, banks, large companies 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.

In 2007, these models will also form the building blocks for calculating the regulatory capital requirements for credit risk. KBC has in other words opted to use the Internal Rating-Based (IRB) Approach. Initially, KBC will use the IRB 'Foundation' Approach, but it may switch to the 'Advanced' approach later on. The switch to Basel II will take place in stages, with the main group companies expected to switch over in 2007 (subject to regulatory approval).

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.

Since the first quarter of 2006, KBC has been simulating the impact of Basel II on minimum capital requirements. The parallel run conducted at the end of 2006 showed that the regulatory capital requirements according to the IRB Foundation Approach for credit risk and the standard approach for operational risk are lower than the capital requirements under Basel I. The capital requirements for the Belgium Business Unit in particular are significantly lower than under Basel I on account of its substantial retail portfolio, which has a low risk profile. The 5% limit that applies in the first Basel II year (2007) is likely to place a floor under the lower capital requirements.

Credit risk, insurance

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

Guidelines have been established with regard to the investment portfolio for the purpose of controlling credit risk. There are standards, for instance, that stipulate what percentage of the portfolio has to be invested in securities issued by governments of OECD countries, as well as standards that require issuers to have a certain minimum rating, and so on (see also the 'Asset/Liability Management' section).

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

It should be noted that the group risk total – an important yardstick used in the bank's credit acceptance process – includes the above credit exposure of the insurance activities.

ASSET/LIABILITY MANAGEMENT

Description

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

- interest rate risk,
- equity risk,
- real estate risk,
- foreign exchange risk,

- inflation risk,
- credit risk (limited to the investment portfolios),
- liquidity risk.

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

Managing ALM risk

The main purpose of ALM is to optimise the risk/return profile of the group, subject to the risk tolerance limits set by the Board of Directors. ALM risks are managed and monitored by a Group Asset/Liability Management Committee (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 zone, local ALCOs have been set up.

In the Group Value and Risk Management Directorate, a team has been assembled to provide support to the Group ALCO and to develop ALM risk management; similar teams exist at the subsidiaries outside the euro zone, as well. Risk management responsibilities for the life insurance business (including the tasks of the certifying actuary for the life insurance business and embedded value modelling) also come within the scope of ALM risk management.

The ALM strategy is implemented locally by various 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, which ensures that a uniform approach is taken to ALM decision-making group-wide, are:
- a focus on 'economic value' as the cornerstone of ALM policy, with attention also being paid to secondary criteria, such as income, solvency and liquidity;
- the use of a uniform ALM measurement methodology for banking and insurance activities, based on 'fair value models' that mathematically forecast the behaviour of the value of a product group under different market scenarios 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 limitation purposes. This VAR measures the maximum loss that might be sustained over a one-year time horizon as a result of movements in interest rates and other fluctuations in market risk factors;
- the definition of an ALM VAR limit at group level, with authority being delegated to the Group Executive Committee to divide this overall limit up across various types of risk and entities; this allocation takes place on a centralised basis based on the desired group-wide investment profile.

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

KBC group 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
Interest rate risk	0.60
Equity risk	1.66
Real estate risk	0.15
Other risks	0.11
Total	2.52

ALM in 2006: Interest rate risk

The bank's ALM interest rate positions are managed via a system of market-oriented internal pricing for products with a fixed maturity date (dated products), and via a replicating portfolio technique for products without a fixed maturity date (undated products; e.g., demand and savings accounts). For these last, a benchmark maturity mix and a core amount are established and reviewed on a dynamic basis in order to incorporate them into the internal risk-measurement system. The bank manages, in a risk-neutral way, all the commercial production activity in products that are not covered by the benchmarking method through a book referred to as the 'hedging position'.

The bank'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 the bond portfolio used for reinvesting equity and in a bond portfolio financed with short-term funds. The entire interest rate exposure in these different books is referred to as the 'transformation position'.

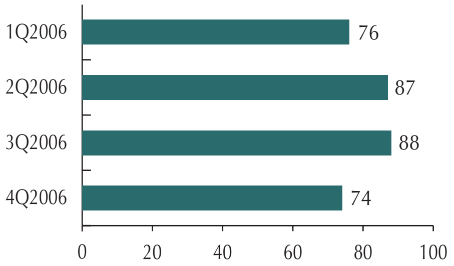
To measure interest rate risks, KBC uses two main techniques: Basis-Point-Value (BPV) and Value-at-Risk (VAR, see above). The BPV measures the extent to which the value of the portfolio would change if interest rates were to fall by ten basis points across the entire curve (positive figures indicate an increase in the value of the portfolio). 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 transformation position is controlled by means of specific 'BPV limits'. These limits are set in such a way that interest rate positions combined with the other ALM positions remain within the overall VAR limits (see above).

The table shows how the bank's exposure to interest rate risk developed over the course of 2005 and 2006. The figures cover all the significant bank entities within the group. Interest rate exposure remained at an average level in 2006, decreasing slightly towards the end of the year on account of changes in interest rate expectations.

ALM: AVERAGE BPV OF THE ALM BOOK PER QUARTER, BANKING

In millions of EUR



BPV of the ALM book of KBC group banks

In millions of EUR	
Average, 1Q 2005	57
Average, 2Q 2005	53
Average, 3Q 2005	58
Average, 4Q 2005	76
31-12-2005	75
Maximum in 2005	82
Minimum in 2005	51
Average, 1Q 2006	76
Average, 2Q 2006	87
Average, 3Q 2006	88
Average, 4Q 2006	74
31-12-2006	67
Maximum in 2006	92
Minimum in 2006	66

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 8.5% at year-end 2006. Where this stress test indicates that capital and reserves would fall by more than 20%, the bank in question is considered an 'outlier bank' (which leads to a higher charge against capital).

The table shows the bank's interest sensitivity gap. 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 group banks

In millions of EUR	≤ 1 month	1–3 months	3–12 months	1–5 years	5–10 years	> 10 years	Non-interest-bearing	Total
31-12-2005								
Assets*	110 942	55 572	120 418	117 677	48 374	16 969	26 557	496 509
Liabilities*	120 989	63 858	117 070	110 542	41 619	13 495	28 936	496 509
Interest sensitivity gap	-10 047	-8 286	3 348	7 136	6 755	3 474	-2 379	0
31-12-2006								
Assets*	94 252	56 648	82 360	116 136	49 972	20 730	25 976	446 075
Liabilities*	110 271	51 372	78 861	119 475	42 394	16 259	27 443	446 075
Interest sensitivity gap	-16 020	5 276	3 500	-3 339	7 578	4 471	-1 467	0

** Including derivatives.*

Where the group's insurance activities are concerned, the fixed-income investments for the non-life reserves are invested with the aim of matching the projected pay-out patterns for claims, based on extensive actuarial analysis. The non-linked life activities (class 21) combine a guaranteed interest rate with a discretionary participation feature (DPF) fixed by the insurer. The main risks to which the insurer is exposed as a result of such activities are a low-interest-rate risk (the risk that return on investments will drop below the guaranteed level) and a risk that the investment return will not be sufficient to give customers a competitive profit-sharing rate. The risk of low interest rates is managed via a cashflow-matching policy, which is applied to that portion of the life insurance portfolios covered by fixed-income securities. For the single premium life savings products (which constitute the major part of the existing reserves and new production), the low-interest-rate risk is hedged using a combination of cashflow-matching and derivative strategies. The lapse risk is managed by a combination of derivative strategies that match the expected profit-sharing policies with a mixed investment portfolio of fixed-income investments and equities.
Unit-linked life insurance (class 23) investments are not dealt with here, since this activity does not entail any ALM risk.

The table summarises the exposure to interest rate risk in KBC's life insurance activities. The life insurance assets and liabilities relating to business offering guaranteed rates are grouped according to the expected timing of cashflows. Discretionary participation features are not included in this table because they are subject to an annual discretionary decision. These features, however, tend to increase along with interest rates, reducing the overall effective duration of reserves with DPF.

Expected cashflows (not discounted), KBC group life insurance

In millions of EUR	0–5 years	5–10 years	10–15 years	15–20 years	> 20 years	Total
31-12-2005						
Assets backing liabilities, guaranteed component	4 278	5 678	1 719	437	923	13 035
Liabilities, guaranteed component	3 360	4 973	1 393	1 392	2 406	13 524
Difference in expected cashflows	919	705	326	-956	-1 483	-489
Mean duration of assets						5.99 years
Mean duration of liabilities						8.69 years
31-12-2006						
Assets backing liabilities, guaranteed component	5 013	5 689	1 720	897	1 289	14 609
Liabilities, guaranteed component	3 474	5 366	1 593	1 508	2 509	14 450
Difference in expected cashflows	1 539	322	127	-611	-1 220	158
Mean duration of assets						6.41 years
Mean duration of liabilities						8.57 years

The ALM risks of the group's Belgian insurance activities remained strictly under control in 2006, thanks to, among other things, strict control of the minimum guarantees provided for new products, the launch of a class-21 fund offering just a capital guarantee and the active management of the duration mismatch between investments and liabilities. In the Central and Eastern European group companies, the policy introduced last year of gradually reducing the duration mismatch continued to be adhered to.

Lastly, it should be mentioned that the overall group-wide interest rate and ALM position (both banking and insurance) is significantly reduced by the compensating effect between the 'natural' long position of the bank and the 'natural' short position of the insurance business. At 31 December 2006, the group's total interest rate exposure was reduced in this way by around 11%.

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

In millions of EUR	Impact on net profit (IFRS)	Impact on economic value
	2006	2006
Belgium Business Unit	26	-531
Central & Eastern Europe Business Unit	28	-94
Merchant Banking Business Unit	-9	-93
European Private Banking Business Unit	1	-22
Other	0	-13
Total	46	-753

ALM in 2006: Equity risk

KBC's equity exposure is concentrated in the investment portfolios of KBC Insurance. Apart from this, smaller equity portfolios are also held by KBC Bank, KBL EPB, KBC Asset Management and KBC Private Equity, among others.

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.

Impact of a 10% drop in the equity markets

In millions of EUR	Impact on net profit (IFRS)		Impact on economic value	
	2005	2006	2005	2006
Belgium Business Unit	n.a.	-2	-286	-321
Central & Eastern Europe Business Unit	n.a.	0	-3	-9
Merchant Banking Business Unit	n.a.	-1	-96	-88
European Private Banking Business Unit	n.a.	0	-29	-29
Other	n.a.	0	-0	-9
Total	n.a.	-2	-415	-456

n.a.: not available.

ALM in 2006: Credit risk in the investment portfolios

Only the ALM portfolios of KBC Insurance represent a material credit risk exposure (the credit exposure in the banking activities has already been dealt with above), which is monitored under the credit risk framework described above. A number of the guidelines governing credit risk are shown in the table.

A selection of investment guidelines for borrower risk in the fixed-income portfolio, KBC Insurance NV and Fidea		
% listed	Minimum 90%	
% government bonds of OECD countries	Minimum 40%	(current strategic mix: 80%)
% with A rating or higher	Minimum 95%	(current strategic mix: 100%)
% with AA rating or higher	Minimum 75%	(current strategic mix: 90%)
% subordinated bonds	Maximum 15%	(always with borrower rating of AA or higher)
% corporate bonds	Maximum 20%	

The table provides an overview of the investment portfolios of the group’s insurance entities.

Investment portfolio of KBC group insurance entities

In millions of EUR	Carrying value		Market value	
Per balance sheet item	**31-12-2005**	**31-12-2006**	**31-12-2005**	**31-12-2006**
Securities	16 882	17 674	17 136	17 787
o Bonds and other fixed-income securities	12 685	13 145	12 939	13 258
o Held-to-maturity	2 740	2 907	2 995	3 021
o Available-for-sale	8 833	9 042	8 833	9 042
o At fair value through profit or loss (FIFV)	1 112	1 196	1 112	1 196
o Shares and other variable-yield securities	4 197	4 529	4 197	4 529
o Available-for-sale	4 041	4 361	4 041	4 361
o At fair value through profit or loss (FIFV)	156	168	156	168
Loans and advances to customers	131	148	131	148
Loans and advances to banks	557	1 010	557	1 010
Property and equipment and investment property	283	228	389	296
Investments in associated companies	3	3	4	3
Other	125	128	125	128
Liabilities under investment contracts, unit-linked	7 778	9 367	7 778	9 367
Total	25 759	28 558	26 120	28 739
Bond portfolio details				
By rating*				
o AA- and higher			82%	79%
o A- and higher			99%	99%
o BBB- and higher			100%	100%
By sector*				
o Governments			81%	81%
o Financial			13%	14%
o Other			6%	5%
o Total			100%	100%
By currency*				
o Euro			91%	90%
o Other European currencies			9%	9%
o US dollar			0%	1%
o Total			100%	100%
By remaining tenor*				
o Not more than 1 year			5%	6%
o Between 1 and 3 years			14%	14%
o Between 3 and 5 years			14%	14%
o Between 5 and 10 years			45%	42%
o More than 10 years			22%	25%
o Total			100%	100%
Equity portfolio details				
By sector*				
o Financial			29%	36%
o Consumer non-cyclical			14%	12%
o Communication			13%	10%
o Energy			8%	8%
o Industrial			10%	6%
o Utilities			6%	9%
o Consumer cyclical			7%	8%
o Basic materials			6%	5%
o Other			6%	5%
o Total			100%	100%

* *Excluding investments for unit-linked insurance. In certain cases, based on extrapolations or estimates. The 2005 breakdown of the bond portfolio by sector has been adjusted retroactively to reflect changes in definitions.*

ALM in 2006: Real estate risk

A limited real estate investment portfolio is also held by the group's real estate businesses with a view to realising capital gains over the long term. KBC Insurance also holds a significant real estate portfolio. It is a diversified portfolio held as an investment for both non-life reserves and long-term life activities. The real estate exposure is viewed as a long-term hedge against inflation risks and as a way of optimising the risk/return profile of these portfolios.

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	
	2005	**2006**
Bank portfolios	-49	-70
Insurance portfolios	-52	-52
Total	-101	-122

ALM in 2006: Foreign exchange risk

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

ALM in 2006: Liquidity risk

Liquidity risk is the risk that KBC will not be in a position to efficiently meet its expected and unexpected needs in terms of cashflow and/or collateral without normal business operations being disrupted. In the group, the banking activities are the main source of liquidity risk.

The liquidity management framework and liquidity limits are set by the Group ALCO. Operational liquidity management is organised within the Global Treasury unit, with strong centralisation of collateral management and the acquisition of long-term funding. Primary responsibility for operational liquidity management lies with the respective group entities, since they know best the specific features of their local products and markets and deal 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 of course also monitored centrally and group-wide and reported periodically to the Group ALCO and the Audit Committee.

The group's liquidity management is founded on the following pillars:

- In order to limit liquidity risk, KBC has a highly diversified funding base; on the one hand, its stable and broad customer base (both in Belgium and in Central and Eastern Europe) provides it with a stable source of retail funding and, on the other, its international name allows it to attract wholesale funding from a diversified group of counterparties. Both the Group ALCO and the Group Executive Committee regularly review the structural funding needs, and long-term working funds are raised accordingly. In addition, a limit is imposed on the volume of unused committed credit lines, since these lines could be drawn on at any time and could therefore have a significant impact on liquidity management.
- Operational liquidity management is conducted in the various treasury departments on the basis of 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 as well as on a group-wide basis by the Group Value and Risk Management Directorate.

- KBC also has a relatively large portfolio of market instruments that it can easily sell (principally euro-denominated government bonds) or use in repurchase transactions in exceptional circumstances. Stress tests are conducted to simulate the consequences of exceptional circumstances.

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

Net liquidity gap, KBC group banks

In millions of EUR	≤ 1 month	1–3 months	3–12 months	1–5 years	5–10 years	> 10 years	Not defined	Total
31-12-2005								
Assets*	98 044	25 163	32 168	53 836	29 167	29 938	36 271	304 587
Liabilities*	133 253	40 492	37 355	39 252	11 487	8 736	34 012	304 587
Net liquidity gap*	-35 209	-15 329	-5 188	14 583	17 680	21 203	2 260	0
31-12-2006								
Assets*	95 950	24 797	31 279	65 215	34 428	26 006	40 622	318 298
Liabilities*	137 731	30 682	37 884	47 961	15 924	9 828	38 289	318 298
Net liquidity gap*	-41 781	-5 884	-6 605	17 254	18 504	16 178	2 333	0

* *Excluding derivatives.*

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

These measures generate considerable surplus liquidity for the insurance companies, which can be used if necessary, and subject to the relevant legal constraints, to enhance the already strong liquidity of the entire group in an emergency situation.

ALM in 2006: Liability adequacy in the life insurance business

KBC adheres to a policy that takes into account the possible negative consequences of a sustained decline in interest rates, and has already built up sizeable supplementary reserves, primarily for those products that are most susceptible to interest rate risk.

For instance, in Belgium (which accounts for the bulk of the life insurance reserves), technical provisions for products with a guaranteed rate of interest of 4.75% are calculated at a rate of 4%. In addition, supplementary provisions have been accumulated under a 'flashing lights' system since 2000. This system requires KBC insurance companies to set aside extra provisions if the guaranteed interest rate on a contract exceeds the 'flashing light' threshold by more than 0.1% (this threshold is equal to 80% of the average interest rate over the past five years on ten-year government bonds).

The various group companies conduct 'liability adequacy tests' (LAT) that meet the relevant local and IFRS requirements. Calculations are made using prospective methods (cashflow projections that take account of lapse rates and a discount rate that is set for each insurance entity based on local macroeconomic conditions and regulations), and extra market value margins are built in to deal with the factor of uncertainty in a number of parameters. These analyses show that the life reserves are adequate, even when account is taken of the extra safety margin. Deficiencies were recorded only for the insurance businesses in the Czech and Slovak Republics, and deficiency reserves have been set aside for this (since 2004). At year-end 2006, the outstanding deficiency reserve at KBC group level for these companies, combined, amounted to 89 million euros.

Breakdown of the reserves for non-linked life insurance by interest rate guarantee, KBC group insurance entities

In %	31-12-2005	31-12-2006
5% and 6%*	4%	4%
4.75%	26%	21%
3.75%	13%	12%
3.30%	5%	5%
3.25%	28%	27%
3.00%	8%	10%
2.50%	8%	12%
Other	8%	8%
Total	100%	100%

* *Contracts in Central and Eastern Europe.*

ALM in 2006: Embedded value in the life insurance business

The value of the life insurance portfolio is expressed by embedded value. This is the sum of the Adjusted Net Asset Value, or ANAV, of KBC Insurance and the present value of all future cashflows coming in from the existing portfolio (Value of Business in Force or VBI), account taken of the risk-based capital required for this activity. Any form of goodwill – or value of future business – is not taken into account.

In 2006, the calculation method used in the embedded value studies was revised. KBC switched to the most modern calculation technique, the 'Market-Consistent Embedded Value' technique, which results in a valuation of these portfolios that is consistent with the market and takes into account such factors as the cost of the embedded options provided to the customer. The new embedded value calculation method is also being used to analyse the added value of new contracts (Value of New Business or VNB) and to check the profitability of products under development (Profit Testing).

KBC aims to be able to provide more detailed embedded value information according to the new calculation method, along with the valuation for year-end 2006, in the first half of 2007.

MARKET RISK MANAGEMENT

Description

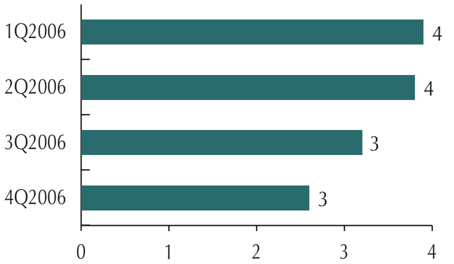
Market (or trading) risk is the potentially adverse impact on dealing room exposure of market movements in interest and exchange rates and share and commodity prices. Market risk also covers the risk of price fluctuations in negotiable securities as a result of credit risk and country risk. The interest rate, foreign exchange and equity risks of the non-trading positions in the banking book and of the insurer's positions are all included in ALM exposure.

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 equity 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 manage-

MARKET RISK: AVERAGE VAR (1-DAY HOLDING PERIOD) PER QUARTER, KBC BANK AND KBL EPB*

In millions of EUR



** Excluding the equity subsidiaries.*

ment of collateralised debt obligations) and is active in the seeding and management of Alternative Investment Management (AIM) hedge funds.

Risk governance

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

The Group Value and Risk Management Directorate, as an independent risk management entity, develops, implements and manages the risk control system and evaluates the risk benchmarks and limit usage. This entity reports directly to group senior management through the Group Trading Risk Committee. Representatives from line management, risk management and top management sit on this committee, which is chaired by the Group CFRO. The committee meets at least every two weeks and, within the confines of the authority delegated to it by the Group Executive Committee, can approve certain changes to limits or limit overruns.

In the Group Value and Risk Management Directorate, the contacts and dealings with all the group's trading entities are officially handled by risk co-ordinators, whose responsibilities are clearly set out in risk protocols. Local risk management policy and procedures are set out in a risk management framework document.

Managing market risk

The most important yardstick for measuring exposures in the trading book is based on the Value-at-Risk, or VAR, method. KBC uses the historical simulation method, observing the relevant Basel II standards (99% one-sided confidence interval, historical data going back at least 250 days). This method does not rely on assumptions regarding the distribution of price fluctuations or correlations, but is based rather on patterns of experience over the preceding year.

The VAR calculations are supplemented by extensive stress tests. The outcome is presented to the Group Trading Risk Committee. Stress tests show the impact of exceptional circumstances and events with a low degree of probability that therefore 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. KBC uses both historical and hypothetical (portfolio-dependent and -independent) scenarios.

Besides the VAR calculations and stress tests, risk concentrations are also monitored via a series of secondary limits set for concentrations, liquidity, risks associated with options (the so-called 'greeks') or the specific risk associated with a particular issuer or country.

One of the building blocks of sound risk management is prudent valuation. Every month, all of the parameters and prices that are not reviewed on a daily and independent basis are tested. Where necessary, adjustments are made to the fair value (market value adjustments) to reflect settlement expenses, less liquid positions and valuations made via complex models (model risk).

Risk analysis and quantification

An overall VAR is calculated for all equity subsidiaries and for the classic trading entities combined. 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 (since 2006). KBC Financial Products' VAR is also shown in the table. At the end of 2006, the VAR of KBC Securities came to 0.5 million euros, that of KBC Peel Hunt to 0.8 million euros (neither are shown in the table). The sum of the undiversified VARs of the KBC group came to some 9 million euros at year-end 2006. In contrast with previous annual reports, the calculation in each case is based on a one-day holding period (previously a ten-day holding period).

Both KBC Bank and KBC Financial Products have been authorised by the Belgian Banking, Finance and Insurance Commission (CBFA) to use their respective internal VAR models to calculate regulatory capital requirements for trading activities.

The reliability of the VAR model is tested daily via a theoretical back-test, which compares the VAR figure with the 'no-action P&L' (i.e. the result calculated for a position that is the same as the previous day's). This is done both at the top level and at the level of the different entities and desks. In 2006, there was no outlier (outcome where the theoretical loss exceeds the VAR figure) at KBC FP and one outlier at the level of KBC Bank. This means that in order to calculate the weighted risk volume of the market activities (to calculate the solvency risks), KBC group can use a multiplier without a 'plus factor'.

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

Market risk (VAR, 1-day holding period[1])

In millions of EUR	KBC Bank	KBC Financial Products
Average, 1Q 2005	4	[2]
Average, 2Q 2005	4	[2]
Average, 3Q 2005	4	[2]
Average, 4Q 2005	4	8
31-12-2005	3	6
Maximum in 2005	10	–
Minimum in 2005	2	–
Average, 1Q 2006	4	20
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

1 Starting with this annual report, the reported VAR figures will be based on a one-day holding period instead of a ten-day holding period. Figures for 2005 have been restated retroactively and do not include KBL EPB.
2 Up to and including the third quarter of 2005, KBC FP's risk exposure was measured using the scenario analysis technique.

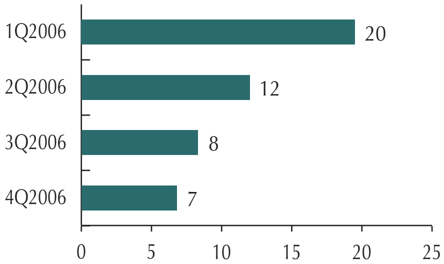
KBC Bank's positions remained relatively limited in 2006, partly due to low volatilities of the markets KBC is traditionally active in. The equity markets on which KBC Securities, KBC Peel Hunt and KBC Financial Products operate performed well in 2006, making their positions more pronounced.

Risk infrastructure

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.

MARKET RISK: AVERAGE VAR (1-DAY HOLDING PERIOD) PER QUARTER, KBC FINANCIAL PRODUCTS

In millions of EUR



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 legal and tax risks.

Managing operational risk

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

A Group Operational Risk Committee (Group ORC) advises the Group Executive Committee on group-wide strategy and standards for managing operational risks within a global operational risk management framework.

The ORC monitors the implementation of this framework throughout the group and oversees the main operational risks. The Group CFRO chairs the Group ORC. Besides the Group ORC, there are a variety of operational risk committees at business-unit level or at the level of the 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 the line management of entities they are responsible for. All departments that are involved in one way or another in managing operational risks have access to the risk committees whenever they feel it is necessary. In addition, representatives from the internal audit, legal and compliance divisions take part in every operational risk committee meeting as observers.

As an independent entity, the Group Value and Risk Management Directorate is primarily responsible for defining the operational risk management framework for the entire KBC group. This framework and its principal components are submitted to the Group ORC for approval. The Group Value and Risk Management Directorate is also responsible for overseeing the practical implementation by line management of this framework and its various components. In addition, it supervises the quality of the risk management process, analyses the main risk data and reports to the Group ORC. 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: identifying the risks, estimating the extent of the risks, taking appropriate measures to curtail the impact of risks, monitoring risks and internal and external reporting. The building blocks 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 also includes all legal claims filed against group companies. Twice a year, a consolidated loss report is submitted to the Group ORC. All incidents involving a loss of 100 000 euros or more are discussed by the Group ORC.
- *Risk Self-Assessments*. A first type of risk-self assessment takes the form of brainstorming sessions, where business experts and risk managers identify the main risks associated with a particular activity and draw up plans of action to curtail these risks. These sessions' findings and the resulting action plans are submitted to line management for approval. There are also 'Risk and Internal Control Environment Risk Self-Assessments', which entail members of senior management being surveyed systematically about the main operational risks and the risk management process in the entities they are responsible for.

- *Group Standards*. KBC has defined a number of Group Standards to ensure that important operational risks are managed uniformly. Each group entity has to translate these group standards into specific procedures (which take account of local legislation, circumstances, etc.) 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). In 2006, ten new group standards were approved.
- *Recommended Practices*. These are best practices that, unlike the group standards, are not (yet) mandatory. It is, however, the intention to translate the Recommended Practices into group standards within a reasonable period of time.
- *Case-Study Assessments*. Case-study assessments 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.

Operational risk and Basel II

KBC will use the standard approach to calculate operational risk capital under pillar 1 of Basel II. This methodology for managing operational risks does not, however, preclude a switch to the Advanced Measurement Approach. According to the most recent calculations, the operational risk capital for the group's banking entities will total some 1 billion euros.

MANAGEMENT OF TECHNICAL INSURANCE RISKS

Description

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

Managing technical insurance risk

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

The mission of the Insurance Risk Management Division in the Group Value and Risk Management Directorate is to develop a group-wide framework for managing insurance risks. The insurance companies have local value and risk management entities that report to the member of the local executive committee in charge of value and risk management. These local entities are under the functional direction of the Group Value and Risk Management Directorate. The Insurance Risk Management Division is responsible for providing support for local implementation and organisation processes and for the functional direction of the insurance risk management process of these subsidiary entities.

Since risk management responsibilities overlap those of the certifying actuary to a considerable extent, this actuary is generally employed in the central or local risk management unit.

Risk modelling

An internal project for modelling insurance risks was set up to help implement the mission of the Insurance Risk Management Division. The main purpose of this project is to stochastically model, from the bottom up, all group-wide insurance liabilities, i.e. (i) future claims that will occur over a predefined time horizon, as well as the claims settlement pattern, (ii) the future settlement of claims (whether already reported to the insurer or not) that have occurred in the past but have not yet been fully settled, (iii) the impact of the reinsurance programme on these claims.

These models are used to develop applications that steer the group's insurance entities towards creating more shareholder value, such as applications:

- to calculate economic capital, which is required to underwrite specific classes of insurance or combinations of these classes, account taken of any diversification benefits that might exist;
- to comprehensively support decisions on reinsurance (this includes comparing various reinsurance programmes on the basis of their impact on capital requirements and the related capital charge);
- to calculate the *ex post* profitability of specific sub-portfolios, account taken of the return on required capital;
- to set off economic capital requirements against the relevant return in pricing insurance policies so that an estimate can be made *a priori* of value creation.

Moreover, these models are used for internal and external reporting purposes (to support the advice of the certifying actuary, to report to internal and external auditors, regulators and rating agencies, to prepare for Solvency 2, etc.).

Technical provisions and loss triangles

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

The table shows claims settlement figures in the non-life business over the past few years and covers KBC Insurance NV, Fidea, ČSOB Pojišťovna, K&H Insurance, Secura, Assurisk (from financial year 2005) and WARTA (from financial year 2004). These companies together account for nearly 99% of the total provisions for claims to be paid at the close of 2006.
The claims-settlement figures incorporate all amounts that can be allocated to individual claims, including the Incurred But Not Reported (IBNR) and Incurred But Not Enough Reserved (IBNER) provisions, and the external handling expenses for settling claims, but do not include internal claims-settlement expenses and provisions for amounts expected to be recovered. The figures included are before reinsurance and have not been adjusted to eliminate intercompany amounts.
The first row in the table shows the total claims burden (claims paid plus provisions) for the claims that occurred during a particular year, as estimated at the end of the year of occurrence. The following rows indicate the situation at the end of the subsequent calendar years. The amounts were restated to reflect exchange rates at year-end 2006.

Loss triangles, KBC Insurance

In millions of EUR	Year of occurrence 2001	Year of occurrence 2002	Year of occurrence 2003	Year of occurrence 2004[1]	Year of occurrence 2005[2]	Year of occurrence 2006
Estimate at the end of the year of occurrence	810	920	772	1 087	1 117	1 200
1 year later	753	809	798	988	1 021	–
2 years later	703	822	765	944	–	–
3 years later	724	815	745	–	–	–
4 years later	717	806	–	–	–	–
5 years later	705	–	–	–	–	–
Current estimate	705	806	745	944	1 021	1 200
Cumulative payments	-525	-601	-508	-660	-614	-405
Current provisions	180	205	238	285	407	795

1 From the 2004 financial year, WARTA's figures have been included. If this company were not taken into account, the following amounts would have been arrived at for financial year 2004 (amount and year of occurrence): 689 for 2001; 770 for 2002; and 688 for 2003.
2 From the 2005 financial year, Assurisk's figures have been included. If these figures were not taken into account, the following amounts would have been arrived at for financial year 2005 (amount and year of occurrence): 711 for 2001; 807 for 2002; 763 for 2003; and 960 for 2004.

Reinsurance

The insurance portfolios are protected against the impact of serious claims by means of reinsurance. These reinsurance programmes are divided up into three main groups: property insurance, liability insurance and personal insurance, which are re-evaluated and re-negotiated every year. Most of the reinsurance contracts are concluded on a non-proportional basis, which provides cover against the impact of serious claims or loss events.

The independent insurance risk management function is also responsible for advising on the restructuring of the reinsurance programmes, especially with a view to creating shareholder value. This approach has already resulted in optimising the retention of KBC group in 2007 in respect of its exposure to catastrophe risk.

SOLVENCY AND ECONOMIC CAPITAL

Description

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

Managing solvency

Group solvency. KBC calculates a solvency ratio and a core capital ratio at group level. The numerator in this equation is based on the adjusted equity figure (under IFRS). To calculate core capital, for instance, intangible fixed assets and the revaluation reserve for available-for-sale assets, among other things, are deducted from this equity figure, while hybrid capital elements are added (up to 15%). The denominator (the solvency requirement) is the sum of the separate solvency requirements for the various segments (bank, insurer, etc.). Recalculated equity must amount to at least 100% of the solvency requirement; the core capital elements must make up at least 50%.

Solvency, banking. KBC reports its solvency calculated according to IFRS figures and the relevant guidelines issued by the Belgian supervisory authority. Where the tier-1 ratio is concerned, KBC has an internal target of 8% (for KBC Bank and KBL EPB, combined).

Solvency, insurance. The insurer's solvency, just as the bank's, is checked regularly to see whether it meets statutory and in-house targets and is reported to the supervisory authority. The in-house target for the solvency ratio is 200% (i.e. twice the statutory minimum).

Solvency and Basel II. Please see the section on credit risk management.

Solvency ratios	Minimum	In-house target	Actual figure 31-12-2006
Tier-1 ratio, KBC Bank and KBL EPB	4%	8%	8.7%
Solvency ratio, KBC Insurance	100%	200%	374%

Solvency in 2006

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

Economic capital

In 2004, KBC launched an economic capital programme to measure the overall risk KBC is exposed to through its various activities and because of a variety of risk factors. The findings of this project are discussed regularly at meetings of the Group Executive Committee, the Audit Committee and the Board of Directors.

KBC defines economic capital as the loss that it might sustain with a probability of 0.04% over a one-year time horizon. To make the actual calculations, the building blocks per risk category described above are used. These risk measures are expressed using a common denominator (the same time horizon of one year and the same confidence interval of 99.96%) and then aggregated, with account being taken of the correlations between the various risk factors and activities. The idea is to develop these concepts gradually and start up specific applications, such as an Internal Capital Adequacy Assessment Programme (ICAAP), as required under the second pillar of Basel II. The plan is also to have economic capital play an important role in internal capital allocation and in the further development of value management, where it will be an essential component of valuation models, such as the Market Consistent Embedded Value model (see ALM).

SUSTAINABLE AND SOCIALLY RESPONSIBLE AND HUMAN RESOURCES

BACKGROUND

Sustainable and socially responsible business is business conducted not only with a view to making a profit, but also with an eye to the economic, social, ecological and cultural impact of that business in both the short and the long term.

KBC has promised to set out its achievements in the area of sustainable business in its *Corporate Social Responsibility Report*, a report certified by Ernst & Young Bedrijfsrevisoren since 2006. In November 2006, it won recognition as one of the five best sustainability reports in Belgium.

More information and updates on the initiatives and achievements of KBC in the field of sustainable business can be found at www.kbc.com/social_responsibility, or in the *Corporate Social Responsibility Report* itself. Consequently, this section of the annual report has been kept brief.

Described below are some of the most important initiatives KBC took in the field of business ethics, environmental conservation, human resources and community involvement in 2006.

BUSINESS ETHICS

There are various guidelines and codes of conduct in place to foster sustainable and socially responsible business within the KBC group. The most important is the *Code of Conduct for the KBC Group*, a uniform set of rules for all KBC employees governing their professional conduct towards their employer, customers and suppliers, colleagues, society, competitors and the media. There are also mission statements attesting to KBC's commitment to combat corruption and respect human rights, and specific rules exist governing conduct in certain areas or activities (for instance, the dealing rooms, asset management, or departments handling medical information). There are also specific restrictions limiting trading in securities by staff who have access to price-sensitive information. The Compliance Department ensures that the guidelines relating to financial ethics, including guidelines prohibiting market abuse, money-laundering practices and other fraudulent activities, are observed and that information remains confidential and privacy continues to be respected. In 2006, a formal policy with stringent guidelines to protect whistle-blowers was implemented throughout the group.

Various rules and codes of conduct also apply to lending and investment activities and address a number of concerns, including the environment and the arms trade. For instance, KBC does not in principle grant loans to or invest in the weapons industry. In March 2006, KBC also incorporated a new sustainability clause into its credit acceptance procedures. Lastly, KBC endorses the *Equator Principles*, a set of guidelines for managing the environmental and social risks attached to large-scale project finance activities, which are based on the policy guidelines of the International Finance Corporation and the World Bank.

BUSINESS

ENVIRONMENTAL STEWARDSHIP

KBC is aware that a service-providing company can help reduce pressure on the environment by, for instance, making more rational use of natural resources in its buildings or by reducing CO_2 emissions through the better organisation of commuter traffic. Environmental stewardship at KBC is addressed in its *Environmental Policy Statement*.

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

- the signing of the *West Flanders Environmental Charter* in 2006 – for the third year in a row – for all branches located in that province. This initiative brings together companies that voluntarily endorse environmental objectives and that seek to continually improve their environmental performance;
- collaborating with Argus, the KBC and Cera environmental centre. This organisation endeavours to raise awareness about the environment by ensuring that objective information is made available via its publications and website, lectures and other services;
- KBC's head office in Brussels being named an Ecodynamic Company by the Brussels Institute for Management of the Environment (*Brussels Instituut voor Milieubeheer*) in 2006;
- participating in the Carbon Disclosure Project. Each year, this international study examines how large companies deal with climate change and looks at their greenhouse gas emissions;
- launching initiatives to increase rational energy consumption, with greater attention being paid to the management of heating, ventilation and air-conditioning systems, green power (in 2006, for instance, KBC concluded an agreement for a minimum supply of 'green power' in Belgium, while K&H Bank continued switching from old heating systems to more modern and efficient ones in Hungary) and the reduction of paper consumption (by making greater use of electronic invoicing systems, etc.).

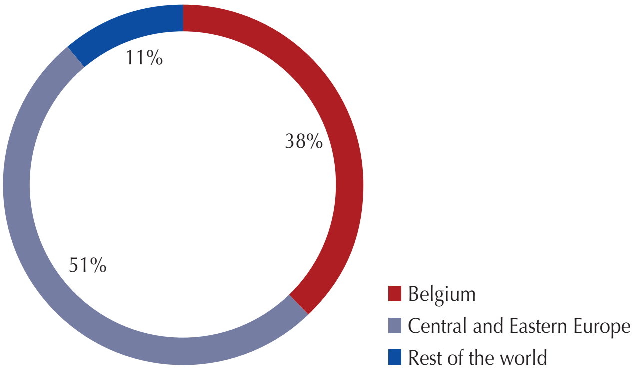
A selection of the environmental efficiency data relating to a significant proportion of the group (i.e. between 66% and 87% of the entire workforce at the end of 2006) is provided in the table.

Environmental efficiency data for the KBC group (partial)[1]

	2005	2006
Per FTE		
Energy consumption (in GJ)		
Electricity	20.7	23.3
Fossil fuels (gas, heating oil, coal)	22.5	17.8
Other	6.6	6.9
Distances travelled (in km)		
Commuter travel	8 815	7 389
Business travel	2 792	3 153
Paper and water consumption, waste		
Paper (in tonnes)	0.14	0.16
Water (in m^3)	19.0	17.2
Waste (in tonnes)	0.4	0.3
Greenhouse gas emissions (in tonnes)[2]	1.7	1.4

1 Based on data for a significant proportion of the group (between 66% and 87% of the total number of FTEs).
2 Only relates to direct energy consumption (i.e. no indirect consumption of energy by means of transport).

BREAKDOWN OF WORKFORCE BY COUNTRY/REGION (31-12-2006)



PERSONNEL AND IN-HOUSE SOCIAL POLICY

Employee satisfaction

Due to the fact that employee motivation, dynamism and satisfaction are the driving force behind much of a financial group's success, KBC regularly measures levels of satisfaction and involvement by surveying its staff in Belgium. It uses the findings of these surveys to take selective measures. These surveys have also revealed that employee satisfaction has improved in recent years. Similar employee satisfaction surveys are also carried out in other group companies.

Through continual assessment and by modifying and making its remuneration policy more transparent, KBC aims to increase its staff's development potential and to pay them a fair salary. It also focuses on general social issues, such as traffic congestion and childcare, which it is addressing in its personnel policy. For instance, a number of flexible working arrangements have been introduced in Belgium and Central and Eastern Europe, as have pilot projects for teleworking, working in local offices, sharing workstations, etc. Another project in Belgium that helps employees strike a balance between their professional and personal lives relates to the provision of childcare during the summer holidays.

KBC was elected one of the top twenty-five employers in Belgium in 2006 on the basis of a survey of staff, among other things, organised by *Vacature*, the Vlerick Leuven Ghent Management School and the Great Place to Work® Institute. As a result, KBC may now display a 'Best employer in 2006' logo. In fact, it was the only company with more than 2 000 employees that made the rankings and also received a special award for its efforts to promote lifelong learning. In the Czech Republic, KBC's insurance company ČSOB Pojišťovna was also recognised for its personnel policy, receiving the 'Regional employer of 2006' prize for the Eastern Bohemia region.

Equal treatment and anti-discrimination

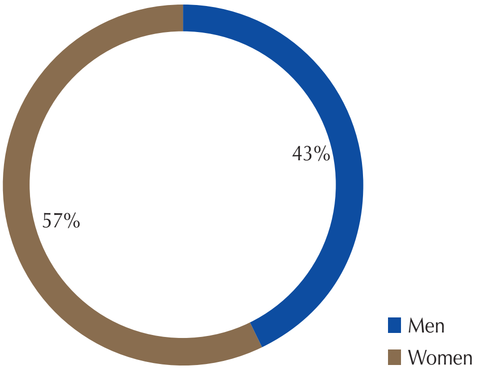
In its staff regulations, its selection and promotion policy, as well as in its performance appraisal systems, KBC does not make any distinction whatsoever on the grounds of sex, religion, ethnic background or sexual orientation, etc. This holds true worldwide, as all forms of discrimination are prohibited during the recruitment and promotion processes at all of its entities. In Belgium, KBC endorses the *Vlaams Manifest van het Bedrijfsleven tegen Sociale Uitsluiting van Migranten* (Flemish Trade and Industry Manifesto against the Social Exclusion of Migrants) drawn up by the Flemish employer's federation and has also signed up to the anti-racism charter, *Ondernemers tegen racisme en voor diversiteit*, of the Brussels Region. Eliminating discrimination is one of the ten universal principles of the United Nations' *Global Compact*, an initiative which KBC endorsed in 2006.

Social dialogue

As in previous years, KBC again worked very closely with the employee organisations in 2006, holding monthly talks with the works council and its committees, and consulting with the health and safety committees and union representatives. For a few years now, representatives from its establishments in Central and Eastern Europe have also been participating in the European Works Council.

Various collective labour agreements (CLAs) were concluded or extended in Belgium on such matters as guaranteed job security, the 'time credit' scheme and the employee profit-sharing system. In addition, the mechanism used to award a profit growth bonus – linked to the level of earnings per share – was adjusted and stabilised for uninterrupted periods of good company results. The conclusion of a new CLA to give staff at KBC Insurance group employment status brought KBC a step closer to becoming a truly integrated bancassurer, as, for instance, this will make it much easier for employees to move between the various KBC group companies.

BREAKDOWN OF WORKFORCE BY GENDER (31-12-2006)



Developing talent and managing knowledge

KBC makes an extensive range of learning opportunities available to its employees. They can choose from a number of integrated types of training which complement and reinforce each other (conventional learning, individual study, e-learning, learning on the job and mentoring) and span the entire banking and insurance spectrum. Developmental needs and possibilities are also an important focus of the job performance interviews with line managers.

In light of the large number of people recruited in 2006, the focus was again on training new employees. Specific training courses continued to be developed specially for them, such as the *KBC Master's programme*, which covers every aspect of the group and is aimed at all recently appointed employees holding a university degree. The growing internationalisation of the KBC group led – as it had in previous years – to a significant increase in language courses in 2006. Talent management was further developed, as well, with 'high potentials' from the entire group again being given the opportunity to participate in an intensive *KBC Academy* training course. In addition, special attention was paid to the training of certain target groups (via the dealers school, the IT school, development programmes for new bank branch or agency staff, special courses on non-life and life insurance and for relationship managers, etc.). Non-job-related training outside office hours was also very popular. KBC invested in this area, as broad personal development has a stimulatory effect on performance in the workplace.

Group HR

Group HR was set up in 2006, when the new group structure was established. An overarching group entity, it is responsible for succession management, talent and competence management, and for handling group-wide personnel issues.

Number of staff, KBC group (in FTEs)[1]

	31-12-2006
FTEs (in '000)	50
In %[2]	
Banking	73%
Insurance	14%
European private banking	5%
Holding-company activities, including Gevaert	7%
Belgium	38%
Central and Eastern Europe	51%
Rest of the world	11%
Senior management	3%
Junior and middle management	32%
Administrative staff	65%
Men	43%
Women	57%
Full-time (100%)	85%
Part-time (80%–100%)	8%
Part-time < 80%	8%

1 KBC Bank, KBC Insurance, KBL EPB and KBC Group NV (the holding company), including the principal subsidiaries in which they have a majority shareholding on 31 December 2006. The figures do not include the distribution network of the insurance companies.
2 In some cases, the data have been extrapolated (on the basis of more than 90% of the workforce).

COMMUNITY INVOLVEMENT

In its cultural sponsorship, KBC supports mainly local and low-threshold projects. In Belgium, for instance, it continues to support the *Gouden Vleugels* project for young musical talent, and in 2006, sponsored the *Beaufort* contemporary art exhibition, which is held every three years. In the Czech Republic and Slovakia, ČSOB has sponsored film festivals and other events for many years, while K&H Bank in Hungary, Kredyt Bank and WARTA in Poland, and IIB Bank in Ireland have also been actively involved in supporting the music and/or theatre world. KBL EPB also backed many cultural events and organisations in 2006, including the Grand Théâtre de Luxembourg and the Philharmonie Luxembourg. Through Puilaetco, a member of the Promethea Foundation, KBL EPB is involved in supporting WIELS, the Centre for Contemporary Art in Brussels.

KBC has actively promoted health and child welfare in Belgium for many years, supporting *Kom op tegen Kanker* (the anti-cancer campaign), *Levenslijn* (a charity that raises funds for healthcare) and other charities. In Hungary, K&H Bank is involved in the *Magic Cure Programme* for providing medical equipment to children's hospitals. It also sponsored the Hungarian National Paralympics Committee. In Poland, both Kredyt Bank and WARTA support the *Postcard to Santa Claus* campaign, which provides presents to children in Polish orphanages, while WARTA also raises funds for orphanages. The insurance business of ČSOB supports children's refuges in the Czech Republic, while its Slovakian counterpart donates funds to the local League Against Cancer and to children's hospitals in Bratislava and Košice. Through its group companies, KBL EPB also backs various charity drives and healthcare and child welfare organisations in several countries, including the Netherlands and the UK.

The social role played by KBC in the community is also reflected in the range of products and services it offers, such as special terms or products for the disabled, young people and senior citizens, and in the accident-prevention campaigns set up by the group's insurance companies in relation to fire prevention and road safety. Moreover, through its subsidiary, KBC Asset Management, KBC offers an extensive range of sustainable investment products to its customers. To ensure that it continues to meet the growing demand for sustainable investment funds (assets under management for these funds came to approximately three billion euros at the end of 2006), KBC Asset Management introduced an innovative method in 2006 for measuring the sustainability performance of companies. This method is considered innovative for a number of reasons: first, as regards the number of companies screened (up from roughly 160 to 2 700); second because of the greater level of transparency towards the general public (all results for the screened companies are published online); and third, because it makes it possible to tailor products and services (KBC Asset Management can respond to the requirements of individual institutional customers to put together an investment universe that perfectly matches their profiles).

CORPORATE GOVERNANCE

BACKGROUND

The Belgian Code on Corporate Governance (the 'Code'), which came into effect on 1 January 2005, seeks to ensure transparency in corporate governance by requiring every listed company to disclose information in two separate documents: the *Corporate Governance Charter* (the 'Charter') and the Corporate Governance Chapter (the 'Chapter') of the annual report.

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

The Chapter in the annual report contains more factual information regarding the company's corporate governance, including any changes to it and any relevant events that took place during the year under review. It also provides reasons for any non-compliance with the Code.

All points that must be disclosed under the Code are covered below. Unless otherwise indicated, the period dealt with in this Chapter runs from 1 January 2006 to 31 December 2006.

RESTRUCTURING OF KBC GROUP'S OPERATIONAL ORGANISATION

On 1 May 2006, KBC group's operational structure was reorganised, following the decision taken by the Board of Directors of KBC Group NV in December 2005. This reorganisation aims to achieve:

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

The reorganisation involved the creation of five 'business units', viz. Belgium, Central & Eastern Europe, Merchant Banking, European Private Banking and Shared Services & Operations. These units comprise a number of group companies (primarily credit, investment and insurance institutions), though certain companies (the most important one being KBC Bank) may be included in more than one business unit. In functional terms, each of these group companies complies with the dual organisation structure applied throughout the group, where a clear distinction is made between the Board of Directors and the Executive Committee. In addition, there are various support services at group level.

Together, the five business units cover the operational activity of the KBC group, which is managed as a single entity by the overarching Executive Committee of KBC Group NV, a Committee composed of the Group CEO, five members who are all CEOs of a business unit, and a Group CFRO. The Group CEO and two other members of the Executive Committee are executive directors and therefore sit on the Board of Directors, as well. The other members of the Executive Committee attend the meetings of the Board of Directors.

COMPOSITION OF THE BOARD OF DIRECTORS AND ITS COMMITTEES

The table shows the members of the Board of Directors and its committees on 31 December 2006, as well as the number of meetings held in 2006 and the attendance record. If an individual has not sat on the Board of Directors (or its committees) for a full year, the number of meetings held in the period he has been a Board (committee) member is indicated in brackets, along with the number of meetings actually attended.

Composition of the Board of Directors on 31 December 2006

Name	Primary responsibility	Period served on the Board in 2006	End, current term of office	Board meetings attended	Non-executive directors	Core shareholders' representatives	Independent directors	Members of the Executive Committee	Audit Committee	Nomination Committee	Remuneration Committee	Agenda Committee
Number of meetings in 2006				12					5	2	6	12
Jan Huyghebaert	Chairman of the Board of Directors	Full year	2008	12	○					2*	5	12*
Philippe Vlerick	Deputy Chairman of the Board of Directors Chairman and Managing Director, UCO NV	Full year	2009	11	○	○				1		
André Bergen	President of the Executive Committee and Executive Director	Full year	2007	11				○*		0 (out of 0)		12
Etienne Verwilghen	Executive Director	Full year	2009	10				○				
Paul Borghgraef	Director of various companies	Full year	2009	12	○	○						
Paul Bostoen	Managing Director, Christeyns NV and Algimo NV	Full year	2009	12	○	○						
Jo Cornu	Director, Alcatel NV	Full year	2008	11	○		○			2	5*	
Luc Debaillie	Chairman and Managing Director, Voeders Debaillie NV	Full year	2009	12	○	○						
Chris Defrancq	Executive Director	Since 31-08	2011	3 (out of 3)				○				
Franky Depickere	Managing Director, Cera Beheersmaatschappij NV and Almancora Beheersmaatschappij NV, President of the Executive Committee, Cera CVBA	Since 15-09	2011	3 (out of 3)	○	○				0 (out of 0)		
Noël Devisch	Chairman, MRBB CVBA	Full year	2009	10	○	○				2		
Frank Donck	Managing Director, 3D NV	Full year	2007	11	○	○						
Jean-Marie Géradin	Lawyer and Director, Cera Beheersmaatschappij NV and Almancora Beheersmaatschappij NV	Full year	2009	11	○	○						
Dirk Heremans	Professor at the Faculty of Economics and Applied Economics, Katholieke Universiteit Leuven (KUL)	Full year	2009	12	○		○		5			
Herwig Langohr	Professor of Finance and Banking, INSEAD	Full year	2007	10	○		○		3			
Christian Leysen	Chairman of the Ahlers Group and AXE Investments	Full year	2009	8	○	○						
Xavier Liénart	Director of various companies and Director of Cera Beheersmaatschappij NV	Full year	2010	11	○	○						
Philippe Naert	Dean, Tias Business School at Tilburg University and the Technical University, Eindhoven	Full year	2009	12	○		○		3		5	
Luc Philips	Director	Full year	2009	12	○				5*	2		12
Theodoros Roussis	CEO Ravago Plastics NV	Full year	2008	9	○	○			3			
Hendrik Soete	Managing Director, Aveve NV	Full year	2009	11	○	○						
Alain Tytgadt	Managing Director, Metalunion CVBA	Full year	2009	12	○	○						
Guido Van Roey	Member of management, InBev NV and Chairman of the Board of Directors, Cera Beheersmaatschappij NV	Full year	2009	10	○	○						
Germain Vantieghem	Managing Director, Cera Beheersmaatschappij NV and Almancora Beheersmaatschappij NV	Full year	2010	12	○	○			4			
Jozef Van Waeyenberge	Director, De Eik NV	Full year	2009	11	○	○						
Marc Wittemans	Secretary-General, MRBB CVBA	Full year	2010	12	○	○			5			

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

Changes in the composition of the Board of Directors

Leaving the Board of Directors in 2006

- Willy Duron (°1945), Executive Director and President of the Executive Committee, retired at the end of August.
- Rik Donckels (°1941), Director, stepped down at the end of August on reaching the age limit at Cera CVBA.

Joining the Board of Directors in 2006

On 30 August 2006, the Board of Directors co-opted the persons named below. It will be proposed to the General Meeting of 26 April 2007 that both co-opted directors be appointed for a period of four years, until 2011.

- Chris Defrancq (°1950) succeeded Willy Duron as Executive Director. Graduating with a degree in mathematics from Ghent University and a degree in actuarial sciences from the Katholieke Universiteit Leuven, he started his career at Royale Belge and became a member of the Executive Committee there in 1992. In 1998, he moved to KBC Insurance NV to become General Manager of IT and Organisation. He was appointed Managing Director of the KBC Bank and Insurance Holding Company NV and KBC Insurance NV in 2000. When the new organisational structure for the group's operations was put in place, he became CEO of the Shared Services & Operations Business Unit.
- Franky Depickere (°1959) succeeded Rik Donckels as Director. He has a degree in commercial and financial sciences from the University of Antwerp (UFSIA) and a master's degree in the financial management of companies (VLEKHO, Brussels). After working for a short period at the Gemeentekrediet, he joined CERA Bank in 1982 where he held a variety of management posts for seventeen years. In 1999, he was appointed Managing Director and President of the Executive Committee of F. Van Lanschot Bankiers België and *concerndirecteur* of F. Van Lanschot Bankiers Nederland, where he also became a member of the Strategic Committee in 2005. On 15 September 2006, he succeeded Rik Donckels at Cera and Almancora.

Offices ending in 2007

It will be proposed to the General Meeting of 26 April 2007 that the directors whose terms of office end in 2007 (André Bergen, Frank Donck and Herwig Langohr) be re-appointed for a further period of four years.

COMPOSITION OF THE EXECUTIVE COMMITTEE

The table shows the members of the Executive Committee on 31 December 2006.

Name	Period on the Executive Committee in 2006
André Bergen (President)	Full year
Etienne Verwilghen	Full year
Chris Defrancq	Since 1 May
Herman Agneessens	Since 1 May
Frans Florquin	Since 1 May
Guido Segers	Since 1 May
Jan Vanhevel	Since 1 May

Changes in the composition of the Executive Committee in 2006

Leaving the Executive Committee in 2006

Willy Duron (°1945), Executive Director and President of the Executive Committee, retired at the end of August.

Joining the Executive Committee in 2006

Following the introduction of the new organisational structure for KBC group's operations, the Executive Committee of KBC Group NV – which had comprised three executive directors up to then (viz. Willy Duron, André Bergen and Etienne Verwilghen) – was expanded on 1 May 2006 to include five non-executive directors. Due to the fact that Willy Duron stepped down at the end of August, the Executive Committee has had just 7 members since 1 September 2006. The new CEO and President of the Executive Committee (André Bergen) and five new members are presented below.

- André Bergen (°1950) read economics at the Katholieke Universiteit Leuven and worked between 1977 and 2000 at the Kredietbank, Chemical Bank and Generale Bank (now Fortis Bank), where he became a member of the Executive Committee in 1993. In January 2000, he was appointed to the Executive Committee of Agfa-Gevaert, becoming Chief Finance and Administration Officer and then Vice-President of the Executive Committee. In 2003, he was appointed President of the Executive Committee of KBC Bank NV and, in March 2005, Vice-President of the Executive Committee of KBC Group NV. On 31 August 2006, he succeeded Willy Duron as CEO and President of the Executive Committee of KBC Group NV.

- Herman Agneessens (°1949) obtained a doctorate in law from the Katholieke Universiteit Leuven, before embarking on an international career at the Kredietbank between 1971 and 1989, initially in the Middle East and then in Australia and the United States, where he headed up the New York branch. He was appointed General Manager of the bank's International Directorate in 1989. He became a member of the Executive Committee of Kredietbank NV in 1995 and of KBC Bank NV in 1998. In 2004, he was appointed Chief Financial and Risk Officer (CFRO) of the KBC Bank and Insurance Holding Company NV (now KBC Group NV) and was confirmed in that position when the new organisational structure for the group's operations was introduced.

- Chris Defrancq (°1950): see 'Changes in the composition of the Board of Directors in 2006'.

- Frans Florquin (°1947) graduated with a degree in applied economic sciences from the Katholieke Universiteit Leuven. He started his career as an inspector at CERA in 1972 and headed the audit department there from 1979 until 1984, when he was appointed Secretary General of CERA Bank. He became a member of the Executive Committee of this bank in 1992. In 1998, he was appointed to the Executive Committee of KBC Bank NV. When the new organisational structure for the group's operations was put in place, he became CEO of the Belgium Business Unit.

- Guido Segers (°1950), after graduating in applied economic sciences from the Katholieke Universiteit Leuven, began his career in the Research Department of the Kredietbank in 1974. Between 1986 and 2002, he headed up the International Risk Management Division, then the Domestic Credit Division and the Brabant-Limburg corporate office, before taking charge of the Accounting and Facility Management Directorate. In 2003, he was appointed to the Executive Committee of KBC Bank NV. Following the introduction of the new organisational structure for the group's operations, he became CEO of the Merchant Banking Business Unit.

- Jan Vanhevel (°1948) is a doctor of laws (Katholieke Universiteit Leuven) and began his career at the Kredietbank in 1971 in the Legal Division. From 1972 to 1994, he was employed in the commercial network, after which he became head of the Credit Division at the Brabant Office and then the Antwerpen Office, before becoming General Manager of the Torengebouw Antwerp main branch and General Manager of the Antwerp Corporate Office. He became General Manager of the IT division in 1994, a member of the Executive Committee of Kredietbank NV in 1996 and of KBC Bank NV in 1998. On 24 November 2005, he was appointed President of the Belgian Bankers' Association and of Febelfin. When the new organisational structure for the group's operations was put in place, he became CEO of the Central & Eastern Europe Business Unit.

MEETINGS OF THE BOARD OF DIRECTORS AND ITS COMMITTEES

Board of Directors

The Board of Directors met twelve times in 2006. The meetings were always attended by virtually all members (see table). Besides carrying out the activities required under the Companies Code, monitoring the monthly performance of the group companies, reviewing the quarterly results and the activities of the Audit, Nomination and Remuneration Committees, the Board also dealt with the following matters in 2006:

- acquisitions,
- Corporate social responsibility,
- economic capital,
- the merger of KBC Group NV and Gevaert NV,
- the approval of the budget for 2007 and the annual plans for 2008-2009,
- the repurchase of own shares,
- capital planning,
- the market risk and ALM limits,
- the new financial targets,
- the group's strategy and commercial development,
- the establishment of the accounting policies,
- the dealing code.

The Executive Committee also reported on a monthly basis on the trend in the results and the general course of business at the group's various business units.

Audit Committee

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

The report of the internal auditor and the report from the Group Value and Risk Management Directorate (WRB) were two fixed agenda items.

The periodic reports from WRB primarily covered developments regarding the ALM, market and insurance risks of the group, but also dealt with developments in the area of risk management methodology (the development of operational risk management, credit risk management, (QCR methodology)).

The internal auditor's report provided an overview of recent audit reports, including the most important audit reports on Central and Eastern Europe. The Audit Committee also reviewed the implementation of the 2006 audit plan, and approved the 2007 audit plan. Furthermore, it was informed of progress made with regard to the programme aimed at streamlining the workings of all the group's audit departments. The *Charter of the Audit Committee* was revised and generic governance rules issued on the operation of the audit committees within the group.

At the start of March, the Audit Committee reviewed the consolidated and non-consolidated annual accounts for the year ended 31 December 2005, and approved the press release. The Board of Auditors explained their key audit findings. On 29 May, 30 August and 22 November, the auditors explained their key findings following their limited review of the accounts as at 31 March, 30 June and 30 September, respectively. The Audit Committee also approved the respective press releases.

During the course of the year, the Audit Committee also reviewed several special reports concerning KBC Alternative Investment Management, the treatment of Special Purpose Vehicles, the economic capital programme, the annual report on special investigations, fiscal and legal disputes, and the CRO's annual report.

Senior managers were regularly invited to provide explanations on specific subjects within their remit that were under discussion.

Nomination Committee

In 2006, the Nomination Committee met twice, each time in order to nominate new directors either to the Board or to direct subsidiaries.

Remuneration Committee

The Remuneration Committee met six times in 2006. Considerable attention was paid to the remuneration package of the Executive Committee members of KBC Group NV. The committee also examined the remuneration package of the Executive Committee of KBL EPB and of the Chairman of the Board of Directors, as well as a number of other matters. It also decided to introduce attendance fees for meetings of the audit committees of KBC Group NV, KBC Bank NV and KBC Insurance NV.

Agenda Committee

In 2006, the Agenda Committee met twelve times, on each occasion prior to a meeting of the Board of Directors in order to set the relevant agenda. It also decided how the various topics would be presented to the Board of Directors, and what documentation would be made available to the Board. Furthermore, it ensured that the questions raised by the Board were adequately answered at the following meeting. It prepared a list of topics to be covered in the upcoming periods for the continuous education of members of the Board of Directors on financial and technical subjects. Following the annual evaluation of its membership and activities, the committee changed its composition, with the President of the Executive Committee of KBL EPB standing down as a member.

POLICY REGARDING TRANSACTIONS BETWEEN THE COMPANY AND ITS DIRECTORS, NOT COVERED BY THE STATUTORY REGULATIONS GOVERNING CONFLICTS OF INTEREST

The Board of Directors of KBC Group NV drew up regulations governing transactions and other contractual ties between the company (including its associated companies) and its directors, not covered by the conflict of interest rule set out in Articles 523 or 524*ter* of the Companies Code. These regulations have been incorporated into the Charter of KBC Group NV. No such conflicts of interest arose at KBC Group NV during the course of 2006.

MEASURES REGARDING INSIDER DEALING AND MARKET MANIPULATION

In accordance with Directive 2003/6/EC on insider dealing and market manipulation (market abuse), and following publication of the Royal Decree of 24 August 2005 to amend, with respect to the provisions regarding market manipulation, the Act of 2 August 2002 on the supervision of the financial sector and financial services, the Board of Directors of KBC Group NV drew up a dealing code which, among other things, requires a list of key employees to be drawn up, annual blocking periods to be set, and transactions by persons with managerial responsibility and with persons connected with them to be reported to the CBFA. The principles of this code have been appended to the Charter of KBC Group NV. The code entered into effect on 10 May 2006.

REMUNERATION

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

The remuneration awarded by KBC Group NV to its non-executive directors during 2006 can be split into fixed remuneration that is deducted from net profit for that year and attendance fees charged as expenses to that year.

The remuneration related to the offices that the directors had held in 2005 in:

- Almanij NV and the KBC Bank and Insurance Holding Company NV in January and February 2005 (i.e. prior to the merger of these two companies on 2 March 2005);
- KBC Group NV from March through December 2005 (i.e. after the aforementioned merger; the first financial year of the new entity covered just ten months and should therefore be considered a transitional year).

Consequently, the remuneration paid in 2006 to the non-executive directors of KBC Group NV includes payment for duties they performed on behalf of other companies (Almanij NV and/or the KBC Bank and Insurance Holding Company NV) during a period of two months. Moreover, following the merger of Almanij with the KBC Bank and Insurance Holding Company, the amounts paid within the new KBC group by way of fixed remuneration and attendance fees were adjusted so that they were better in proportion. Because payment of this remuneration only had an impact after the 2005 financial year, 2006 remuneration comprised amounts from both the previous and new system, which means the amounts paid in 2006 are not representative.

Consequently, providing a comprehensive table of the individual amounts paid in 2006 to the non-executive directors would not be relevant, it would only be confusing, for the purposes of the disclosure required under the Code in this annual report. Hence, it has been replaced by disclosure of the total consolidated remuneration paid in 2006 by KBC Group NV and its direct and indirect subsidiaries to the twenty-one eligible non-executive directors: a total of 3 117 683 euros. As Jan Huyghebaert and Luc Philips receive a separate remuneration package, they have not been included in these figures. In 2006, Mr Huyghebaert was paid 742 683 euros in his capacity as Chairman of the Board of Directors of KBC Group NV, while the total remuneration package of Mr Philips reflects his previous position as Managing Director of Almanij NV and is equivalent to that of an executive director of KBC Group NV.

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

KBC Group NV was created on 2 March 2005 through the merger of Almanij NV with the KBC Bank and Insurance Holding Company NV. As the various companies concerned had to be integrated rapidly during the months that followed (up to 1 May 2006), a limited, provisional executive committee comprising three members (Willy Duron, André Bergen and Etienne Verwilghen) was established. During this period, these persons each kept their previous legal status, which was more or less equivalent. On 1 May 2006, the group's new operational structure entered into effect and the Executive Committee was accordingly extended to include an additional five members. As stated above, Willy Duron stepped down at the end of August, leaving the Executive Committee with seven members from that date on.

In light of these specific circumstances, separate disclosure of the remuneration of the President of the Executive Committee of KBC Group NV is not relevant. Moreover, the Executive Committee of KBC Group NV is indisputably a collective body, where the President is the first among equals and not a CEO who is the sole executive and accountable representative of the company. Consequently, KBC Group NV does not consider it appropriate to release details of the remuneration paid to an individual member of that collective body, not even the CEO. In addition, a general description of the remuneration paid to the President of the Executive Committee already appears in the Charter of KBC Group NV, i.e. it is not over 25% more than the amount paid to the individual members of the Executive Committee.

Hence, the disclosure of the individual remuneration paid to the CEO has been replaced by the disclosure of the total remuneration paid in 2006 by KBC Group NV and its direct and indirect subsidiaries to the eight persons who were or became members of the Executive Committee in 2006.

The remuneration of members of the Executive Committee comprises a fixed monthly sum and an annual profit bonus, with no ceiling. If members of the Executive Committee are also members of the Board of Directors, they do not receive any attendance fees or fixed remuneration for this.

Basic salary: In 2006, the members of the Executive Committee received a combined, fixed salary of 3 769 622 euros.

Variable emolument: In 2006, the members of the Executive Committee received a combined variable emolument amounting to 4 853 774 euros, which was based on the results for the 2005 financial year and included an advance payment of 1 600 000 euros for the variable emolument for the 2006 financial year.

Other components of remuneration: When funding the supplementary pension for the members of the Executive Committee, account is taken of the pension benefits to which they may already have been entitled as an employee of a KBC group company, as well as of their age at the time of their appointment to the Executive Committee. As a result, the group insurance premiums paid are different. In 2006, premiums totalling 2 639 562 euros were paid. The retirement pension amounts to about 30% of total earnings.

For the rest, members of the Executive Committee enjoy the same supplementary benefits as other employees of the KBC group (hospitalisation insurance, assistance insurance, etc.). Members of the Executive Committee are also entitled to use a company car, which is not solely for the use of the Executive Committee members, however.

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

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

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

For the same reasons as given above, the Board of Directors is of the opinion that the individual disclosure of the share options allocated to the President and members of the Executive Committee during 2006 is not relevant. In 2006, a total of 55 200 options, at an exercise price of 89.21 euros, were allocated to members of the Executive Committee. These options can be exercised from June 2010 to May 2013. They originate from the stock option programme already agreed by the Board of Directors of the KBC Bank and Insurance Holding Company NV in 2002. This decision by the Board allows share options to be allocated on existing KBC shares up to 2012. The KBC stock option plans resulting from the 2002 Board of Directors' decision therefore no longer need to be approved by the General Meeting of Shareholders.

Principal contractual stipulations regarding appointments and departures agreed with members of the Executive Committee

As stated above, the remuneration comprises a fixed monthly sum and an annual profit bonus. If an individual's office as a member of the Executive Committee is terminated otherwise than through retirement, remuneration will be paid equal to four times the fixed portion of the annual remuneration, save upon resignation or dismissal for cause.

SHAREHOLDINGS

Shareholdings, 31-12-2006

	Members of the Executive Committee	Board of Directors
KBC shares	32 679	23 859 418
MCBs 2008	6 630	1 252
Options on KBC shares	98 100	67 800

COMMENTS

- *Provision 5.2./1. of the Belgian Code on Corporate Governance (the Code) stipulates that the Board of Directors should set up an audit committee composed exclusively of non-executive directors. At least a majority of its members should be independent.*
- *Provision 5.3./1. of the Code stipulates that the Board of Directors should set up a nomination committee composed of a majority of independent non-executive directors.*

The Audit Committee of KBC Group NV is composed of seven non-executive directors, three of whom are independent. These independent directors, therefore, are in the minority on this committee. The Nomination Committee of KBC Group NV is composed of six non-executive directors, of whom one is independent, and of one executive director.

When selecting the members of the Audit and Nomination Committees, as is also the case with the Board of Directors, account is taken of the specific shareholder structure of KBC Group NV and, in particular, of the presence of Cera, Almancora and MRBB and the other core shareholders. In this way, a balance is maintained that is beneficial to the stability and continuity of the group.

ANNOUNCEMENT

As announced in the previous annual report, a start was made in September 2006 on implementing group standards at KBC Group NV, KBC Bank NV and KBC Insurance NV for the protection of whistle-blowers within the KBC group. In November 2006, these standards started to be phased in. By introducing these standards, the KBC group aims to ensure that employees who act in good faith to report fraud and gross malpractice are protected.

CONFLICTS OF INTEREST THAT FALL WITHIN THE SCOPE OF ARTICLE 523 OR 524 OF THE BELGIAN COMPANIES CODE

In 2006, there were no conflicts of interest falling within the scope of Article 523 or 524 of the Belgian Companies Code.

CONSOLIDATED ANNUAL ACCOUNTS

STATUTORY AUDITOR'S REPORT TO THE GENERAL MEETING OF SHAREHOLDERS OF KBC GROUP NV ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

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 Group NV and its subsidiaries (collectively referred to as 'the Group') for the year ended 31 december 2006, 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 2006, 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 € 325.400 million and the consolidated statement of income shows a profit for the year, share of the Group, of € 3.430 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 2006 give a true and fair view of the Group's financial position as at 31 december 2006 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, 22 March 2007

Ernst & Young Réviseurs d'Entreprises SCCRL
Statutory auditor
represented by Jean-Pierre Romont, Partner
Danielle Vermaelen, Partner

CONSOLIDATED INCOME STATEMENT

In millions of EUR	Note	2005	2006
Net interest income	3	4 219	4 158
Gross earned premiums, insurance	9	3 550	3 321
Dividend income	4	235	211
Net gains from financial instruments at fair value through profit or loss	5	642	1 370
Net realised gains from available-for-sale assets	6	458	513
Net fee and commission income	7	1 819	1 865
Net post-tax income from discontinued operations		0	0
Other income	8	574	1 119
GROSS INCOME		11 498	12 556
Operating expenses	12	-4 914	-4 925
Impairment	14	-103	-175
○ on loans and receivables	14	-35	-177
○ on available-for-sale assets	14	6	-6
○ on goodwill	14	-20	-1
○ other	14	-54	9
Gross technical charges, insurance	9	-3 059	-2 843
Ceded reinsurance result	9	-69	-63
Share in results of associated companies	15	16	45
PROFIT BEFORE TAX		3 369	4 595
Income tax expense	16	-925	-1 002
PROFIT AFTER TAX		2 443	3 593
Minority interests		-194	-163
NET PROFIT, GROUP SHARE		2 249	3 430
Earnings per share (in EUR)			
Basic	17	6.26	9.68
Diluted	17	6.15	9.59

- Dividend: the Board of Directors will propose to the general meeting of shareholders that a gross dividend of 3.31 euros be paid per share entitled to dividend. The total dividend to be paid amounts to 1 168 million euros.
- Ordinary net earnings per share at year-end 2006 came to 9.68 euros. Without the impact of the share buyback programme in 2006, ordinary earnings per share would have come to 9.55 euros.
- 2005 figures adjusted (under the 'Net interest income' and 'Net gains from financial instruments at fair value through profit or loss' headings). See under 'Restatement of the figures for 2005' in the 'Additional information' section.

CONSOLIDATED BALANCE SHEET

ASSETS			
In millions of EUR	**Note**	**31-12-2005**	**31-12-2006**
Cash and balances with central banks		2 061	2 787
Treasury bills and other bills eligible for rediscounting with central banks		2 649	1 727
Loans and advances to banks	19	45 312	39 881
Loans and advances to customers	20, 21	119 475	132 400
Securities	22	125 810	121 414
Derivative financial instruments	23	18 832	16 774
Portfolio hedge of interest rate risk		59	-175
Investment property	29	313	413
Reinsurers' share in technical provisions, insurance	32	282	290
Accrued income		2 992	2 274
Other assets	24	2 825	2 346
Tax assets	25	545	761
○ Current tax assets	25	70	154
○ Deferred tax assets	25	475	608
Non-current assets held for sale and disposal groups		0	92
Investments in associated companies	26	989	522
Goodwill and other intangible assets	27, 28	1 537	1 988
Property and equipment	29	2 120	1 906
TOTAL ASSETS		**325 801**	**325 400**

LIABILITIES AND EQUITY			
In millions of EUR	**Note**	**31-12-2005**	**31-12-2006**
Deposits from banks	30	60 821	59 108
Deposits from customers and debt securities	31	171 572	180 031
Derivative financial instruments	23	24 783	23 488
Portfolio hedge of interest rate risk		0	0
Gross technical provisions, insurance	32	14 779	15 965
Liabilities under investment contracts, insurance	33	7 615	9 156
Accrued expense		2 326	1 747
Other liabilities	36	18 674	9 818
Tax liabilities	25	928	846
○ Current tax liabilities	25	578	534
○ Deferred tax liabilities	25	350	312
Non-current liabilities held for sale and liabilities associated with disposal groups		0	43
Provisions for risks and charges	34	522	493
Subordinated liabilities	35	6 314	6 253
TOTAL LIABILITIES		**308 335**	**306 947**
Total equity		17 466	18 453
○ Parent shareholders' equity	38	15 751	17 219
○ Minority interests		1 715	1 234
TOTAL LIABILITIES AND EQUITY		**325 801**	**325 400**

○ On 31 December 2006, the headings 'Non-current assets held for sale and disposal groups' and 'Non-current liabilities held for sale and liabilities associated with disposal groups' concerned mainly Banca KBL Fumagalli Soldan (a KBL EPB subsidiary in Italy) and Reliz (a Kredyt Bank subsidiary in Poland), both of which have been sold. In view of the insignificant amount this entailed for the entire group (see balance sheet), no further information is provided on these headings.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In millions of EUR	Issued and paid up share capital	Share premium	Subordinated mandatorily convertible bonds	Treasury shares	Revaluation reserve (AFS investments)	Hedging reserve (cashflow hedges)	Reserves	Translation differences	Parent shareholders' equity	Minority interests	Total equity
2005											
Balance at the beginning of the period	1 234	4 130	185	-291	1 415	9	6 672	-34	13 321	1 771	15 092
○ Fair value adjustments before tax	0	0	0	0	960	8	0	0	968	–	968
○ Deferred tax on fair value changes	0	0	0	0	-21	-3	0	0	-24	–	-24
○ Transfer from revaluation reserve to net profit											
○ Impairment losses	0	0	0	0	9	0	0	0	9	–	9
○ Net gains/losses on disposal	0	0	0	0	-269	0	0	0	-269	–	-269
○ Deferred income taxes	0	0	0	0	35	0	0	0	35	–	35
○ Transfer from hedging reserve to net assets											
○ Gross amount	0	0	0	0	0	-18	0	0	-18	–	-18
○ Deferred income taxes	0	0	0	0	0	4	0	0	4	–	4
○ Effects of changes in accounting policies	0	0	0	0	0	0	0	0	0	–	0
○ Corrections of errors	0	0	0	0	0	0	0	0	0	–	0
○ Currency translation differences	0	0	0	0	0	0	0	160	160	–	160
Subtotal, recognised directly in equity	0	0	0	0	714	-8	0	160	866	–	866
○ Net profit for the period	0	0	0	0	0	0	2 249	0	2 249	194	2 443
Total income and expense for the period	0	0	0	0	714	-8	2 249	160	3 116	194	3 310
○ Dividends	0	0	0	0	0	0	-672	0	-672	–	-672
○ Capital increase	0	8	-1	0	0	0	0	0	8	–	8
○ Purchases of treasury shares	0	0	0	-272	0	0	0	0	-272	–	-272
○ Sales of treasury shares	0	0	0	129	0	0	0	0	129	–	129
○ Results on (derivatives on) treasury shares	0	0	0	-51	0	0	176	0	126	–	126
○ Change in minority interests	0	0	0	0	0	0	0	0	0	-250	-250
○ Other	0	0	0	0	0	0	-5	0	-5	–	-5
Total change	0	8	-1	-193	714	-8	1 749	160	2 430	-56	2 374
Balance at the end of the period	1 234	4 138	185	-484	2 129	1	8 421	127	15 751	1 715	17 466
○ of which revaluation reserve for shares	–	–	–	–	1 304	–	–	–	–	–	–
○ of which revaluation reserve for bonds	–	–	–	–	825	–	–	–	–	–	–
○ of which revaluation reserve for other assets than bonds and shares	–	–	–	–	0	–	–	–	–	–	–
○ of which relating to non-current assets held for sale and disposal groups	–	–	–	0	0	0	–	0	0	0	0

In millions of EUR	Issued and paid up share capital	Share premium	Subordinated mandatorily convertible bonds	Treasury shares	Revaluation reserve (AFS investments)	Hedging reserve (cashflow hedges)	Reserves	Translation differences	Parent shareholders' equity	Minority interests	Total equity
2006											
Balance at the beginning of the period	1 234	4 138	185	-484	2 129	1	8 421	127	15 751	1 715	17 466
○ Fair value adjustments before tax	0	0	0	0	-80	68	0	0	-12	–	-12
○ Deferred tax on fair value changes	0	0	0	0	288	-25	0	0	262	–	262
○ Transfer from revaluation reserve to net profit											
○ Impairment losses	0	0	0	0	2	0	0	0	2	–	2
○ Net gains/losses on disposal	0	0	0	0	-394	0	0	0	-394	–	-394
○ Deferred income taxes	0	0	0	0	25	0	0	0	25	–	25
○ Transfer from hedging reserve to net assets											
○ Gross amount	0	0	0	0	0	3	0	0	3	–	3
○ Deferred income taxes	0	0	0	0	0	-1	0	0	-1	–	-1
○ Effects of changes in accounting policies	0	0	0	0	0	0	0	0	0	–	0
○ Corrections of errors	0	0	0	0	0	0	0	0	0	–	0
○ Currency translation differences	0	0	0	0	0	0	0	-28	-28	–	-28
Subtotal, recognised directly in equity	0	0	0	0	-160	44	0	-28	-144	–	-144
○ Net profit for the period	0	0	0	0	0	0	3 430	0	3 430	163	3 593
Total income and expense for the period	0	0	0	0	-160	44	3 430	-28	3 286	163	3 449
○ Dividends	0	0	0	0	0	0	-898	0	-898	–	-898
○ Capital increase	1	12	-2	0	0	0	0	0	10	–	10
○ Purchases of treasury shares	0	0	0	-1 033	0	0	0	0	-1 033	–	-1 033
○ Sales of treasury shares	0	0	0	106	0	0	0	0	106	–	106
○ Results on (derivatives on) treasury shares	0	0	0	0	0	0	0	0	0	–	0
○ Cancellation of treasury shares	0	0	0	300	0	0	-300	0	0	–	0
○ Change in minority interests	0	0	0	0	-2	0	0	0	-2	-643	-645
○ Other	0	0	0	0	0	0	-3	0	-3	–	-3
Total change	1	12	-2	-627	-162	44	2 230	-28	1 468	-481	987
Balance at the end of the period	1 235	4 150	183	-1 111	1 968	46	10 651	98	17 219	1 234	18 453
○ of which revaluation reserve for shares	–	–	–	–	1 824	–	–	–	–	–	–
○ of which revaluation reserve for bonds	–	–	–	–	144	–	–	–	–	–	–
○ 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	–	4	4	-1	3

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

CONSOLIDATED CASHFLOW STATEMENT

In millions of EUR	2005	2006
Profit before tax	3 369	4 595
Adjustments for:		
○ depreciation, impairment and amortisation of property and equipment, intangible fixed assets, investment property and securities	388	356
○ profit/loss on the disposal of investments	120	-704
○ change in impairment on loans and advances	35	177
○ change in gross technical provisions, insurance	2 044	1 427
○ change in the reinsurers' share in the technical provisions	-38	-51
○ change in other provisions	77	-36
○ unrealised foreign currency gains and losses and valuation differences	292	326
○ income from associated companies	-16	-45
Cashflows from operating profit before tax and before changes in operating assets and liabilities	6 269	6 046
Changes in operating assets[1]	-43 864	-1 165
Changes in operating liabilities[2]	32 739	-10 165
Income taxes paid	-852	-944
Net cash from or used in operating activities	-5 708	-6 229
Purchase of held-to-maturity securities	-5 771	-2 074
Proceeds from the repayment of held-to-maturity securities at maturity	3 742	791
Acquisition of a subsidiary or a business unit, net of cash acquired or disposed of (including increases in percentage interest held)	-835	-809
Proceeds from the disposal of a subsidiary or business unit, net of cash disposed of (including decreases in percentage interest held)	49	718
Purchase of shares in associated companies	0	0
Proceeds from the disposal of shares in associated companies	180	618
Dividends received from associated companies	7	13
Purchase of investment property	-10	-56
Proceeds from the sale of investment property	25	67
Purchase of intangible fixed assets	-105	-161
Proceeds from the sale of intangible fixed assets	34	95
Purchase of property and equipment	-403	-475
Proceeds from the sale of property and equipment	490	452
Net cash from or used in investing activities	-2 596	-821
Purchase or sale of treasury shares	-17	-927
Issue or repayment of promissory notes and other debt securities	1 501	6 761
Proceeds from or repayment of subordinated liabilities	-453	-62
Principal payments under finance lease obligations	0	0
Proceeds from the issuance of share capital	9	13
Proceeds from the issuance of preference shares	0	0
Dividends paid	-704	-938
Net cash from or used in financing activities	337	4 846
Net increase or decrease in cash and cash equivalents	-7 966	-2 203
Cash and cash equivalents at the beginning of the year	10 874	3 199
Effects of exchange rate changes on cash and cash equivalents	292	-145
Cash and cash equivalents at the end of the period	3 199	850
Additional information		
○ Interest paid	-6 043	-7 769
○ Interest received	10 390	11 927
○ Dividends received (including equity method)	242	223
Components of cash and cash equivalents	3 199	850
○ Cash and balances with central banks	2 061	2 787
○ Treasury bills and other bills eligible for rediscounting with central banks	2 649	1 727
○ Loans and advances to banks repayable on demand	4 191	4 166
○ Deposits from banks repayable on demand	-5 701	-7 830
of which not available	0	0

1 Including loans and advances to banks, loans and advances to customers, securities (excluding securities held to maturity), derivative financial instruments and other assets.
2 Including deposits from banks, deposits from customers and debt securities, derivative financial instruments and other liabilities.

- KBC uses the indirect method to report on cashflows from operating activities.
- To calculate cashflows, cash and cash equivalents are defined as 'Cash and balances with central banks' (see the relevant balance sheet heading), Treasury bills and other bills eligible for rediscounting with central banks (see the relevant balance sheet heading), and the 'Loans and advances to banks' that are repayable on demand, net of 'Deposits from banks' that are repayable on demand (see Notes 19 and 30, under 'Repayable on demand').
- The main acquisitions and divestments of consolidated subsidiaries in 2006 (including changes in the percentage interest held, which entailed acquiring or losing control over the subsidiary) are commented on below. For 2006, there was only the sale of Banco Urquijo; there were no material acquisitions or divestments of consolidated subsidiaries during the reference period. For a more detailed list (including all major changes in ownership percentages), see Note 47. All (material) acquisitions and divestments of group companies in 2006 were paid for in cash.

Impact of the sale of the investment in Banco Urquijo	
In millions of EUR	
Percentage of shares bought (+) or sold (-)	-97.06%
Total share percentage at 31-12-2006	0.00%
For IFRS segment	European private banking
For business unit	European Private Banking
Deal date	July 2006
Purchase price or sale price	760
Cashflow for acquiring or selling companies less cash and cash equivalents acquired or sold	678
Assets and liabilities bought or sold	
Cash and cash equivalents	-82
Loans and advances to banks	-1 248
Loans and advances to customers	-2 282
Securities	-52
Derivatives (assets) and other assets	-175
Deposits from banks	-1 542
Deposits from customers and debt securities	-1 733
Derivatives (liabilities) and other liabilities	-265

NOTES ON THE ACCOUNTING POLICIES

Note 1 a: Statement of compliance

The consolidated annual accounts were authorised for issue on 22 March 2007 by the Board of Directors of KBC Group NV.

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

The consolidated financial statements of KBC present one year of comparative information.

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

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

The following IFRS standards were issued but not yet effective at year-end 2006. The KBC group will apply these standards as of their effective date.

- IFRS 7 'Financial instruments: disclosures' This standard gives an overview of the different disclosure requirements relating to financial instruments. It replaces the disclosure requirements previously included in IAS 30 and IAS 32. This standard will take effect on 1 January 2007.
- Amendment to IAS 1 'Presentation of Financial Statements: capital disclosures'. This amendment imposes supplementary capital disclosure requirements. This standard will take effect on 1 January 2007.

The KBC group has opted for early application of the following IFRICs (though at this time without subject or impact): IFRIC 7 (Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies), IFRIC 8 (Scope of IFRS 2) and IFRIC 9 (Reassessment of Embedded Derivatives).

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

b Effects of changes in foreign exchange rates

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

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

c Financial assets and liabilities (IAS 39)

Financial assets and liabilities are recognised in the balance sheet when KBC becomes a party to the contractual provisions of the instruments. Regular-way purchases or sales of financial assets are recognised using settlement date accounting.
All financial assets and liabilities – including derivatives – must be recognised in the balance sheet according to the IAS 39 classification system. Each classification is subject to specific measurement rules.

The IAS 39 classifications are as follows:

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

KBC applies the following general rules:

- *Amounts receivable*. These are classified under 'Loans and receivables'. They are measured on acquisition at fair value, including transaction costs. Loans with a fixed maturity are subsequently measured at amortised cost using the effec tive 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). Loans and advances with a probability of default of 12 (problem loans with the highest probability of default) are individually tested for impairment (and written down on an individual basis if necessary). Loans and advances with a PD of 10 or 11 (also considered to be problem loans) are tested either individually (significant loans) or on a statistical basis (non-significant loans). Impairment losses are posted on these loans and advances on an individual and a statistical basis, respectively. For loans with a PD lower than 10, lastly, impairment losses are recognised on a portfolio basis.
  Interest on loans written down as a result of impairment is recognised using the rate of interest used to measure the impairment loss.

- *Securities*. Depending on whether or not securities are traded on an active market and depending on what the intention is when they are acquired, securities are classified as loans and receivables, held-to-maturity assets, held-for-trading assets, financial assets at fair value through profit or loss, or available-for-sale assets.
  Securities classified as loans and receivables or held-to-maturity 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 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 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. 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. The hedged amount of loans is measured at fair value as well, with fair value changes reported in profit or loss. The fair value of the hedged amount is presented as a separate line item of the assets on the balance sheet. KBC makes use of the 'Carved-out' version of IAS 39, so that no ineffectiveness results from anticipated repayments, as long as underhedging exists. In case of hedge ineffectiveness, the cumulative change in the fair value of the hedged amount will be amortised through profit or loss over the remaining lifetime of the hedged assets or immediately removed from the balance sheet if the ineffectiveness is due to the fact that the corresponding loans have been derecognised.
  For cashflow hedges, derivatives hedging the risks are measured at fair value, with those fair value gains or losses determined to be an effective hedge being recognised separately in equity. The ineffective portion of the hedge is recognised in income for the financial year. Hedge accounting will be discontinued if the hedge accounting criteria are no longer met. In this case, the derivatives will be treated as held-for-trading derivatives and measured accordingly.
  Foreign currency funding of a net investment in a foreign entity is accounted for as a hedge of that net investment. Translation differences (account taken of deferred taxes) on the funding are recorded in equity, along with translation differences on the net investment. For acquisitions after 1 January 2004, goodwill is considered part of the net investment in a foreign entity, and therefore the amount of goodwill is included in the amount of the foreign currency funding. This form of hedge accounting is used for all investments not denominated in euros.
  A 'financial guarantee contract' is a contract that requires 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. This methodology – already applied by KBC Financial Products for Belgian GAAP reporting purposes – differs from current Belgian GAAP methodology (applied by KBC Bank Belgium), where fair value adjustments are only recognised to cover close-out costs on trading derivatives. The value adjustments resulting from the first-time group-wide application of the new methodology are included in the opening IFRS balance sheet in equity at 1 January 2005.

d Goodwill and other intangible assets

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

e Property and equipment (including investment property)

All property and equipment is recognised at cost (including directly allocable acquisition costs), less accumulated depreciation and impairment. The rates of depreciation are determined on the basis of the anticipated useful life of the assets and are applied according to the straight-line method from the moment the assets are available for use. Impairment is recognised if the carrying value of the asset exceeds its recoverable value (i.e. the higher of the asset's value in use 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 Technical provisions

Provisions for unearned premiums and unexpired risk

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

Life insurance provision

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

The following rules apply:

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

Provision for claims outstanding

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

Provision for bonuses related to participation features and rebates

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

Liability adequacy test

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

Ceded reinsurance and retrocession

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

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

Deposit accounting rules apply to financial instruments that do not include a discretionary participation feature (DPF), and to the deposit component of unit-linked insurance contracts. This means that the deposit component and insurance component are measured separately. In deposit accounting, the portion of the premiums relating to the deposit component is not taken to the income statement, nor is the resulting increase in the carrying amount of the liability. Management fees and commissions are recognised immediately in the income statement. When the value of unit-linked investments fluctuates subsequently, both the change on the asset side and the resulting change on the liabilities side are taken to the income statement immediately. Therefore, after initial recognition, the deposit component is measured at fair value through profit or loss. This fair value is determined by multiplying the number of units by the value of the unit, which is based upon the fair value of the underlying financial instruments. Settlements relating to the deposit component are not recorded in the income statement, but will result in a decrease in the carrying amount of the liability.
Financial instruments with a discretionary participation feature and the insurance component of unit-linked contracts are treated as non-unit-linked insurance contracts (see 'Technical provisions'), and are not unbundled into a deposit component and an insurance component.
On the balance sheet date, the liabilities resulting from these financial instruments or insurance contracts are tested to see if they are adequate, according to the liability adequacy test. If the carrying amount of these liabilities is lower than their estimated future discounted cashflows, the deficiency will be recognised in the income statement against an increase in the liability.

h Pension liabilities

Pension liabilities are included under the 'Other liabilities' item and relate to obligations for retirement and survivor's pensions, early retirement benefits and similar pensions or annuities.
Defined benefit plans are those under which KBC has a legal or constructive obligation to pay extra contributions to the pension fund if this last has insufficient assets to settle all the obligations to employees resulting from employee service in current and prior periods.
The pension obligations under these plans for employees are calculated according to IAS 19, based on the projected-unit-credit method, with each period of service granting additional entitlement to pension benefits.
Actuarial gains and losses are recognised according to the 'corridor approach'. The portion of actuarial gains and losses exceeding 10% of the greater of the fair value of plan assets or the gross pension obligation will be recognised as income or expense, spread over a period of five years.

i Tax liabilities

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

j Provisions

Provisions are recognised in the balance sheet:
- if an obligation (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.

k Equity

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

Equity instruments have been differentiated from financial instruments in accordance with the IAS 32 rules:
- Bonds redeemable in KBC Group NV shares (MCB 1998-2008) are classified as equity instruments.
- The acquisition cost of KBC Group NV treasury shares is deducted from equity. On the sale, issuance or cancellation of treasury shares, gains or losses are reported directly in equity.
- Transactions in derivative financial instruments on KBC treasury shares are likewise reported in equity, save in the event of net cash settlement.
- Written stock options on treasury shares subject to IFRS 2 are measured at fair value on the grant date. This fair value is recognised in the income statement as a staff expense over the period of service, against a separate entry under equity. The 2000-2002 stock option plans are not covered by the scope of IFRS 2.
- The revaluation reserve for available-for-sale assets is included in equity until disposal or impairment of the assets. At that time, the cumulative gain or loss is transferred to profit or loss for the period.

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 31-12-2006		Exchange rate average in 2006	
	1 EUR = ... currency	Change from 31-12-2005 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)	1 EUR = ... currency	Change relative to average in 2005 (positive: appreciation relative to EUR) (negative: depreciation relative to EUR)
CZK	27.49	5%	28.33	5%
GBP	0.672	2%	0.682	0%
HUF	251.8	0%	264.2	-6%
PLN	3.831	1%	3.901	3%
USD	1.317	-10%	1.257	-1%

m Changes made to accounting policies in 2006

No material changes were made to the accounting policies compared with 2005.

NOTES ON SEGMENT REPORTING

Note 2 a: Reporting according to the group's legal structure

In millions of EUR	Banking	Insurance	European private banking	Holding-company activities	Inter-segment eliminations	KBC group
INCOME STATEMENT, 2005						
Net interest income	3 505	548	226	-54	-7	4 219
Gross earned premiums, insurance	0	3 550	0	0	0	3 550
Dividend income	114	107	12	3	0	235
Net gains from financial instruments at fair value through profit or loss	606	1	8	26	0	642
Net realised gains from available-for-sale assets	123	264	32	40	0	458
Net fee and commission income	1 645	-269	447	-2	-2	1 819
Net post-tax income from discontinued operations	0	0	0	0	0	0
Other income	390	56	57	560	-489	574
GROSS INCOME	6 383	4 257	782	574	-498	11 498
Operating expenses*	-3 736	-523	-563	-589	498	-4 914
Impairment	-34	-30	23	-62	0	-103
○ on loans and receivables	-27	-1	-3	-3	0	-35
○ on available-for-sale assets	-4	-19	28	1	0	6
○ on goodwill	0	-10	-2	-8	0	-20
○ other	-2	0	0	-52	0	-54
Gross technical charges, insurance	0	-3 059	0	0	0	-3 059
Ceded reinsurance result	0	-69	0	0	0	-69
Share in results of associated companies	28	0	3	-15	0	16
PROFIT BEFORE TAX	2 642	575	244	-93	0	3 369
Income tax expense	-706	-118	-53	-48	0	-925
PROFIT AFTER TAX	1 936	456	191	-141	0	2 443
Minority interests	-192	5	-7	0	0	-194
NET PROFIT, GROUP SHARE	1 745	462	184	-141	0	2 249
* of which, non-cash expenses	-271	-53	-69	-72	0	-466
○ Depreciation and amortisation of fixed assets	-229	-53	-35	-72	0	-389
○ Other	-42	0	-34	0	0	-77
INCOME STATEMENT, 2006						
Net interest income	3 271	595	327	-27	-8	4 158
Gross earned premiums, insurance	0	3 321	0	0	0	3 321
Dividend income	125	70	13	3	0	211
Net gains from financial instruments at fair value through profit or loss	1 469	-2	-100	3	0	1 370
Net realised gains from available-for-sale assets	179	261	18	55	0	513
Net fee and commission income	1 648	-259	476	-2	2	1 865
Net post-tax income from discontinued operations	0	0	0	0	0	0
Other income	457	94	515	682	-628	1 119
GROSS INCOME	7 148	4 080	1 248	715	-635	12 556
Operating expenses*	-3 881	-530	-537	-612	635	-4 925
Impairment	-169	-9	3	0	0	-175
○ on loans and receivables	-176	1	-2	0	0	-177
○ on available-for-sale assets	-2	-10	6	0	0	-6
○ on goodwill	0	0	-1	0	0	-1
○ other	9	0	0	0	0	9
Gross technical charges, insurance	0	-2 843	0	0	0	-2 843
Ceded reinsurance result	0	-63	0	0	0	-63
Share in results of associated companies	41	0	3	0	0	45
PROFIT BEFORE TAX	3 139	635	718	103	0	4 595
Income tax expense	-757	-130	-42	-74	0	-1 002
PROFIT AFTER TAX	2 382	505	676	29	0	3 593
Minority interests	-181	30	-9	-3	0	-163
NET PROFIT, GROUP SHARE	2 201	535	668	27	0	3 430
* of which, non-cash expenses	-172	-40	-27	-84	0	-323
○ Depreciation and amortisation of fixed assets	-206	-40	-27	-86	0	-359
○ Other	34	0	0	2	0	36

(Continued) In millions of EUR	Banking	Insurance	European private banking	Holding-company activities	Inter-segment eliminations	KBC group
BALANCE SHEET 31-12-2005						
Cash and balances with central banks	1 188	3	869	0	–	2 061
Treasury bills and other bills eligible for rediscounting with central banks	1 470	0	1 179	0	–	2 649
Loans and advances to banks	35 293	97	9 907	15	–	45 312
Loans and advances to customers	115 148	131	3 997	198	–	119 475
Securities	94 627	23 950	7 181	52	–	125 810
Derivative financial instruments	18 504	4	324	0	–	18 832
Portfolio hedge of interest rate risk	59	0	0	0	–	59
Investment property	158	140	10	6	–	313
Reinsurers' share in technical provisions, insurance	0	282	0	0	–	282
Accrued income	1 772	481	741	-1	–	2 992
Other assets	1 385	704	717	19	–	2 825
Tax assets	428	31	81	5	–	545
Non-current assets held for sale and disposal groups	0	0	0	0	–	0
Investments in associated companies	482	1	9	497	–	989
Goodwill and other intangible assets	326	164	434	613	–	1 537
Property and equipment	1 444	190	316	169	–	2 120
Total assets	**272 283**	**26 178**	**25 766**	**1 574**	**–**	**325 801**
Deposits from banks	52 746	10	7 983	82	–	60 821
Deposits from customers and debt securities	155 303	0	15 176	1 093	–	171 572
Derivative financial instruments	24 367	0	411	4	–	24 783
Portfolio hedge of interest rate risk	0	0	0	0	–	0
Gross technical provisions, insurance	0	14 779	0	0	–	14 779
Liabilities under investment contracts, insurance	0	7 615	0	0	–	7 615
Accrued expense	1 735	6	562	22	–	2 326
Other liabilities	16 488	1 101	947	138	–	18 674
Tax liabilities	489	239	157	44	–	928
Non-current liabilities held for sale and liabilities associated with disposal groups	0	0	0	0	–	0
Provisions for risks and charges	396	20	96	10	–	522
Subordinated liabilities	5 237	10	1 068	0	–	6 314
Total liabilities	**256 762**	**23 781**	**26 400**	**1 392**	**–**	**308 335**
○ Acquisitions of fixed assets	368	11	19	120	–	517
BALANCE SHEET 31-12-2006						
Cash and balances with central banks	1 348	3	1 436	0	–	2 787
Treasury bills and other bills eligible for rediscounting with central banks	1 722	0	5	0	–	1 727
Loans and advances to banks	30 883	72	8 918	7	–	39 881
Loans and advances to customers	128 699	148	3 512	41	–	132 400
Securities	87 998	26 948	6 429	39	–	121 414
Derivative financial instruments	16 147	7	612	8	–	16 774
Portfolio hedge of interest rate risk	-175	0	0	0	–	-175
Investment property	216	167	30	0	–	413
Reinsurers' share in technical provisions, insurance	0	290	0	0	–	290
Accrued income	1 783	310	166	15	–	2 274
Other assets	1 118	935	229	64	–	2 346
Tax assets	640	94	19	9	–	761
Non-current assets held for sale and disposal groups	53	0	29	10	–	92
Investments in associated companies	511	0	11	0	–	522
Goodwill and other intangible assets	684	214	428	661	–	1 988
Property and equipment	1 544	97	205	60	–	1 906
Total assets	273 171	29 285	22 030	915	–	325 400

(Continued) In millions of EUR	Banking	Insurance	European private banking	Holding-company activities	Inter-segment eliminations	KBC group
Deposits from banks	52 578	0	6 530	0	–	59 108
Deposits from customers and debt securities	168 467	0	10 951	613	–	180 031
Derivative financial instruments	22 774	0	702	12	–	23 488
Portfolio hedge of interest rate risk	0	0	0	0	–	0
Gross technical provisions, insurance	0	15 965	0	0	–	15 965
Liabilities under investment contracts, insurance	0	9 156	0	0	–	9 156
Accrued expense	1 618	2	99	27	–	1 747
Other liabilities	8 460	827	377	154	–	9 818
Tax liabilities	451	185	141	69	–	846
Non-current liabilities held for sale and liabilities associated with disposal groups	0	0	38	4	–	43
Provisions for risks and charges	407	26	61	0	–	493
Subordinated liabilities	5 238	0	1 014	0	–	6 253
Total liabilities	259 993	26 161	19 913	880	–	306 947
o Acquisitions of fixed assets	467	73	24	128	–	692

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

- Banking: KBC Bank and its subsidiaries;
- Insurance: KBC Insurance and its subsidiaries;
- European private banking (KBL EPB): Kredietbank SA Luxembourgeoise and its subsidiaries;
- Holding-company activities: KBC Group NV (on a non-consolidated basis, KBC Exploitatie NV and the remaining companies of the former Gevaert group (including Almafin).

- 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 primary segments used in the 2005 annual report included Gevaert and asset management in addition to the segments listed above. Since Gevaert merged with KBC Group NV (the holding company) in 2006, this segment has been incorporated in the holding-company activities since 2006. In addition, KBC Group NV sold a number of shares in KBC Asset Management to KBC Bank subsidiaries, making KBC Bank (instead of KBC Group NV) the majority shareholder of KBC Asset Management. For this reason, the asset management segment has been included in the banking segment since 2006. The reference figures for 2005 have been adjusted retroactively for the sake of comparison.
- The figures for the holding-company activities also include the 'cost-sharing structure', which comprises a number of common support services such as marketing, logistics, IT and communication. Costs incurred by this cost-sharing structure are paid by the holding company and afterwards charged to the other segments. Hence, these amounts are shown both under expenses and under income (income from costs that have been passed on) in the 'holding-company activities' segment, and under expenses in the other segments.
- Adjustments made to 2005 figures (in the headings: 'Net interest income' and 'Net gains from financial instruments at fair value through profit or loss'): see under 'Restatement of the figures for 2005' in the 'Additional information' section.

Note 2 b: Reporting by geographic segment

In millions of EUR	Belgium	Central and Eastern Europe	Rest of the world	Intersegment eliminations	KBC group
2005					
Gross income	6 385	2 693	2 420	–	11 498
Total assets (period-end)	192 213	35 067	98 521	–	325 801
Total liabilities (period-end)	175 515	33 615	99 205	–	308 335
Acquisition of fixed assets (period-end)	218	251	48	–	517
2006					
Gross income	6 590	2 860	3 106	–	12 556
Total assets (period-end)	192 526	38 588	94 286	–	325 400
Total liabilities (period-end)	173 841	37 900	95 207	–	306 947
Acquisition of fixed assets (period-end)	297	342	54	–	692

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 (mainly Poland, Czech and Slovak Republics, Hungary and Slovenia) – and its selective presence in other countries ('rest of the world', i.e. mainly Western Europe excluding Belgium, the US and Southeast Asia).

- The geographic segmentation is based on the location where the services are rendered. Since at least 95% of the customers are local customers, the location of the branch or subsidiary determines the geographic breakdown of both the balance sheet and income statement.
- More detailed geographic segmentation figures for balance sheet items are provided in the various Notes to the balance sheet. The breakdown here is made based on the geographic location of the counterparty.

NOTES TO THE INCOME STATEMENT

Note 3: Net interest income

In millions of EUR	2005	2006
Total	4 219	4 158
Interest income	10 390	11 927
Loans and advances to banks	1 428	2 220
Loans and advances to customers	5 180	5 679
Deposits with ceding companies	4	6
Fixed-income securities not measured at fair value through profit or loss	2 220	2 227
o *Subtotal, interest income from financial assets not measured at fair value through profit or loss*	*8 832*	*10 132*
o *of which interest income on impaired loans*	*43*	*34*
Financial assets at fair value through profit or loss	1 558	1 795
Interest expense	-6 171	-7 769
Deposits from banks	-1 864	-2 634
Deposits from customers	-2 967	-3 348
Debt securities	-878	-1 432
Subordinated liabilities	-333	-303
Investment contracts at amortised cost	0	0
Hedging derivatives	-129	-52

- Restatement of the figures for 2005: See under ‘Restatement of the figures for 2005’ in the ‘Additional information’ section.

Note 4: Dividend income

In millions of EUR	2005	2006
Total	235	211
Available-for-sale shares	148	109
Shares held for trading	78	86
Shares initially recognised at fair value through profit or loss	10	16

- Since the second quarter of 2006, dividend income relating to stock lending has been transferred from the ‘Dividend income‘ heading to the ‘Net fee and commission income’ heading. The amount concerned is roughly 49 million euros.

Note 5: Net gains from financial instruments at fair value through profit or loss

In millions of EUR	2005	2006
Total	642	1 370
Trading instruments (including derivatives)	209	1 187
Other financial instruments initially recognised at fair value through profit or loss	-95	-345
Portfolio hedge of interest rate risk	0	0
Foreign exchange trading	528	528

- Net gains from financial instruments at fair value through profit or loss include net (realised and unrealised) gains from trading instruments (including the negative net interest income from some ALM derivatives (see below)), net (realised and unrealised) gains from financial instruments initially recognised at fair value through profit or loss, and gains and losses on foreign exchange trading.
- With regard to the ALM derivatives (except for microhedging 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 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 hedging is effective – the balance of ‘Net 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 gains from financial instruments at fair value through profit or loss’ (a negative 304 and 315 million euros in 2006 and 2005, 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 under ‘Other financial assets initially recognised at fair value through profit or loss’ (see accounting policies).
- Total exchange differences, excluding those recognised on financial instruments at fair value through profit or loss came to a positive 25 million euros for 2006. These are included in the 528 million euros shown in the table (in 2005: 28 million euros, included in the 528 million euros shown in the table).
- The total change in fair value taken to the income statement in 2006, where the fair value was based on estimates rather than market prices, came to 992 million euros (201 million euros in 2005).
- Restatement of the figures for 2005: see under ‘Restatement of the figures for 2005’ in the ‘Additional information’ section.

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

In millions of EUR	2005	2006
Total	458	513
Fixed-income securities	99	35
Shares	360	477

Note 7: Net fee and commission income

In millions of EUR	2005	2006
Total	1 819	1 865
Fee and commission income	2 693	2 977
○ Securities and asset management (including from investment contracts)	1 800	2 093
○ Commitment credit	135	152
○ Payments	405	417
○ Other	352	315
Fee and commission expense	-874	-1 112
○ Acquisition costs	-382	-403
○ Other	-492	-710

- Commissions relating to the insurance business (investment contracts) are shown on a gross basis (before ceded reinsurance).
- Since the second quarter of 2006, dividend income relating to stock lending has been transferred from the ‘Dividend income‘ heading to the ‘Net fee and commission income’ heading. The amount concerned is roughly 49 million euros for 2006.

Note 8: Other income

In millions of EUR	2005	2006
Total	574	1 119
○ Settlement of a dispute concerning an unpaid loan, ČSOB	101	–
○ Sale of impaired credit, Kredyt Bank	–	37
○ Sale of buildings in Prague, ČSOB	–	36
○ Sale of Banco Urquijo, KBL EPB	–	501
○ Sale of investment in BCC and Banksys, KBC Bank	–	60
○ Sale of building in Warsaw, WARTA	–	23

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

Note 9: Technical accounts, insurance

In millions of EUR	Insurance contracts, life	Insurance contracts, non-life	Insurance contracts, total	Investment contracts with DPF, life	Investment contracts without DPF, life	Non-technical account	Total
2005							
Gross earned premiums	655	1 650	2 304	1 246	0	0	3 550
Gross technical charges	-664	-1 033	-1 696	-1 450	-445	0	-3 592
○ Gross claims paid	-411	-863	-1 274	-274	-1	0	-1 548
○ Gross provision for claims outstanding	4	-137	-133	15	0	0	-119
○ Bonuses and rebates	-2	0	-2	-3	0	0	-5
○ Other technical provisions	-256	-8	-263	-1 189	-563	0	-2 016
○ Other technical income and charges	0	-24	-24	2	119	0	96
Investment income and charges	305	185	490	252	573	165	1 480
○ Investment income	0	0	0	0	0	1 100	1 100
○ Value adjustments	0	0	0	0	573	0	573
○ Investment charges	0	0	0	0	0	-200	-200
○ Other income and charges (non-technical)	0	0	0	0	0	7	7
○ Allocation to the technical accounts	305	185	490	252	0	-742	0
General administrative expenses	-133	-521	-653	-56	-75	0	-784
○ Net acquisition costs	-89	-356	-445	-36	-68	0	-548
○ Administrative expenses	-44	-164	-208	-20	-8	0	-236
Impairment of goodwill	0	0	0	0	0	-10	-10
Share in results of associated companies	0	0	0	0	0	0	0
Ceded reinsurance result	-3	-63	-66	0	0	-4	-69
○ Technical charges	2	37	38	0	0	0	38
○ Fee and commission expense	1	16	17	0	0	0	17
○ Interest expense, deposits from reinsurers	0	0	0	0	0	-4	-4
○ Earned premiums	-5	-115	-121	0	0	0	-121
PROFIT BEFORE TAX	161	219	380	-8	52	151	575
2006							
Gross earned premiums	764	1 748	2 512	809	0	0	3 321
Gross technical charges	-760	-1 124	-1 883	-1 061	-339	0	-3 284
○ Gross claims paid	-377	-876	-1 253	-603	-1	0	-1 857
○ Gross provision for claims outstanding	2	-213	-211	0	0	0	-211
○ Bonuses and rebates	-5	0	-5	-17	0	0	-22
○ Other technical provisions	-380	-9	-389	-442	-407	0	-1 239
○ Other technical income and charges	0	-26	-26	2	69	0	45
Investment income and charges	378	235	612	305	424	95	1 437
○ Investment income	0	0	0	0	0	1 245	1 245
○ Value adjustments	0	0	0	0	424	0	424
○ Investment charges	0	0	0	0	0	-254	-254
○ Other income and charges (non-technical)	0	0	0	0	0	22	22
○ Allocation to the technical accounts	378	235	612	305	0	-918	0
General administrative expenses	-151	-526	-677	-45	-52	0	-775
○ Net acquisition costs	-106	-379	-485	-27	-42	0	-555
○ Administrative expenses	-44	-147	-191	-18	-10	0	-220
Impairment of goodwill	0	0	0	0	0	0	0
Share in results of associated companies	0	0	0	0	0	0	0
Ceded reinsurance result	-2	-57	-59	0	0	-5	-63
○ Technical charges	2	48	51	0	0	0	51
○ Fee and commission expense	1	16	18	0	0	0	18
○ Interest expense, deposits from reinsurers	0	0	0	0	0	-5	-5
○ Earned premiums	-6	-121	-127	0	0	0	-127
PROFIT BEFORE TAX	229	276	505	8	32	90	635

- In conformity with the relevant IFRS, the figures relating to gross earned premiums do not include *investment contracts without DPF* (which largely correspond to unit-linked contracts). See Note 10.
- The presentation of the technical accounts in the table differs from the presentation of the insurance results in the consolidated income statement of KBC group. The main differences are as follows:
  - a breakdown is provided of insurance contracts (life versus non-life), investment contracts (with and without DPF) and the non-technical account;
  - technical charges include the internal cost of handling non-life claims;
  - the investment income and charges include the internal cost of investment. In the group income statement, the investment income is broken down into the various lines of the income statement (net interest income, dividend income, net gains from financial instruments at fair value through profit or loss, net realised gains from available-for-sale assets, net fee and commission income and other income).

Note 10: Gross written premiums, life insurance

In millions of EUR	2005	2006
Accepted reinsurance	19	30
Primary business	1 877	1 540
o Individual versus group		
o Individual premiums (including unit-linked insurance)	1 683	1 309
o Premiums under group contracts	194	231
o Periodic versus single		
o Periodic premiums	658	729
o Single premiums	1 219	810
o Non-bonus versus bonus contracts		
o Premiums from non-bonus contracts	159	181
o Premiums from bonus contracts	1 641	1 257
o Unit-linked	77	101

- As required under IFRS, deposit accounting is used for investment contracts without DPF. This means that the premium income (and technical charges) from these contracts is no longer recognised under the gross earned premiums (and gross technical charges) heading, but that the margins on them are reported under net fee and commission income. Investment contracts without DPF are more or less the same as unit-linked contracts, which in 2006 accounted for premium income of 2.65 billion euros (compared to 4.55 billion euros in 2005).

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

In millions of EUR	Gross earned premiums	Gross claims incurred	Gross operating expenses	Ceded reinsurance	Total
2005					
Total	1 650	-1 000	-521	-63	66
Accepted reinsurance	260	-156	-64	-19	20
Primary business	1 390	-844	-456	-43	46
o Accident & health (classes 1 & 2, excl. industrial accidents)	111	-65	-34	-1	11
o Industrial accidents (class 1)	73	-51	-14	-2	5
o Motor, third-party liability (class 10)	424	-317	-125	-2	-21
o Motor, other classes (classes 3, 7)	242	-132	-73	0	37
o Shipping, aviation, transport (classes 4, 5, 6, 7, 11, 12)	42	-12	-13	-15	2
o Fire and other damage to property (classes 8, 9)	352	-156	-135	-26	34
o General third-party liability (class 13)	89	-78	-37	5	-20
o Credit and suretyship (classes 14, 15)	4	0	-2	-1	2
o Miscellaneous pecuniary losses (class 16)	12	-9	-9	0	-5
o Legal assistance (class 17)	33	-20	-12	0	2
o Assistance (class 18)	8	-4	-3	-1	0

In millions of EUR	Gross earned premiums	Gross claims incurred	Gross operating expenses	Ceded reinsurance	Total
2006					
Total	1 748	-1 089	-527	-57	74
Accepted reinsurance	274	-172	-65	-24	13
Primary business	1 474	-918	-462	-33	61
○ Accident & health (classes 1 & 2, excl. industrial accidents)	117	-55	-34	-1	27
○ Industrial accidents (class 1)	75	-58	-16	0	1
○ Motor, third-party liability (class 10)	450	-368	-129	10	-38
○ Motor, other classes (classes 3, 7)	244	-133	-73	-1	38
○ Shipping, aviation, transport (classes 4, 5, 6, 7, 11, 12)	46	-24	-13	-10	-2
○ Fire and other damage to property (classes 8, 9)	381	-166	-139	-21	56
○ General third-party liability (class 13)	99	-69	-37	-4	-12
○ Credit and suretyship (classes 14, 15)	5	-5	-2	1	-1
○ Miscellaneous pecuniary losses (class 16)	13	-3	-8	-6	-4
○ Legal assistance (class 17)	35	-30	-9	0	-3
○ Assistance (class 18)	8	-5	-3	-1	0

Note 12: Operating expenses

In millions of EUR	2005	2006
Total	-4 914	-4 925
Staff expenses	-2 849	-2 970
○ of which share-based payment (equity-settled)	-2	-2
○ of which share-based payment (cash-settled)	-34	-61
General administrative expenses	-1 599	-1 631
Depreciation and amortisation of fixed assets	-389	-359
Provisions for risks and charges	-77	36

- Operating expenses include staff expenses, depreciation and amortisation of fixed assets, changes in the provisions for risks and charges and general administrative expenses. The latter include repair and maintenance expenses, 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 2006, KBC Financial Products recognised an outstanding liability of 129 million euros in this regard.

  B. Main equity-settled share-based payments

  Since 2000, the KBC Bank and Insurance Holding Company NV (now KBC Group NV) has launched share option plans at different points in time. The share options have been granted to members of staff of the 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. 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 Bank and Insurance Holding Company NV (KBC Group NV) shares instead of KBC Peel Hunt Ltd. shares.

  KBC Group NV has repurchased treasury shares in order to be able to deliver shares to staff when they exercise their options.
- IFRS 2 has not been applied to equity-settled option plans that predate 7 November 2002, since they are not covered by the scope of IFRS 2. The option plans postdating 7 November 2002 are limited in size.
- In 2006, there was another capital increase reserved for KBC group employees, who were given the opportunity to buy shares at an attractive price. This employee benefit of 1.7 million euros was recognised as a staff expense against an entry under equity.
- An overview of the number of stock options for staff and the weighted averages of the exercise prices are shown in the table. The average price of the KBC share came to 85.9 euros during 2006. In 2006, 63 730 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 (89.21 euros), life (7 years) and limited transferability.

Options	2005 Number of options	2005 Average exercise price	2006 Number of options	2006 Average exercise price
Outstanding at beginning of period	5 014 431	42.25	3 669 371	41.81
Granted during period	81 650	65.21	63 730	89.21
Exercised during period	-1 404 550	44.77	-1 247 701	41.46
Expired during period	–	–	-5 200	41.61
Forfeited during period	-22 160	41.84	–	–
Outstanding at end of period*	3 669 371	41.81	2 480 200	43.31
Exercisable at end of period	973 729	44.22	1 911 113	42.50

* *2006: range of exercise prices: 28.3 – 89.21 euros; weighted average residual term to maturity: 56 months.*

Note 13: Personnel

	2005	2006
Total average number of persons employed (in FTE)	51 622	50 189
Breakdown by segment		
Banking	36 419	36 462
Insurance	8 667	7 415
European private banking	3 690	3 268
Holding-company activities, including (former) Gevaert	2 846	3 044
Geographic breakdown		
Belgium	19 016	19 078
Central and Eastern Europe	26 505	25 595
Rest of the world	6 101	5 516

- The figures in the table show the average number of people employed during the year. For companies consolidated according to the method of proportionate consolidation, the proportionate share of the workforce is shown. This, along with a few other differences stemming from the scope of consolidation and methodology, accounts for the slight difference between these figures and the figures shown in the 'Sustainable and socially responsible business and human resources' section (where the year-end figures are shown, and no account is taken of the workforce of companies consolidated using the method of proportionate consolidation).
- The average number of employees in 2006 can be divided up as follows: 1 428 senior managers (1 179 in 2005), 48 429 white-collar workers (50 127 in 2005) and 332 blue-collar workers (316 in 2005).

Note 14: Impairment (income statement)

In millions of EUR	2005	2006
Total	-103	-175
Impairment on loans and advances	-35	-177
○ Breakdown by type		
○ Specific impairment, on-balance-sheet lending	-126	-177
○ Specific impairment, off-balance-sheet credit commitments	2	-8
○ Portfolio-based impairment	89	8
○ Geographic breakdown		
○ Belgium	-14	-36
○ Central and Eastern Europe	-77	-146
○ Rest of the world	56	5
Impairment on available-for-sale assets	6	-6
Impairment on goodwill	-20	-1
Impairment on other	-54	9
○ Other intangible fixed assets	-3	-1
○ Property and equipment	-2	10
○ Held-to-maturity assets	0	0
○ Associated companies (goodwill)	-49	0

- Impairment on available-for-sale assets. In 2006, this heading included an allocation of 12 million euros in impairment on shares (an allocation of 18 million euros in 2005), and a reversal of 6 million euros in impairment on bonds (a reversal of 24 million euros in 2005).
- Impairment on goodwill. In 2006, this heading included an amount of 1 million euros for a KBL group company (European private banking segment). In 2005, impairment of goodwill included 9 million euros on the investment in ČSOB Poist'ovňa (Slovakia), 8 million euros on the (now sold) investment in BOFORT and a total of 3 million euros on a number of other participating interests. This impairment was recorded in the insurance, holding-company activities and European private banking segments. In each case, the impairment reflects the difference between the carrying value before impairment and the value in use.

- Impairment on other. In 2006, this heading included mainly a 7-million-euro reversal of impairment on property in Poland (recorded in banking). In 2005, impairment recorded on 'other' items had included 49 million euros on the investment in Agfa-Gevaert (the difference between the carrying value of Agfa-Gevaert before impairment and its fair value, i.e. the market price, net of direct selling expenses) recorded in the holding-company activities segment. It was also accounted for by a total of 5 million euros for a number of tangible and other intangible fixed assets (the difference between the carrying value before impairment and the value in use of the assets in question).

Note 15: Share in results of associated companies

In millions of EUR	2005	2006
Total	16	45
○ of which Nova Ljubljanska banka	20	33
○ of which Agfa-Gevaert	-16	0

- 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 16: Income tax expense

In millions of EUR	2005	2006
Total	-925	-1 002
Breakdown by type		
Current taxes	-860	-944
Deferred taxes	-65	-58
Tax components		
Profit before tax	3 369	4 595
Income tax at the Belgian statutory rate	33.99%	33.99%
Income tax calculated	-1 145	-1 562
Plus/minus tax effects attributable to		
○ differences in tax rates, Belgium – abroad	142	183
○ tax-free income[1]	316	471
○ adjustments related to prior years	3	-5
○ adjustments, opening balance of deferred taxes due to change in tax rate	-1	2
○ unused tax losses and unused tax credits	39	15
○ other (mainly non-deductible expenses)	-280	-106
Aggregate amount of temporary differences associated with investments in subsidiaries, branches and associated companies and interests in joint ventures, for which deferred tax liabilities have not been recognised[2].	722	998

1 Primarily gains realised on the sale of shares.
2 Reserves of joint or other subsidiaries, associated companies and branches that, at certain entities, will be taxed in full on distribution (recorded in full). For a significant number of entities, the foreign tax credit applies (5% is recorded, since 95% is definitively taxed).

- For information on tax assets and tax liabilities, see Note 25.
- The effect of previously unrecognised unused tax losses and unused tax credits consists of:
  - the use of the unused tax losses and unused tax credits to reduce current taxes (35 million euros in 2005, 15 million euros in 2006);
  - the recognition of deferred tax assets on unused tax losses and unused tax credits, which leads to a reduction in deferred tax expense (6 million euros in 2005, 0 euros in 2006);
  - the reversal of previously recognised deferred tax assets on unused tax losses and unused tax credits where it is no longer probable that sufficient taxable profit will be available (-2 million euros in 2005, 0 euros in 2006).

Note 17: Earnings per share

In millions of EUR	2005	2006
Basic earnings per share		
Net profit attributable to shareholders	2 249	3 430
Weighted average number of ordinary shares outstanding (in '000)	359 105	354 265
Basic earnings per share (in EUR)	6.26	9.68
Diluted earnings per share		
Net profit attributable to shareholders	2 249	3 430
Elimination of interest expense on convertible debt (net of tax effect)	13	0
Net profit used to calculate diluted EPS	2 263	3 430
Weighted average number of ordinary shares outstanding (in '000)	359 105	354 265
Dilutive potential ordinary shares ('000 of units)	8 906	3 251
Weighted average number of ordinary shares for diluted earnings (in '000)	368 011	357 515
Diluted earnings per share (in EUR)	6.15	9.59

- For a definition of basic earnings per share and diluted earnings per share, see the 'Additional information' section.
- Overview of dilutive instruments:
  - Freely convertible bonds: none.
  - Options on KBC Group NV shares allocated to staff members: for more detailed information, see Note 12.

NOTES TO THE BALANCE SHEET

Note 18: Classification and fair value of financial instruments

ASSETS

In millions of EUR	Loans and receivables	*Fair value*	Held-to-maturity	*Fair value*	Available-for-sale	Held-for-trading[1]	At fair value through profit or loss[2]	Total
31-12-2005								
Cash and balances with central banks	2 061	*2 061*	0	*0*	0	0	0	2 061
Treasury bills and other bills eligible for rediscounting with central banks	0	*0*	281	*281*	1 007	1 138	223	2 649
Loans and advances to banks	21 699	*21 776*	0	*0*	207	8 925	14 481	45 312
Loans and advances to customers	104 333	*105 816*	0	*0*	0	6 549	8 593	119 475
Fixed-income securities	2 160	*2 192*	10 848	*11 151*	45 746	18 241	12 033	89 028
Equity instruments	0	*0*	0	*0*	5 370	23 990	7 422	36 782
Derivative financial instruments	0	*0*	0	*0*	0	18 832	0	18 832
31-12-2006								
Cash and balances with central banks	2 787	*2 787*	0	*0*	0	0	0	2 787
Treasury bills and other bills eligible for rediscounting with central banks	0	*0*	151	*151*	111	1 465	0	1 727
Loans and advances to banks	23 280	*23 332*	0	*0*	0	7 227	9 375	39 881
Loans and advances to customers	118 580	*119 686*	0	*0*	0	7 762	6 058	132 400
Fixed-income securities	611	*611*	12 056	*12 037*	42 128	17 056	16 348	88 199
Equity instruments	0	*0*	0	*0*	5 612	18 067	9 535	33 214
Derivative financial instruments	0	*0*	0	*0*	0	16 774	0	16 774

LIABILITIES

In millions of EUR	Other financial liabilities	Held-for-trading[1]	At fair value through profit or loss[2]	Total
31-12-2005,				
Deposits from banks	56 367	2 809	1 645	60 821
Deposits from customers and debt securities	161 080	9 324	1 168	171 572
Derivative financial instruments	0	24 783	0	24 783
Liabilities under investment contracts	0	0	7 615	7 615
31-12-2006				
Deposits from banks	37 538	5 426	16 145	59 108
Deposits from customers and debt securities	156 644	3 934	19 453	180 031
Derivative financial instruments	0	23 488	0	23 488
Liabilities under investment contracts	0	0	9 156	9 156

1 Derivatives used for trading purposes and derivatives used for hedging purposes are both classified as being held for trading.
2 Initially recognised at fair value through profit or loss.

- Financial instruments are grouped into a number of categories. These categories are defined and the relevant valuation rules provided in ‘Financial assets and liabilities (IAS 39)’, Note 1b.
- Fair value. When available, published price quotations (from dealers, brokers, regulatory agencies, etc.) in well-established active markets are used to determine the fair value of financial assets or financial liabilities. Otherwise, fair value will be obtained:
  - by reference to recent ‘at arm’s length’ market transactions between knowledgeable, willing parties;
  - by using a valuation technique (discounted cashflow analysis and option pricing techniques). The valuation technique incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies used for pricing financial instruments;
  - by using the European Venture Capital Association (EVCA) rules for private equity.
- As mentioned above, the measurement of financial instruments that are valued at fair value (available for sale, held for trading, other financial assets initially recognised at fair value through profit or loss) is based in part on published prices and in part on KBC’s own models. Roughly one-eighth of these assets are measured using models and the remainder using published prices. Nearly half of the liabilities are valued using models.
- Fair value adjustments are recognised on all positions that are measured at fair value with fair value changes being reported in net profit or loss to cover close-out costs, adjustments for less liquid positions or markets, mark-to-model-linked valuation adjustments, counterparty risk, liquidity risk and operations-related costs.
- Most of the changes in the fair value of financial assets at fair value through profit or loss are accounted for by changes in interest rates. The effect of changes in credit risk is negligible.
- The disclosure of the fair value of financial liabilities does not take into account own credit risk (e.g., a change in KBC’s ratings does not influence the fair value of financial liabilities).
- The disclosed 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 liabilities at fair value through profit or loss is negligible.
- Loans and advances to banks and Loans and advances to customers recognised at fair value through profit or loss are accounted for predominantly by reverse repo transactions.

Note 19: Loans and advances to banks

In millions of EUR	31-12-2005	31-12-2006
Total	45 312	39 881
Geographic breakdown		
Belgium	6 330	3 049
Central and Eastern Europe	8 477	6 659
Rest of the world	30 505	30 172
Breakdown according to remaining term to maturity		
Repayable on demand	4 191	4 166
Not more than one year	39 910	34 625
More than one but not more than five years	825	957
More than five years	386	133
○ of which: reverse repos	29 559	23 488
Quality		
Gross amount outstanding	45 313	39 882
Impairment for losses on loans and advances	-1	-1
Net amount outstanding	45 312	39 881
○ of which trade bills eligible for refinancing at the central banks of the countries where the credit institution is established	24	1 008
Fair value of collateral accepted	29 550	23 744

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

Note 20: Loans and advances to customers

In millions of EUR	31-12-2005	31-12-2006
Total	119 475	132 400
Geographic breakdown		
Belgium	55 247	59 840
Central and Eastern Europe	15 957	20 112
Rest of the world	48 271	52 448
Breakdown according to remaining term to maturity*		
Not more than one year	51 306	53 975
More than one but not more than five years	21 106	23 444
More than five years	47 062	54 980
Breakdown by type of credit		
Discount and acceptance credit	545	223
Consumer credit	2 123	1 940
Mortgage loans	34 233	39 998
Term loans	65 859	72 415
Finance leasing	5 906	6 082
Current account advances	6 437	7 671
Advances on life insurance contracts	8	8
Other (including impairment)	4 363	4 063
○ of which: securitised	1 038	302
○ of which: reverse repos	14 973	15 932
Quality		
Gross amount outstanding	122 220	134 542
Impairment for losses on loans and advances	-2 745	-2 142
Net amount outstanding	119 475	132 400
○ of which trade bills eligible for refinancing at the central banks of the countries where the credit institution is established	0	0
Fair value of collateral accepted	14 972	16 907
Finance lease receivables		
Gross investment in finance leases, receivable	6 660	6 772
○ Not more than one year	2 057	2 097
○ More than one but not more than five years	3 170	2 893
○ More than five years	1 433	1 782
Unearned future finance income on finance leases	754	690
Net investment in finance leases	5 906	6 082
○ Not more than one year	1 835	1 945
○ More than one but not more than five years	2 873	2 590
○ More than five years	1 198	1 547
of which: non-guaranteed residual values accruing to the benefit of the lessor	8	10
Accumulated impairment for uncollectable lease payments receivable	42	60
Contingent rents recognised in income	12	15

** The breakdown for 2005 has been adjusted retroactively to correct an error.*

- For more information on impairment on loans and advances, see Note 21.
- Only home loans are securitised (related financial liabilities recorded come to 0.3 billion euros at year-end 2006).
- Finance leasing: most finance leasing is carried out via separate companies operating mainly in Western and Central and Eastern Europe. KBC offers finance leasing 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 21: Impairment for loan losses (balance sheet)

In millions of EUR	31-12-2005	31-12-2006
Total	2 822	2 224
Breakdown by type		
Specific impairment, on-balance-sheet lending	2 471	1 934
Specific impairment, off-balance-sheet credit commitments	61	67
Portfolio-based impairment	290	222
Breakdown by counterparty		
Impairment on loans and advances to banks	1	1
Impairment on loans and advances to customers	2 745	2 142
Specific impairment, off-balance-sheet credit commitments	75	80
Geographic breakdown		
Belgium	996	981
Central and Eastern Europe	1 078	775
Rest of the world	747	468

MOVEMENTS TABLE	Specific impairment, on-balance-sheet lending	Specific impairment, off-balance-sheet credit commitments	Portfolio-based impairment	Total
Opening balance 01-01-2005	2 590	70	363	3 023
Movements with an impact on results				
○ Loan loss expenses	704	49	121	874
○ Loan loss recoveries	-578	-51	-211	-839
Movements without an impact on results				
○ Write-offs	-261	0	0	-261
○ Changes in the scope of consolidation	0	0	0	0
○ Other	15	-6	16	25
Closing balance 31-12-2005	2 471	61	290	2 822
Opening balance 01-01-2006	2 471	61	290	2 822
Movements with an impact on results				
○ Loan loss expenses	731	49	121	901
○ Loan loss recoveries	-555	-41	-129	-725
Movements without an impact on results				
○ Write-offs	-537	0	-1	-539
○ Changes in the scope of consolidation	-11	0	-46	-57
○ Other	-165	-1	-12	-179
Closing balance 31-12-2006	1 934	67	222	2 224

Note 22: Securities

In millions of EUR	31-12-2005	31-12-2006
Total	125 810	121 414
Geographic breakdown		
Belgium	46 925	48 752
Central and Eastern Europe	12 286	13 497
Rest of the world	66 600	59 164
Breakdown by type and counterparty		
Fixed-income securities	89 028	88 199
○ Government bonds	54 637	50 268
○ Credit institutions	17 157	16 520
○ Other	17 233	21 411
Equity instruments	36 782	33 214
○ Shares	29 699	23 910
○ Investment contracts	7 083	9 304
Breakdown according to remaining term to maturity		
Fixed-income securities	89 028	88 199
○ Not more than one year	16 230	16 820
○ More than one but not more than five years	34 836	30 685
○ More than five years	37 962	40 694
Breakdown by portfolio		
Fixed-income securities	89 028	88 199
○ Loans and receivables	2 160	611
○ Held-to-maturity	10 848	12 056
○ Available-for-sale	45 746	42 128
○ Held-for-trading	18 241	17 056
○ Initially recognised at fair value through profit or loss	12 033	16 348
Equity instruments	36 782	33 214
○ Available-for-sale	5 370	5 612
○ Held-for-trading	23 990	18 067
○ Initially recognised at fair value through profit or loss	7 422	9 535

- Securities are grouped into a number of categories. These categories are defined and the relevant valuation rules provided in 'Financial assets and liabilities (IAS 39)', Note 1b.
- Impairment losses on securities relate solely to available-for-sale (AFS) securities; more information is given in the table.

Impairment on available-for-sale securities	Fixed-income securities	Shares	Fixed-income securities	Shares
	2005	2005	2006	2006
Opening balance at 1 January	48	86	22	101
Movements with an impact on results				
○ Impairment recognised	11	26	3	13
○ Impairment reversed	-35	-7	-9	-1
Movements without an impact on results				
○ Write-offs	0	0	0	0
○ Changes in the scope of consolidation	0	0	0	0
○ Other	-2	-3	-2	-48
Closing balance at 31 December	22	101	14	65

Note 23: Derivative financial instruments

In millions of EUR	31-12-2005 Notional amounts	31-12-2006 Notional amounts	Replacement value (RV) Positive	Replacement value (RV) Negative	Remaining term to maturity of notional amounts <1 year	1–5 years	> 5 years
Breakdown by type	1 077 429	972 064	21 993	-28 662	528 253	277 673	166 138
Interest rate contracts	759 887	685 560	7 266	-9 535	314 757	220 626	150 176
○ Interest rate swaps	596 990	531 824	6 762	-9 143	244 941	175 852	111 030
○ Forward rate agreements	30 498	41 824	18	-23	30 575	11 249	0
○ Futures	46 869	32 041	0	0	28 194	3 847	0
○ Options	85 531	79 871	486	-369	11 048	29 678	39 145
Foreign exchange contracts	159 353	182 509	2 529	-2 644	162 159	14 359	5 992
○ Forward foreign exchange operations/ currency forwards	102 778	105 141	1 377	-1 242	103 635	1 493	13
○ Currency and interest rate swaps	38 218	53 251	1 044	-1 262	36 404	10 893	5 954
○ Futures	0	0	0	0	0	0	0
○ Options	18 357	24 117	108	-140	22 119	1 973	26
Equity contracts	158 189	103 996	12 197	-16 483	51 337	42 688	9 971
○ Forwards	16 578	17 293	2 139	-344	3 978	8 986	4 330
○ Futures	48	933	1	-1	933	0	0
○ Options	141 563	85 769	10 057	-16 139	46 426	33 703	5 641
Breakdown by counterparty	1 077 429	972 064	21 993	-28 662	528 253	277 673	166 138
Sovereign counterparties (0% counterparty weighting)	6 097	4 246	40	-60	3 917	175	154
Banks and equivalent counterparties (20% counterparty weighting)	780 939	755 625	18 366	-23 061	426 780	213 411	115 434
Corporate and retail counterparties (50% counterparty weighting)	290 393	212 193	3 586	-5 542	97 555	64 087	50 551
Breakdown, OTC – exchange-traded	1 077 429	972 064	21 993	-28 662	528 253	277 673	166 138
Over-the-counter (OTC) contracts	1 026 890	937 230	21 922	-28 584	497 589	273 568	166 074
Exchange-traded contracts	50 539	34 834	71	-79	30 664	4 105	64

- 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 or liabilities initially recognised 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.

  The fair value option is also used for certain financial liabilities with embedded derivatives whose economic risk and characteristics are closely related to those of the host contract (IFIMA issues), which would otherwise give rise to an accounting mismatch with the hedging instruments.
- In addition, KBC uses hedge accounting permitted under IAS 39 to limit the volatility of results in the following cases:
  - Fair value hedges. This type of hedge accounting is used in certain asset-swap constructions, where KBC buys a bond on account of the credit spread. The interest rate risk of the bond is hedged by means of an interest rate swap. This technique is also applied to certain fixed-term debt instruments issued by KBC Bank.
  - Cashflow hedges. This technique is used to swap floating-rate notes for a fixed rate.
  - Hedges of net investments in entities abroad: The exchange risk attached to foreign-currency investments is hedged by attracting funding in the currency concerned at the level of the investing entity.
- The derivatives are for the most part held for trading. Approximately 19 billion euros in notional amounts relate to hedges (mainly interest rate swaps), 13 billion euros of which are for a portfolio hedge of interest-rate risk and 5 billion for cashflow hedges. Other fair value hedges using derivatives as the hedging instrument came to 1 billion euros. The fair value of these derivatives (assets) at year-end came to 133, 188 and 18 million euros, respectively, for cashflow hedges, a portfolio hedge of interest rate risk and for other fair value hedges. On the liabilities side, the corresponding amounts came to 26, 13 and 58 million euros, respectively. The average term to maturity of cashflow hedging instruments is between 15 and 20 years.

Note 24: Other assets

In millions of EUR	31-12-2005	31-12-2006
Total	2 825	2 346
Debtors arising out of direct insurance operations	274	331
Debtors arising out of reinsurance operations	123	120
Other debtors and called capital as yet unpaid	0	0
Deposits with ceding companies	125	128
Other	2 302	1 767

Note 25: Tax assets and tax liabilities

In millions of EUR	31-12-2005	31-12-2006
CURRENT TAXES		
Current tax assets	70	154
Current tax liabilities	578	534
DEFERRED TAXES	126	296
Deferred tax assets by type of temporary difference	828	1 389
○ Employee benefits	294	256
○ Losses carried forward	19	32
○ Tangible and intangible fixed assets	39	60
○ Provisions for risks and charges	48	41
○ Impairment for losses on loans and advances	129	219
○ Financial instruments at fair value through profit or loss and hedges	187	386
○ Fair value changes, available-for-sale assets	47	205
○ Technical provisions	6	89
○ Other	59	100
Unused tax losses and unused tax credits	20	3
Deferred tax liabilities by type of temporary difference	703	1 093
○ Employee benefits	0	23
○ Losses carried forward	0	3
○ Tangible and intangible fixed assets	60	90
○ Provisions for risks and charges	25	12
○ Impairment for losses on loans and advances	13	111
○ Financial instruments at fair value through profit or loss and hedges	22	313
○ Fair value changes, available-for-sale assets	546	365
○ Technical provisions	5	84
○ Other	32	91
Recognised in the balance sheet as follows:		
○ Deferred tax assets	475	608
○ Deferred tax liabilities	350	312

- Unused tax losses and unused tax credits concern tax losses of group companies which are not capitalised due to insufficient proof of future taxable profit.
- The positive balance of deferred taxes went up by a net 171 million euros in 2006, owing to an increase in deferred tax assets and deferred tax liabilities of 560 million and 390 million euros, respectively.
  It reflects, on the one hand, a decrease through recognition in the income statement of 58 million euros and, on the other, an increase of 229 million euros because of movements not caused by an impact on results. The latter is accounted for by the following:
  - 339 million euros, largely due to changes in the fair value of available-for-sale assets, resulting primarily from the decline in the outstanding revaluation reserve for fixed-income available-for-sale investments and in part from reclassifications;
  - -46 million euros due to changes in the scope of consolidation on the sale of Banco Urquijo (chiefly employee benefits);
  - -25 million euros due to the hedging reserve for cash flow hedges;
  - -12 million euros because of exchange differences on the funding of finance participating interests in foreign currency;
  - -27 million euros because of other movements, including exchange differences and reclassifications.

Note 26: Investments in associated companies

In millions of EUR	31-12-2005	31-12-2006
Total	989	522
Overview of investments, including goodwill		
Nova Ljubljanska banka	456	496
Agfa-Gevaert	495	0
Other	38	27
Goodwill on associated companies		
Gross amount	486	210
Accumulated impairment	-49	0
MOVEMENTS TABLE	**2005**	**2006**
Opening balance (1 January)	1 228	989
o Acquisitions	0	0
o Carrying value, transfers	-152	-280
o Share in the result for the period	16	45
o Dividends paid	-7	-13
o Share of gains and losses not recognised in the income statement	2	0
o Translation differences	0	-5
o Changes in goodwill	-88	-227
o Transfers to or from non-current assets held for sale and disposal groups	0	0
o Other movements	-10	13
Closing balance (31 December)	989	522

- 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 46. In 2005, the main listed associated company was Agfa-Gevaert, but this investment was sold in March 2006. There were no material, listed associated companies at year-end 2006.
- 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 27: Goodwill

In millions of EUR	31-12-2005	31-12-2006
Total	1 260	1 692
Geographic breakdown		
Belgium	205	228
Central and Eastern Europe	342	703
Rest of the world	713	761
Goodwill		
Gross amount	1 280	1 706
Accumulated impairment	-20	-14
MOVEMENTS TABLE		
Opening balance (1 January)	809	1 260
o Increase in percentage of capital held	496	384
o Decrease in percentage of capital held	0	-16
o Adjustment resulting from subsequent identification	0	0
o Impairment	-20	-1
o Translation differences	-2	25
o Transfers to or from non-current assets held for sale and disposal groups	0	0
o Other movements	-23	40
Closing balance (31 December)	1 260	1 692

- This item includes the goodwill paid on companies included in the scope of consolidation. Goodwill paid on associated companies is included in the nominal value of investments in associated companies shown on the balance sheet. An impairment test has been performed and the necessary impairment losses on goodwill have been recognised (see table).
- Impairment under IAS 36 is recognised in profit or loss if the recoverable 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 net selling price (via multiple-analysis, regression analysis, etc.).
  - 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 its 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 the end of 2006, goodwill was accounted for primarily by the companies of the KBL EPB group (934 million euros), WARTA and its subsidiaries (160 million euros), ČSOB and its subsidiaries (144 million euros), Kredyt Bank and its subsidiaries (101 million euros), and K&H Bank and its subsidiaries (273 million euros). At the end of 2005, goodwill had been accounted for primarily by the KBL EPB group companies (893 million euros), WARTA and its subsidiaries (106 million euros), ČSOB and its subsidiaries (126 million euros), and Kredyt Bank and its subsidiaries (80 million euros).

Note 28: Other intangible assets

In millions of EUR	Software developed in-house	Software developed externally	Other	Total
2005				
Acquisition cost, 2005				
○ Opening balance	107	529	86	722
○ Acquisitions	28	72	5	105
○ Disposals	0	-23	-11	-34
○ Translation differences	2	8	2	12
○ Changes in the scope of consolidation	0	11	1	11
○ Transfers to or from non-current assets held for sale and disposal groups	0	0	0	0
○ Other movements	0	6	149	154
Closing balance	137	602	230	969
Accumulated depreciation and impairment, 2005				
Opening balance	-49	-336	-59	-444
○ Amortisation	-22	-79	-30	-131
○ Impairment				
○ recognised	0	-3	0	-3
○ reversed	0	0	0	0
○ Disposals	0	11	2	13
○ Translation differences	-2	-6	-1	-9
○ Changes in the scope of consolidation	0	-9	3	-6
○ Transfers to or from non-current assets held for sale and disposal groups	0	0	0	0
○ Other movements	0	9	-122	-113
Closing balance	-73	-413	-207	-693
Net carrying value 31-12-2005	65	189	23	277
2006				
Acquisition cost, 2006				
Opening balance	137	602	230	969
○ Acquisitions	78	56	28	161
○ Disposals	-26	-11	-58	-95
○ Translation differences	-2	10	1	9
○ Changes in the scope of consolidation	0	-14	0	-14
○ Transfers to or from non-current assets held for sale and disposal groups	0	0	0	0
○ Other movements	6	81	-35	52
Closing balance	192	723	166	1 082
Accumulated depreciation and impairment, 2006				
Opening balance	73	-413	-207	-693
○ Amortisation	-31	-80	-6	-117
○ Impairment				
○ recognised	0	-1	0	-1
○ reversed	0	0	0	0
○ Disposals	0	10	50	60
○ Translation differences	1	-9	-1	-8
○ Changes in the scope of consolidation	0	14	3	17
○ Transfers to or from non-current assets held for sale and disposal groups	0	0	0	0
○ Other movements	2	-78	32	-44
Closing balance	-100	-558	-129	-786
Net carrying value, 31-12-2006	93	165	38	296

○ There are no material adjustments resulting from subsequent identification or changes in value of identifiable assets and liabilities.

Note 29: Property and equipment (including investment property)

In millions of EUR				31-12-2005	31-12-2006
Property and equipment				2 120	1 906
Investment property				313	413
Rental income				18	39
Direct operating expenses from investments generating rental income				13	17
Direct operating expenses from investments not generating rental income				0	0

MOVEMENTS TABLE	Land and buildings	IT equipment	Other equipment	Total property and equipment	Investment property
2005					
Acquisition cost, 2005					
Opening balance	2 569	600	1 124	4 293	297
o Acquisitions	93	40	269	403	10
o Disposals	-234	-94	-150	-477	-25
o Translation differences	25	6	23	54	1
o Changes in the scope of consolidation	-57	4	26	-27	115
o Transfers to or from non-current assets held for sale and disposal groups	0	0	0	0	0
o Other movements	33	66	-148	-48	53
Closing balance	2 431	623	1 144	4 197	452
Accumulated depreciation and impairment, 2005					
Opening balance	-826	-500	-667	-1 993	-129
o Depreciation	-94	-55	-87	-236	-22
o Impairment					
o recognised	-2	0	0	-2	0
o reversed	0	0	0	0	0
o Disposals	45	92	50	187	2
o Translation differences	-7	-5	-14	-26	-1
o Transfers to or from non-current assets held for sale and disposal groups	0	0	0	0	0
o Other movements	8	-55	40	-7	10
Closing balance	-875	-524	-678	-2 078	-139
Net carrying value, 31-12-2005	1 556	98	465	2 120	313
o of which expenditure on items in the course of construction	0	0	19	19	–
o of which financial lease as a lessee	0	0	35	35	–
Fair value, 31-12-2005	–	–	–	–	415
2006					
Acquisition cost, 2006					
Opening balance	2 431	623	1 144	4 197	452
o Acquisitions	64	66	345	475	56
o Disposals	-200	-34	-167	-400	-67
o Translation differences	19	6	12	36	0
o Changes in the scope of consolidation	-195	-2	-62	-259	43
o Transfers to or from non-current assets held for sale and disposal groups	0	-1	0	-2	0
o Other movements	-101	33	-139	-207	114
Closing balance	2 018	691	1 132	3 840	599
Accumulated depreciation and impairment, 2006					
Opening balance	-875	-524	-678	-2 078	-139
o Depreciation	-70	-69	-86	-226	-17
o Impairment					
o recognised	-5	0	0	-5	0
o reversed	15	0	0	15	0
o Disposals	105	28	63	196	10
o Translation differences	-5	-5	-4	-14	0
o Transfers to or from non-current assets held for sale and disposal groups	0	1	0	2	0
o Other movements	60	2	115	176	-40
Closing balance	-775	-568	-591	-1 934	-185
Net carrying value, 31-12-2006	1 242	123	541	1 906	413
o of which expenditure on items in the course of construction	0	0	131	131	–
o of which financial lease as a lessee	0	0	22	22	–
Fair value, 31-12-2006	–	–	–	–	496

- 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.
- Much of the investment property is held as an investment in the insurance business and 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 30: Deposits from banks

In millions of EUR	31-12-2005	31-12-2006
Total	60 821	59 108
Geographic breakdown		
Belgium	4 633	1 942
Central and Eastern Europe	2 735	2 849
Rest of the world	53 454	54 318
Breakdown according to remaining term to maturity		
Repayable on demand	5 701	7 830
Not more than one year	53 473	48 248
More than one but not more than five years	1 234	2 583
More than five years	413	447
of which repos	23 319	18 333
Assets pledged as collateral	23 783	18 866

- The repurchase, or repo, transactions shown in the table are related mainly to the temporary lending of bonds. KBC bears the risk of such transactions and receives the revenue. The amount of the repos is virtually identical to the amount of the underlying assets (that have been lent out).

Note 31: Deposits from customers and debt securities

In millions of EUR	31-12-2005	31-12-2006
Total	171 572	180 031
Geographic breakdown		
Belgium	72 302	75 431
Central and Eastern Europe	26 879	29 905
Rest of the world	72 391	74 694
Breakdown according to remaining term to maturity		
Not more than one year	155 922	156 596
More than one but not more than five years	11 280	16 320
More than five years	4 371	7 114
Breakdown by type		
Demand deposits	33 383	36 446
Time deposits	49 639	48 954
Savings deposits	30 872	29 628
Special deposits	4 215	4 638
Other deposits	17 869	14 363
Savings certificates	3 528	2 714
Bonds	10 760	17 521
Certificates of deposit	21 305	25 766
of which repos	13 221	9 071
Assets pledged as collateral	13 221	9 593

- See Note 30.

Note 32: Technical provisions

In millions of EUR	31-12-2005	31-12-2006
Gross technical provisions	14 779	15 965
○ Insurance contracts	8 097	8 828
○ Provision for unearned premiums and unexpired risk	454	453
○ Life insurance provision	4 234	4 680
○ Provision for claims outstanding	3 094	3 312
○ Provision for bonuses and rebates	20	25
○ Other technical provisions	294	358
○ Investment contracts with DPF	6 683	7 138
○ Life insurance provision	6 655	7 093
○ Provision for claims outstanding	0	0
○ Provision for bonuses and rebates	27	45
Reinsurers' share	282	290
○ Insurance contracts	282	290
○ Provision for unearned premiums and unexpired risk	32	24
○ Life insurance provision	7	8
○ Provision for claims outstanding	243	257
○ Provision for bonuses and rebates	0	0
○ Other technical provisions	0	0
○ Investment contracts with DPF	0	0
○ Life insurance provision	0	0
○ Provision for claims outstanding	0	0
○ Provision for bonuses and rebates	0	0

MOVEMENTS TABLE, 2006

INSURANCE CONTRACTS	Gross	Reinsurance
Life		
○ Opening balance	4 522	15
○ Net payments received/premiums receivable	579	1
○ Gross payments made	-317	0
○ (Theoretical) risk premiums	-73	0
○ Accretion of interest	140	0
○ Attributed profit-sharing	26	0
○ Purchase/sale of portfolio	187	0
○ Exchange differences	0	0
○ Other movements	-46	0
○ Closing balance	5 018	16
Non-life		
○ Total opening balance	3 575	267
○ Payments regarding claims of previous years	-323	-27
○ Surplus/shortfall of claims provision in previous financial years	-129	15
○ New claims	551	20
○ Purchase/sale of portfolio	3	0
○ Transfers	0	0
○ Exchange differences	-1	0
○ Other movements	134	0
○ Closing balance	3 810	274
INVESTMENT CONTRACTS WITH DPF		
○ Opening balance	6 683	0
○ Net payments received/premiums receivable	769	0
○ Gross payments made	-602	0
○ Theoretical risk premiums	-43	0
○ Accretion of interest	312	0
○ Attributed profit-sharing	65	0
○ Purchase/sale of portfolio	0	0
○ Exchange differences	0	0
○ Other movements	-46	0
○ Closing balance	7 138	0

- Technical provisions relate to insurance contracts and investment contracts with a discretionary participation feature (DPF). Liabilities under investment contracts without DPF have to be valued according to IAS 39 (deposit accounting); these liabilities concern mainly the unit-linked contracts.

Note 33: Liabilities under investment contracts

In millions of EUR	31-12-2005	31-12-2006
Total	7 615	9 156
○ Unit-linked	7 604	9 139
○ Insurance bond without death rider	0	0
○ Other	11	17

- See Note 32.

Note 34: Provisions for risks and charges

In millions of EUR	Provision for restructuring	Provision for taxes and pending legal disputes	Other	Subtotal	Impairment, off-balance-sheet credit commitments	Total
2005						
Opening balance 01-01-2005	30	245	216	491	88	580
○ Movements with an impact on results						
○ Amounts allocated	41	44	73	159	63	222
○ Amounts reversed	-17	-31	-34	-82	-62	-144
○ Other movements	-10	1	-113	-122	-14	-136
Closing balance 31-12-2005	44	260	143	446	75	522
2006						
Opening balance 01-01-2006	44	260	143	446	75	522
○ Movements with an impact on results						
○ Amounts allocated	9	24	13	46	67	113
○ Amounts reversed	-4	-68	-9	-81	-56	-137
○ Other movements	-20	26	-4	1	-6	-4
Closing balance 31-12-2006	28	241	143	413	80	493

- The amounts shown under 'Amounts reversed' are accounted for mainly (two-thirds) by write-backs of superfluous amounts (and approximately one-third by the use of provisions).
- Restructuring provisions were set aside mainly for restructuring in a number of companies in the KBL EPB group (15 million euros at year-end 2006) and, to a lesser extent, in a number of Central and Eastern European subsidiaries of KBC Bank (an aggregate 12 million euros). The provisions for legal disputes are discussed below. 'Other provisions' include those set aside for miscellaneous risks and future expenditure. Specific impairment for off-balance-sheet credit commitments include impairment for guarantees, etc.
- For most of the provisions recorded, no reasonable estimate can be made of when they will be used.
- The most significant legal disputes pending are discussed below. Claims filed against KBC group companies are – in keeping with IFRS rules – treated on the basis of an assessment of whether they will lead to an outflow of resources (i.e. whether it is probable there will be an outflow of resources ('probable'); or whether there may, but probably will not, be an outflow of resources ('possible'); or whether the likelihood of an outflow of resources is remote ('remotely probable')).
  Provisions are set aside for 'probable outflow' cases (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.

  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. 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 twelve cases. In addition, KB Consult has been placed under suspicion by an investigating magistrate. A provision of 36 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 2008.
- Remotely probable outflow:
  - There has been a referral to the Belgian court in chambers as part of the inquiry instituted in mid-1996 relating to the alleged co-operation by (former) directors or members of staff of KBC Bank and Kredietbank SA Luxembourgeoise (KBL) in tax evasion committed by customers of KBC Bank and KBL. It will have to decide whether there is enough cause to justify committal to the competent court. The court in chambers will also have to decide on the disputed admissibility of evidence.
  - ČSOB (and KBC Bank in one case) is involved in a number of court cases (as claimant/plaintiff or defendant) relating to the *Agreement on Sale of Enterprise*, concluded on 19 June 2000 between Investiční a Poštovní banka (IPB) and ČSOB. At the end of 2006, it was disclosed that the Czech Republic had reached a settlement with Nomura Principal Investment (Nomura), a former IPB shareholder involved in a number of these court cases.

Note 35: Subordinated liabilities

In millions of EUR	31-12-2005	31-12-2006
Total	6 314	6 253
Breakdown according to remaining term to maturity		
Not more than one year	918	708
More than one but not more than five years	2 378	2 883
More than five years	2 064	1 674
Perpetual	955	988
Breakdown by type		
Convertible	0	0
Non-convertible	6 314	6 253

- In general, subordinated debt is issued to support the solvency ratios of the group companies. Reference is made to the notes on calculating the solvency ratios for the bank and insurance company, respectively.

Note 36: Other liabilities

In millions of EUR	31-12-2005	31-12-2006
Total	18 674	9 818
Retirement benefit plans or other employee benefits	1 725	1 796
Short sales of shares	9 092	1 090
Short sales of fixed-income securities	4 847	4 320
Deposits from reinsurers	90	92
Other	2 921	2 521

- For more information on retirement benefit plans or other employee benefits, see Note 37.

Note 37: Retirement benefit obligations

In millions of EUR	31-12-2005	31-12-2006
DEFINED BENEFIT PLANS		
Reconciliation of benefit obligations		
Defined benefit obligations at the beginning of the year	1 694	1 922
○ Service cost	107	107
○ Interest cost	69	71
○ Plan amendments	66	5
○ Actuarial gain/loss	69	-119
○ Benefits paid	-94	-86
○ Currency adjustments	3	1
○ Changes in the scope of consolidation	0	-178
○ Other	8	-6
Defined benefit obligations at the end of the year	1 922	1 717
Reconciliation of the fair value of plan assets		
Fair value of plan assets at the beginning of the year	1 267	1 478
○ Actual return on plan assets	195	110
○ Employer contributions	74	96
○ Plan participant contributions	15	16
○ Benefits paid	-94	-86
○ Currency adjustments	0	1
○ Changes in the scope of consolidation	0	-113
○ Other	21	-5
Fair value of plan assets at the end of the year	1 478	1 497
○ of which financial instruments issued by the group	50	42
Funded status		
Plan assets in excess of benefit obligations	-444	-220
Unrecognised net actuarial gains	-102	-263
Unrecognised transaction amount	-1	12
Unrecognised past service cost	0	0
Unrecognised assets	-57	-3
Unfunded accrued/prepaid pension cost	-604	-474
Movement in net liabilities or assets		
Unfunded accrued/prepaid pension cost at the beginning of the year	-523	-604
○ Net periodic pension cost	-156	-46
○ Employer contributions	74	96
○ Other	2	12
○ Changes in the scope of consolidation	0	68
○ Currency adjustments	-1	0
Unfunded accrued/prepaid pension cost at the end of the year	-604	-474
Amounts recognised in the balance sheet		
Prepaid pension cost	6	65
Accrued pension liabilities	-610	-539
Unfunded accrued/prepaid pension cost	-604	-474
Amounts recognised in the income statement		
Service cost	107	107
Interest cost	69	71
Expected return on plan assets	-80	-69
Adjustments to limit prepaid pension cost	4	-54
Amortisation of unrecognised prior service costs	66	5
Amortisation of unrecognised net gains/unrecognised net losses	3	1
Employee contributions	-14	-14
Changes in the scope of consolidation	0	0
Actuarially determined net periodic pension cost*	156	46
Actual return on plan assets (%)	15.4%	7.5%
Principal actuarial assumptions used		
Discount rate	4.2%	4.0%
Expected return on plan assets	5.2%	5.1%
Expected rate of salary increase	4.2%	3.5%
Rate of pension increase	1.0%	0.7%
DEFINED CONTRIBUTION PLANS		
Expenses for defined contribution plans	7	18

** Included under staff expenses (see 'Note 12: 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, and the benefits are also dependent on the employee's years of service, as well as on his/her remuneration in the years before retirement. The annual funding requirements for these plans are determined based on actuarial cost methods.
- 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), in the form of group insurance for KBC Insurance, and in both forms for KBL EPB. The assets of these first two plans are managed by KBC Asset Management.
- Past figures for the main items shown in the table (figures for year-end 2003, 2004, 2005 and 2006, in millions of euros):
  - Defined benefit obligations: 1 545, 1 694, 1 922 and 1 717;
  - Fair value of plan assets: 1 104, 1 267, 1 478 and 1 497;
  - Unfunded accrued or prepaid pension cost: -426, -523, -604 and -474.
- The return on these plan assets (ROA) is calculated on the basis of the OLO rate, account taken of the plan's investment mix.
  ROA = (X x rate on OLO T years) + (Y x (rate on OLO T years + 3%)) + (Z x (rate on OLO T years + 1%)), where:
  T = term of the OLO used for the discount rate;
  X = percentage of fixed-income securities;
  Y = percentage of shares;
  Z = percentage of real estate.
  The risk premiums of 3% and 1%, respectively, are based on the long-term returns from shares and real estate.
- At year-end 2006, the assets of the group's biggest pension plans were as follows:
  - KBC Bank pension fund: 53% shares, 36% bonds, 10% real estate and 1% cash (in 2005: 59%, 32%, 7% and 2%, respectively);
  - KBC Insurance group insurance scheme (including Fidea): 21% shares, 75% bonds, and 4% real estate (in 2005: 21%, 75% and 4%, respectively);
  - KBL EPB pension plan: 22% shares, 78% bonds, and 0% cash (in 2005: 15%, 80% and 5%, respectively).
- The following contributions are expected to be made to these plans in 2007:
  - KBC Bank pension fund: 43 million euros;
  - KBC Insurance group insurance scheme (including Fidea): 3 million euros;
  - KBL EPB pension plan: 7 million euros.
- 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, this relates to the three pension schemes mentioned in the preceding paragraph, combined): +1 million euros in 2004, +2 million euros in 2005 and +1 million euros in 2006. The impact on pension liabilities came to +9 million euros, +16 million euros and -40 million euros, respectively.

Note 38: Parent shareholders' equity

In number of shares	31-12-2005	31-12-2006
Total number of shares issued and fully paid up	369 206 475	365 823 520
Ordinary shares	366 566 637	363 217 068
Other equity instruments	2 639 838	2 606 452
of which ordinary shares that entitle the holder to a dividend payment	366 431 731	352 870 300
of which treasury shares	9 191 599	15 823 991

MOVEMENTS TABLE Number of shares	Ordinary shares	Other equity instruments	Total
2005			
Opening balance	366 423 447	2 648 122	369 071 569
Issue of shares	134 460	0	134 460
Conversion of convertible bonds into shares	8 730	-8 284	446
Other movements	0	0	0
Closing balance	366 566 637	2 639 838	369 206 475
2006			
Opening balance	366 566 637	2 639 838	369 206 475
Issue of shares	117 045	0	117 045
Conversion of convertible bonds into shares	33 386	-33 386	0
Other movements	-3 500 000	0	-3 500 000
Closing balance	363 217 068	2 606 452	365 823 520

- The share capital of KBC Group NV consists of ordinary shares of no nominal value and mandatorily convertible bonds (MCBs – see 'Other equity instruments' in the table).
- At 31 December 2006, there were 363 217 068 ordinary shares in circulation. All ordinary shares carry voting rights and each share represents one vote. No participation certificates or non-voting shares have been issued. The shares are quoted on Euronext Brussels and on the Luxembourg Stock Exchange. The par value per ordinary share (issued and paid up share capital per ordinary share) amounted to 3.40 euros at year-end 2006. There are no shares issued that have not been fully paid.
- The authorisation to increase capital may be exercised until 17 June 2009 for an amount of 198 876 943 euros (which, based on the par value of the shares at the end of 2006, may lead to the issue of maximum 58.5 million new shares).
- At year-end, the KBC group companies held 15 823 991 KBC shares (15 680 600, excluding the shares held in the trading book of KBC Securities, Ligeva and KBC Financial Products). This figure includes:
  - the shares needed for the employee stock option plans (2 323 332 shares on 31 December 2006);
  - the shares repurchased under the 1-billion-euro share buyback programme completed at the end of 2006. This programme (2006) saw a total of 11 729 723 shares (3.2% of the total number of shares on 1 January 2006) being bought back in the open market at an average price of 85.08 euros. At the Extraordinary General Meeting of Shareholders on 27 April 2006, 3.5 million of these shares were cancelled. The remainder of the shares under this programme will be cancelled at the General Meeting of Shareholders on 26 April 2007.
- For information on how the number of shares entitled to dividend was calculated, see the 'Company annual accounts' section.
- At year-end 2006, there were 2 606 452 1998-2008 MCBs in circulation (for a nominal amount of 182.5 million euros, with a maturity date of 30 November 2008 and a base rate of 3.5% (as of 2000, related to changes in the dividend on the KBC share)), which had not yet been converted into ordinary shares. Holders of these MCBs are entitled, until 30 November 2008, to request that their MCBs be converted according to a ratio of one KBC ordinary share for one MCB. MCBs which have not been converted by their holders will be converted automatically into ordinary shares at maturity. MCBs only carry voting rights when converted into ordinary shares.
- At 31 December 2006, 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 12.

OTHER NOTES

Note 39: Commitments and contingent liabilities

In millions of EUR	31-12-2005	31-12-2006
Total	97 668	123 215
Firm credit commitments	2 972	2 113
Commitments arising from spot purchases of securities	1 301	1 037
Undrawn margin on confirmed credit lines	37 607	40 427
Underwriting and placing commitments	160	266
Commitments as a result of open-ended sale and repurchase agreements	600	0
Non-negotiated acceptances	77	52
Guarantees in the nature of direct credit substitutes	46 127	70 512
Other guarantees	7 172	7 007
Documentary credit	1 465	1 613
Assets charged as collateral security on behalf of third parties	188	188

- Information on the most significant legal disputes pending is provided in Note 34.
- KBC Bank irrevocably guarantees all the commitments outstanding (all sums, indebtedness, obligations and liabilities outstanding) at year-end 2006 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 40: Operating lease receivables

In millions of EUR	31-12-2005	31-12-2006
Future aggregate minimum rentals receivable under non-cancellable operating leases	84	50
○ Not more than one year	27	13
○ More than one but not more than five years	47	29
○ More than five years	10	8
Contingent rents 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.

Note 41: Assets under management

At year-end 2006, total assets under management or advice increased to 209 billion euros (as against 196 billion euros at year-end 2005). A detailed table is shown in 'Group results for 2006'. Information on assets under management is not part of the annual accounts and is not reviewed by the statutory auditor.

Note 42: Related-party transactions

In millions of EUR	2005	2006
WITH RELATED PARTIES EXCLUDING DIRECTORS		
Assets	668	575
Loans and advances to banks	365	500
Loans and advances to customers	67	51
Securities	236	24
Liabilities	76	51
Deposits from banks	1	21
Deposits from customers and debt securities	76	30
Income statement	18	-24
Net interest income	10	-32
Gross earned premiums	0	0
Dividend income	7	5
Net fee and commission income	1	0
Other income	0	4
Guarantees		
Guarantees issued by the group	53	0
Guarantees received by the group	0	0
WITH DIRECTORS	**2005**	**2006**
Remuneration to directors* or partners of the consolidating company on the basis of their activity in that company, its subsidiaries and associated companies, including the amount of retirement pensions granted to former directors or partners on that basis	14	12
* of whom members of the Group Executive Committee	7	5
Share options (units)		
At the beginning of the year	92 500	56 900
Granted	28 000	27 600
Exercised	-13 100	-7 800
Changes in directors	-50 600	-8 900
At the end of the year	56 900	67 800
Advances and loans granted to directors and partners	3	3
Post-employment benefit plans for directors	3	1

- The consolidating entity is KBC Group NV. All subsidiaries are consolidated and hence all intragroup transactions with subsidiaries are eliminated. Related parties are mainly the associated companies (specifically NLB), as well as Almancora, Cera, MRBB, the pension funds of the group and directors of the group. The main associated companies are listed in Note 46, along with relevant financial information.
- All related-party transactions occur 'at arm's length'.
- There were no material transactions with associated companies other than shown in the table.
- Additional information on the emoluments and other benefits to members of the Executive Committee of KBC Group NV is given in the 'Corporate governance' section.

Note 43: Solvency of the group's banking activities

In millions of EUR	31-12-2005	31-12-2006
Regulatory capital, KBC Bank and KBL EPB (after profit appropriation)	14 669	15 141
Tier-1 capital	11 065	11 253
○ Parent shareholders' equity	11 462	12 340
○ Intangible fixed assets	-114	-169
○ Goodwill on consolidation	-533	-948
○ Preference shares, hybrid tier-1	1 645	1 671
○ Minority interests	654	530
○ Elimination:		
○ Mandatorily convertible bonds	-436	-204
○ Revaluation reserve, available for sale (AFS)	-830	-673
○ Hedging reserve (cashflow hedges)	-3	-46
○ Minority interests in AFS reserve and hedging reserve (cashflow hedges)	-8	-7
○ Dividend payout	-772	-1 242
Tier-2 capital	4 857	5 221
○ Mandatorily convertible bonds	436	186
○ Perpetuals (incl. hybrid tier-1 not used in tier-1 capital)	840	731
○ Revaluation reserve, AFS shares (at 90%)	331	538
○ Minority interests in revaluation reserve, AFS shares (at 90%)	1	3
○ Subordinated liabilities	3 250	3 763
Tier-3 capital	11	14
Items to be deducted	-1 263	-1 348
Total weighted risk volume	117 730	128 968
Credit risk, investment	106 127	118 329
Market risk	11 604	10 639
Solvency ratios		
Tier-1 ratio	9.4%	8.7%
CAD ratio	12.5%	11.7%

- The table provides solvency figures for KBC Bank and KBL EPB combined, which have been calculated based on IFRS principles and guidelines from the Belgian regulator. The tier-1 ratio calculated in this way at year-end 2006 came to 8.7% (8.5% for KBC Bank and 14.5% for KBL EPB).
- The minimum solvency requirements laid down by law for the CAD ratio and tier-1 ratio are 8% and 4%, respectively. In-house, KBC has set itself a minimum target of 8% for the tier-1 ratio.

Note 44: Solvency of the group's insurance activities

In millions of EUR	31-12-2005	31-12-2006
AVAILABLE CAPITAL		
○ Share capital	29	29
○ Share premium	122	122
○ Reserves	2 293	2 301
○ Revaluation reserve, available-for-sale investments	1 255	1 459
○ Translation differences	28	27
Total equity	3 726	3 938
○ Dividend payout, KBC Insurance	-510	-430
○ Minority interests	74	13
Total equity	3 290	3 521
○ Subordinated liabilities	15	1
Total capital resources	3 305	3 522
○ Intangible fixed assets	-164	-214
Available capital	3 141	3 308
REQUIRED SOLVENCY MARGIN		
○ Non-life and industrial accident (legal lines)	256	268
○ Annuities	7	8
Required solvency margin for the non-life business	263	276
○ Class 21	535	589
○ Class 23	17	20
Required solvency margin for the life business	552	609
Total required solvency margin	815	884
SOLVENCY RATIO AND SURPLUS		
Solvency ratio (%)	385%	374%
Solvency surplus (in millions of EUR)	2 326	2 423

- The table shows the solvency calculated for KBC Insurance, based on the relevant IFRS principles. The calculation method may change in future when the regulator comes out with its formal guidelines.
- The solvency ratio at year-end 2006 came to 374%, or almost four times the regulatory minimum.
- The regulatory minimum solvency requirement is 100%. In-house, KBC has set itself a minimum target of 200%.

Note 45: Risk management

For information on risk management (credit risk, ALM, market risks, operational risks, insurance underwriting risks, etc.), see the 'Value and risk management' section. Only information on risk management that stems from KBC's application of IFRS (see Note 1a) is included in the annual accounts and reviewed by the statutory auditor.

Note 46: List of significant subsidiaries and associated companies

Company	Registered office	Ownership percentage at group level	Activity
BANKING			
Fully consolidated subsidiaries			
Antwerp Diamond Bank NV	Antwerp – BE	100.00	Credit institution
CBC Banque SA	Brussels – BE	100.00	Credit institution
Centea NV	Antwerp – BE	99.56	Credit institution
ČSOB a.s.	Prague – CZ	97.44	Credit institution
Fin-Force NV	Brussels – BE	63.03	Processing financial transactions
IIB Bank Plc.	Dublin – IE	100.00	Credit institution
KBC Asset Management NV	Brussels – BE	100.00	Asset Management
○ KBC Asset Management Limited	Dublin – IE	100.00	Asset Management
○ KBC Towarzystwo Funduszy Inwestycyjnych sa	Warsaw – PL	94.00	Asset Management
KBC Bank NV	Brussels – BE	100.00	Credit institution
KBC Bank Deutschland AG	Bremen – DE	99.76	Credit institution
KBC Bank Funding LLC & Trust, group	New York – US	100.00	Issuance of trust preferred securities
KBC Bank Nederland NV	Rotterdam – NL	100.00	Credit institution
KBC Clearing NV	Amsterdam – NL	100.00	Clearing
KBC Finance Ireland	Dublin – IE	100.00	Lending
KBC Financial Products (group)	Various locations	100.00	Equities and derivatives trading
KBC Internationale Financieringsmaatschappij NV	Rotterdam – NL	100.00	Issuance of bonds
KBC Lease (group)	Various locations	100.00	Leasing
KBC Peel Hunt Limited	London – GB	99.99	Stock exchange broker, corporate finance
KBC Private Equity NV	Brussels – BE	100.00	Private equity
KBC Securities NV	Brussels – BE	100.00	Stock exchange broker, corporate finance
K&H Bank Rt.	Budapest – HU	99.96	Credit institution
Kredyt Bank SA	Warsaw – PL	80.00	Credit institution
Patria Finance a.s.	Prague – CZ	100.00	Stock exchange broker, corporate finance
Proportionately consolidated subsidiaries			
International Factors NV	Brussels – BE	50.00	Factoring
Associated companies			
Nova Ljubljanska banka d.d.	Ljubljana – SI	34.00	Credit institution
INSURANCE			
Fully consolidated subsidiaries			
ADD NV	Heverlee – BE	100.00	Insurance company
Assurisk NV	Luxembourg – LU	100.00	Insurance company
ČSOB Pojišťovna (Czech Republic)	Pardubice – CZ	99.36	Insurance company
ČSOB Poisťovňa a.s. (Slovak Republic)	Bratislava – SK	99.52	Insurance company
Fidea NV	Antwerp – BE	100.00	Insurance company
K&H Insurance Rt.	Budapest – HU	100.00	Insurance company
KBC Insurance NV	Leuven – BE	100.00	Insurance company
Secura NV	Brussels – BE	95.04	Insurance company
VITIS Life Luxembourg SA	Luxembourg – LU	99.99	Insurance company
VTB-VAB NV	Zwijndrecht – BE	64.80	Automobile assistance
TUiR WARTA S.A.	Warsaw – PL	100.00	Insurance company
Proportionately consolidated subsidiaries			
NLB Vita d.d.	Ljubljana – SI	50.00	Insurance company
EUROPEAN PRIVATE BANKING			
Fully consolidated subsidiaries			
Brown Shipley & Co Limited	London – GB	99.88	Credit institution
KBL Bank Ireland	Dublin – IE	99.88	Credit institution
Kredietbank SA Luxembourgeoise	Luxembourg – LU	99.88	Credit institution
Kredietbank (Suisse) SA	Geneva – CH	99.87	Credit institution
Merck Finck & Co	Munchen – DE	99.88	Credit institution
Puilaetco Private Bankers SA	Brussels – BE	99.88	Credit institution
Theodoor Gilissen Bankiers NV	Amsterdam – NL	99.88	Credit institution
HOLDING-COMPANY ACTIVITIES			
Fully consolidated subsidiaries			
Almafin NV	Zaventem – BE	100.00	Financial services
KBC Exploitatie NV	Brussels – BE	100.00	Cost-sharing structure
KBC Group NV	Brussels – BE	100.00	Holding company

- For a complete list of the companies included in or excluded from the scope of consolidation, as well as all associated companies, please see the appendix (after Note 50).
- The companies accounted for using the equity method (see table) have combined total assets, equity and a net result of 12.38 billion euros, 0.76 billion euros and 83 million euros, respectively.

Note 47: Main changes in the scope of consolidation

Segment	Company	Consolidation method	Ownership percentage at group level		Comments
			2005	2006	
EXCLUSIONS					
Holding-company activities	Agfa-Gevaert NV	Equity method	27.13	–	Sold in 1Q 2006
Banking	Bank Card Company NV	Equity method	21.55	–	Sold in 4Q 2006
Banking	Banksys NV	Equity method	20.55	–	Sold in 4Q 2006
European private banking	Banco Urquijo SA	Full	97.06	–	Sold in 3Q 2006
CHANGES IN OWNERSHIP PERCENTAGE					
European private banking	Kredietbank SA Luxembourgeoise	Full	97.32	99.88	Increase in shareholding
Banking	K&H Bank Rt.	Full	59.47	99.96	Buy-out of minority shareholders
Banking	Kredyt Bank SA	Full	85.53	80.00	Sale of shares to increase free float to 20%
Banking	ČSOB a.s.	Full	89.97	97.44	Buy-out of minority shareholders
Banking	Fin-Force NV	Full	85.01	63.03	Sale of shares to new participants in Fin-Force
Insurance	TUiR WARTA S.A.	Full	75.13	100.00	Buy-out of minority shareholders
Insurance	ČSOB Poist'ovňa a.s. (Slowakije)	Full	87.30	99.52	Buy-out of minority shareholders

Note 48: General information

Name	KBC Group NV
Incorporated	9 February 1935 as Kredietbank NV; the present name dates from 2 March 2005.
Country of incorporation	Belgium
Registered office	2 Havenlaan, 1080 Brussels, Belgium
VAT	BE 0403.227.515
RLP	Brussels
Legal form	*Naamloze vennootschap* (public limited company) under Belgian law, which solicits or has solicited savings from the public; the company is a financial holding company registered with the Belgian Banking, Finance and Insurance Commission.
Life	Indefinite
Object	The company is a financial holding company which has as object the direct or indirect ownership and management of shareholdings in other companies, including – but not restricted to – credit institutions, insurance companies and other financial institutions. The company also has as object to provide support services to third parties, as mandatary or otherwise, in particular to companies in which the company has an interest – either directly or indirectly (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 and/or on www.kbc.com. Copies of the company's annual reports are available at its registered office. They are sent annually to the holders of registered shares and to those who have applied for a copy.
General Meeting of Shareholders	Each year, at the registered office of the company or elsewhere, as indicated in the convening notice, a general meeting is held on the last Thursday in April or, if that day is a legal holiday, on the last business day immediately preceding it, at 11 a.m. To be admitted to the general meeting, holders of bearer shares, bonds or warrants, as well as 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 of the company or elsewhere, as indicated in the convening notice. The holders of registered shares, bonds or warrants or of registered certificates issued in co-operation with the company are likewise required to notify the company in writing at its registered office and within the same time constraints of their intention to attend the General Meeting. Holders of bonds and warrants are entitled to attend the general meeting, but they have only advisory voting capacity. To be admitted to the general meeting, holders of book-entry shares, bonds, warrants or certificates issued in co-operation with the company, must deposit at least four business days prior to this meeting at the registered office of the company or elsewhere, as indicated in the convening notice, a certificate drawn up by a recognised account holder or by the settlement house attesting to the lack of availability of the shares, bonds, warrants or certificates until the date of the general meeting.

Note 49: Post-balance-sheet events

Events after balance sheet date are those events, favourable and unfavourable, that occur between the balance sheet date and the date when the financial statements are authorised for issue by the Board of Directors. They include both adjusting events after balance sheet date (events that provide evidence of conditions that existed at the balance sheet date) and non-adjusting events after balance sheet date (events that are indicative of conditions that arose after the balance sheet date). Adjusting events in principle lead to an adjustment of the financial statements for the financial period preceding the event, whereas non-adjusting events in principle only influence the financial statements for the following period.

The main non-adjusting events after balance sheet date were:
- The acquisition of full ownership of Romstal Leasing and of the brokerage, Swiss Capital, in Romania (the two deals will be finalised in the first quarter of 2007). In addition, the agreements reached to acquire a majority shareholding (between 70% and 100%, depending on the number of shareholders who decide to sell) in A Banka in Serbia (this should be finalised in the second quarter of 2007) and in online retail broker Equitas in Hungary (to be finalised in the first quarter of 2007). Some of these deals are still subject to approval by the relevant authorities, and this will decide when recognition in the 2007 group results occurs. The total amount involved in these four deals is relatively limited (together, they are good for around 180 million euros), which is why no additional information is given on the relevant financial impact.
- The conclusion of an agreement in January 2007 to acquire a 70% stake in Bulgarian DZI Insurance, which leads the Bulgarian market in non-life and life insurance. This deal is still subject to approval by the relevant authorities. KBC will subsequently launch a public bid for the remaining 30%. KBC is paying 185 million euros for the 70% stake (in addition, it is paying around another 75 million euros, an amount equal to 70% of the undistributed income stemming from the gains that DZI Insurance received on the sale of its stake in DZI Bank – a cash item on the balance-sheet of DZI Insurance). This deal should be finalised in the second quarter of 2007. DZI Insurance earned net premium income of some 103 million euros in 2005.
- The sale by K&H Bank in January 2007 of its stake in the Hungarian bank card company, Giro Bankkártya Rt (pending approval by the relevant authorities). K&H Bank realised a gain on this sale (to be included in the results for the first quarter of 2007).
- The sale of the non-strategic interest in Intesa San Paolo in January 2007, which will yield the group a gain of some 200 million euros (to be included in the results for the first quarter of 2007).
- The closing on the sale of the Italian private bank, Banca KBL Fumagalli Soldan (a KBL EPB subsidiary), in the first quarter of 2007. With a selling price of 44 million euros, KBC will realise a gain of around 14 million euros (to be included in the results for the first quarter of 2007).
- The impact on net profit – which KBC estimates will come to 28 million euros (to be included in the results for the first quarter of 2007) – of Kyrill, the storm that hit Europe in mid-January 2007.
- The launch of a public bid to buy out the remaining (3%) shares in ČSOB not yet owned by KBC. This deal should be finalised in the second half of 2007.

Note 50: Auditor's remuneration

Remuneration for non-audit services: In 2006, KBC Group NV and its subsidiaries paid Ernst & Young Bedrijfsrevisoren (E&Y) fees amounting to a total of 3 549 723 euros for the following:
- other certifications: 616 995 euros;
- tax advice: 1 001 353 euros;
- other non-audit assignments: 1 931 375 euros.

APPENDIX: COMPLETE LIST OF COMPANIES INCLUDED IN OR EXCLUDED FROM THE SCOPE OF CONSOLIDATION AND ASSOCIATED COMPANIES

Name	Registered office	VAT number or national identification number	Share of capital held at KBC group level (%)
KBC Bank: subsidiaries that are fully consolidated			
KBC Bank NV	Brussels – BE	0462.920.226	100.00
Almafin Real Estate NV	Brussels – BE	0403.355.494	100.00
Immo Arenberg NV	Brussels – BE	0471.901.337	100.00
Antwerp Diamond Bank NV	Antwerp – BE	0404.465.551	100.00
Banque Diamantaire (Suisse) SA	Geneva – CH	–	100.00
CBC Banque SA	Brussels – BE	0403.211.380	100.00
Centea NV	Antwerp – BE	0404.477.528	99.56
Československa Obchodni Banka a.s. (ČSOB)	Prague – CZ	–	97.44
Auxilium a.s.	Prague – CZ	–	97.44
Bankovni Informacni Technologie s.r.o.	Prague – CZ	–	97.44
Business Center s.r.o.	Bratislava – SK	–	97.44
Centrum Radlická a.s.	Prague – CZ	–	97.44
ČSOB Asset Management a.s.	Prague – CZ	–	99.47
ČSOB Asset Management a.s.	Bratislava – SK	–	97.44
ČSOB Distribution a.s.	Prague – CZ	–	97.44
ČSOB d.s.s. a.s.	Bratislava – SK	–	97.44
ČSOB Factoring a.s.	Prague – CZ	–	97.44
ČSOB Factoring a.s.	Bratislava – SK	–	97.44
ČSOB Investicni Spolecnost	Prague – CZ	–	97.44
ČSOB Investment Banking Service a.s.	Prague – CZ	–	97.44
ČSOB Leasing a.s.	Prague – CZ	–	97.44
ČSOB Leasing Pojist'ovaci Maklér s.r.o.	Prague – CZ	–	97.44
ČSOB Leasing a.s.	Bratislava – SK	–	97.44
ČSOB Leasing Poist'ovaci Maklér s.r.o.	Bratislava – SK	–	97.44
ČSOB Penzijní fond Progres a.s.	Prague – CZ	–	97.44
ČSOB Penzijní fond Stabilita a.s.	Prague – CZ	–	97.44
ČSOB Stavebni Sporitelna a.s.	Bratislava – SK	–	97.44
ČSOB Vynosovy a.s.	Prague – CZ	–	97.44
Hornicky Penzijni Fond Ostrava a.s.	Ostrava – CZ	–	97.44
Hypotecni Banka a.s.	Prague – CZ	–	97.28
Motokov a.s.	Prague – CZ	–	67.33
Zemsky Penzijni fond a.s.	Prague – CZ	–	97.44
Fin-Force NV	Brussels – BE	0472.725.639	63.03
IIB Bank Public Limited Company	Dublin – IE	–	100.00
Bencrest Properties Limited	Dublin – IE	–	100.00
Maurevel Investment Company Limited	Dublin – IE	–	100.00
Danube Holdings Limited	Dublin – IE	–	100.00
Dunroamin Properties Limited	Dublin – IE	–	100.00
Fraylon Limited	Dublin – IE	–	60.00
Glare Nominee Limited	Dublin – IE	–	100.00
Homeloans and Finance Limited	Dublin – IE	–	100.00
IIB Capital Plc.	Dublin – IE	–	100.00
IIB Finance Limited	Dublin – IE	–	100.00
IIB Asset Finance Limited	Dublin – IE	–	100.00
IIB Commercial Finance Limited	Dublin – IE	–	100.00
IIB Leasing Limited	Dublin – IE	–	100.00
Khans Holdings Limited	Dublin – IE	–	100.00
Lease Services Limited	Dublin – IE	–	100.00
IIB Homeloans and Finance Limited	Dublin – IE	–	100.00
Cluster Properties Company	Dublin – IE	–	100.00
Demilune Limited	Dublin – IE	–	100.00

Name	Registered office	VAT number or national identification number	Share of capital held at KBC group level (%)
IIB Homeloans Limited	Dublin – IE	–	100.00
Proactive Mortgages Limited	Dublin – IE	–	100.00
KBC Homeloans and Finance Limited	Dublin – IE	–	100.00
Premier Homeloans Limited	Surrey – UK	–	100.00
Staple Properties Limited	Dublin – IE	–	100.00
IIB Nominees Limited	Dublin – IE	–	98.00
Intercontinental Finance	Dublin – IE	–	100.00
Irish Homeloans and Finance Limited	Dublin – IE	–	100.00
Kalzari Limited	Dublin – IE	–	100.00
Linkway Developments Limited	Dublin – IE	–	100.00
Meridian Properties Limited	Dublin – IE	–	100.00
Merrion Commercial Leasing Limited	Surrey – UK	–	100.00
Merrion Equipment Finance Limited	Surrey – UK	–	100.00
Merrion Leasing Assets Limited	Surrey – UK	–	100.00
Merrion Leasing Finance Limited	Surrey – UK	–	100.00
Merrion Leasing Industrial Limited	Surrey – UK	–	100.00
Merrion Leasing Limited	Surrey – UK	–	100.00
Merrion Leasing Services Limited	Surrey – UK	–	100.00
Monastersky Limited	Dublin – IE	–	100.00
Needwood Properties Limited	Dublin – IE	–	100.00
Perisda Limited	Dublin – IE	–	100.00
Phoenix Funding Plc.	Dublin – IE	–	100.00
Quintor Limited	Dublin – IE	–	100.00
Rolata Limited	Douglas – IM	–	100.00
Wardbury Properties Limited	Dublin – IE	–	100.00
IIB Finance Ireland	Dublin – IE	–	100.00
KBC Finance Ireland	Dublin – IE	–	100.00
Immo Lux-Airport II SA	Luxembourg – LU	–	100.00
KBC Alternative Investment Management Belgium NV	Brussels – BE	0883.054.940	100.00
KBC Alternative Investment Management Limited	London – UK	–	100.00
KBC Asset Management NV	Brussels – BE	0469.444.267	100.00
Bemab NV	Brussels – BE	0403.202.670	100.00
KBC Access Fund Conseil Holding SA	Luxembourg – LU	–	100.00
KBC Asset Management Limited	Dublin – IE	–	100.00
KBC Asset Management International Limited	Dublin – IE	–	100.00
KBC Asset Management (UK) Limited	London – UK	–	100.00
KBC Fund Managers Limited	Dublin – IE	–	100.00
KBC Asset Management SA	Luxembourg – LU	–	100.00
KBC Bonds Conseil Holding SA	Luxembourg – LU	–	100.00
KBC Cash Conseil Holding SA	Luxembourg – LU	–	100.00
KBC Conseil Service SA	Luxembourg – LU	–	100.00
KBC Districlick Conseil Holding SA	Luxembourg – LU	–	100.00
KBC Fund Partners Conseil Holding SA	Luxembourg – LU	–	100.00
KBC Invest Conseil Holding SA	Luxembourg – LU	–	100.00
KBC Life Invest Fund Conseil Holding SA	Luxembourg – LU	–	100.00
KBC Money Conseil Holding SA	Luxembourg – LU	–	100.00
KBC Renta Conseil Holding SA	Luxembourg – LU	–	100.00
KBC Life Opportunity Fund SA	Luxembourg – LU	–	100.00
KBC Towarzystwo Funduszy Inwestycyjnych a.s.	Warsaw – PL	–	94.00
KBC Bank Deutschland AG	Bremen – DE	–	99.76
KBC Bank Funding LLC II	New York – US	–	100.00
KBC Bank Funding LLC III	New York – US	–	100.00
KBC Bank Funding LLC IV	New York – US	–	100.00
KBC Bank Funding Trust II	New York – US	–	100.00
KBC Bank Funding Trust III	New York – US	–	100.00
KBC Bank Funding Trust IV	New York – US	–	100.00
KBC Bank Nederland NV	Rotterdam – NL	–	100.00

Name	Registered office	VAT number or national identification number	Share of capital held at KBC group level (%)
Westersingel Holding BV	Rotterdam – NL	–	100.00
KBC Bank (Singapore) Limited	Singapore – SG	–	100.00
KBC Clearing NV	Amsterdam – NL	–	100.00
KBC Dublin Capital Plc.	Dublin – IE	–	100.00
KBC Financial Products UK Limited	London – UK	–	100.00
Atomium Funding Corporation SPV	George Town – KY	–	100.00
Clarinbridge Capital LLC	Rumson – UK	–	67.00
Foxhill Opportunity Offshore Fund	Princeton – UK	–	74.00
KBC Absolute Return Fund (Karim)	George Town – KY	–	100.00
KBC Alternative Investment Management – Diversified Master Fund	London – UK	–	100.00
KBC Financial Products Hong Kong Limited	Hongkong – HK	–	100.00
KBC Financial Products Trading Hong Kong Limited	Hongkong – HK	–	100.00
Picaros Funding Plc.	Dublin – IE	–	100.00
Picaros Purchasing no.3 Limited	Dublin – IE	–	100.00
KBC Financial Holding Inc.	Wilmington – US	–	100.00
Corona Delaware LLC	Delaware – US	–	100.00
Churchill Finance LLC	Delaware – US	–	100.00
Estate Planning LLC	Delaware – US	–	100.00
KBC Financial Products (Cayman Islands) Limited “Cayman I”	George Town – KY	–	100.00
KBC Financial Products International Limited “Cayman III”	George Town – KY	–	100.00
KBC FP International VI Limited “Cayman VI”	George Town – KY	–	100.00
KBC Financial Products USA Inc.	New York – US	–	100.00
KBC FP Cayman Finance Limited “Cayman II”	George Town – KY	–	100.00
KBC Statistical Arbitrage Fund Limited	George Town – KY	–	100.00
Midas Life Settlements LLC	Delaware – US	–	100.00
Nabula Holdings LLC	Delaware – US	–	100.00
Pacifica Group LLC	Delaware – US	–	100.00
Atlas Insurance Services LLC	Wisconsin – US	–	100.00
Certo Insurance Services LLC	Delaware – US	–	100.00
Devon Services LLC	Delaware – US	–	100.00
Dorato Insurance Services LLC	Delaware – US	–	100.00
Equity Key LLC	Delaware – US	–	100.00
H/G II LLC	Delaware – US	–	100.00
Londsdale LLC	Wisconsin – US	–	100.00
Oceanus LLC	Wisconsin – US	–	100.00
Stratford Services LLC	Wisconsin – US	–	100.00
Welden Insurance Services LLC	Delaware – US	–	100.00
Pulsar Holdings LLC	Delaware – US	–	100.00
Spurling I LLC	Delaware – US	–	100.00
Spurling II LLC	Delaware – US	–	100.00
KBC Investments Limited	London – UK	–	100.00
KBC Investments Hong Kong Limited	Hong Kong – HK	–	100.00
KBC Consultancy Services Korea Limited	Seoul – KR	–	100.00
KBC Consultancy Services (Shenzhen) Limited	Shenzhen – CN	–	100.00
KBC Investments Cayman Islands Limited “Cayman IV”	George Town – KY	–	100.00
KBC Investments Cayman Islands V Limited	George Town – KY	–	100.00
KBC Investments Cayman Islands VII Limited	George Town – KY	–	100.00
KBC Investments Cayman Islands VIII Limited	George Town – KY	–	100.00
Seoul Value Trust	Seoul – KR	–	100.00
KBC International Portfolio SA	Luxembourg – LU	–	99.98
KBC Internationale Financieringsmaatschappij NV	Rotterdam – NL	–	100.00
CERINVEST NV	Rotterdam – NL	–	100.00
KBC International Finance NV	Rotterdam – NL	–	100.00
KBC Lease Holding NV	Diegem – BE	0403.272.253	100.00
Dala Property Holding III BV	Amsterdam – NL	–	100.00
Sicalis NV	Amsterdam – NL	–	100.00
Fitraco NV	Antwerp – BE	0425.012.626	100.00

Name	Registered office	VAT number or national identification number	Share of capital held at KBC group level (%)
KBC Autolease NV	Diegem – BE	0422.562.385	100.00
KBC Bail Immobilier France sas	Paris – FR	–	100.00
KBC Lease Belgium NV	Leuven – BE	0426.403.684	100.00
KBC Lease France SA	Lyon – FR	–	100.00
KBC Bail France sas	Lyon – FR	–	100.00
KBC Lease (Nederland) BV	Bussum – NL	–	100.00
Cathar BV	Bussum – NL	–	100.00
Gooieen BV	Bussum – NL	–	100.00
Hospiveen BV	Bussum – NL	–	100.00
Mercala 1 BV	Bussum – NL	–	100.00
Mercala 2 BV	Bussum – NL	–	100.00
KBC Lease Polska Sp z.o.o.	Warsaw – PL	–	100.00
KBC Lease (UK) Limited	Surrey – UK	–	100.00
KBC Lease (Deutschland) GmbH & Co. KG	Kronberg – DE	–	91.94
KBC Autolease (Deutschland) GmbH	Kronberg – DE	–	91.94
KBC Immobilienlease (Deutschland) GmbH	Kronberg – DE	–	91.94
KBC Lease (Deutschland) Vermietungs GmbH	Kronberg – DE	–	91.94
KBC Vendor Lease (Deutschland) Service GmbH	Kronberg – DE	–	91.94
KBC Vendor Finance (Deutschland) GmbH	Kronberg – DE	–	91.94
KBC Vendor Lease (Deutschland) GmbH	Kronberg – DE	–	91.94
Protection One Service GmbH	Kronberg – DE	–	91.94
SCS Finanzdienstleistungs GmbH	Kronberg – DE	–	91.94
KBC Lease (Deutschland) Verwaltungs GmbH	Kronberg – DE	–	75.94
KBC Lease Italia S.p.A.	Verona – IT	–	100.00
KBC Lease (Luxembourg) SA	Strassen – LU	–	100.00
KBC Vendor Lease NV	Diegem – BE	0444.058.872	100.00
Securitas sam	Nandrin – MC	–	100.00
KBC Peel Hunt Limited	London – UK	–	99.99
KBC Peel Hunt Incorporated	London – UK	–	99.99
Peel Hunt Nominees Limited	London – UK	–	99.99
P.H. Nominees Limited	London – UK	–	99.99
P.H. Trustees Limited	London – UK	–	99.99
KBC Pinto Systems NV	Brussels – BE	0473.404.540	60.00
KBC Private Equity NV	Brussels – BE	0403.226.228	100.00
KBC ARKIV NV	Brussels – BE	0878.498.316	52.00
Mezzafinance NV	Brussels – BE	0453.042.260	100.00
Novaservis a.s.	Brno – CZ	–	94.57
KBC Securities NV	Brussels – BE	0437.060.521	100.00
Ligeva NV	Mortsel – BE	0437.002.519	100.00
Patria Finance a.s.	Prague – CZ	–	100.00
Patria Finance CF a.s.	Prague – CZ	–	100.00
Patria Online a.s.	Prague – CZ	–	100.00
Patria Direct a.s.	Prague – CZ	–	100.00
KBC Vastgoedportefeuille België NV	Brussels – BE	0438.007.854	87.89
Kereskedelmi és Hitelbank Rt. (K&H Bank)	Budapest – HU	–	99.96
Giro Bankkártya Rt	Budapest – HU	–	74.55
K & H Alkusz Kft	Budapest – HU	–	99.96
K & H Csoportszolgáltató Központ Kft	Budapest – HU	–	99.96
K & H Equities Rt.	Budapest – HU	–	99.96
K & H Ertékpapir Befektetési Alapkezelö Rt	Budapest – HU	–	99.96
K & H Lízingadminisztrációs Rt	Budapest – HU	–	99.96
K & H Eszközfinanszirozó Rt	Budapest – HU	–	99.96
K & H Eszközlizing Gép-és Thrgj. Bérleti Kft	Budapest – HU	–	99.96
K & H Lizingház Rt.	Budapest – HU	–	99.96
K & H Pannonlizing Rt	Budapest – HU	–	99.96
K & H Autófinanszirozó Pénzügyl Szolgátató Rt	Budapest – HU	–	99.96
K & H Autópark Bérleti és Szolg Kft	Budapest – HU	–	99.96

Name	Registered office	VAT number or national identification number	Share of capital held at KBC group level (%)
K & H DLH Lizing Kft	Budapest – HU	–	99.96
K & H Ingatlanlizing Kft	Budapest – HU	–	99.96
K & H Lizing Rt.	Budapest – HU	–	99.96
Kvantum Követeléskezelõ és Befektetési Rt.	Budapest – HU	–	99.96
Fordat Kft	Budapest – HU	–	99.96
Kirchberg Offices I SA	Luxembourg – LU	–	100.00
Kirchberg Offices II SA	Luxembourg – LU	–	100.00
Kredyt Bank SA	Warsaw – PL	–	80.00
Kredyt International Finance BV	Rotterdam – NL	–	80.00
Kredyt Lease SA	Warsaw – PL	–	80.00
Kredyt Trade Sp z.o.o.	Warsaw – PL	–	80.00
Reliz SA	Katowice – PL	–	80.00
Żagiel SA	Warsaw – PL	–	80.00
Poelaert Invest NV	Zaventem – BE	0478.381.531	74.75
Quasar Securitisation Company NV	Brussels – BE	0475.526.860	100.00
Vastgoed Ruimte Noord NV	Brussels – BE	0863.201.515	100.00
KBC Bank: subsidiaries that are not fully consolidated[1]			
Aldersgate Finance Limited	St. Helier – UK	–	100.00
Almafin Real Estate Services NV	Zaventem – BE	0416.030.525	100.00
Apitri NV	Diegem – BE	0469.889.873	99.98
Atomium Funding LLC	Delaware – US	–	100.00
Avebury Limited	Dublin – IE	–	100.00
Baker Street Finance Limited	St. Helier – UK	–	100.00
Baker Street USD Finance Limited	St. Helier – UK	–	100.00
Bankowa Polana Sp z.o.o.	Warsaw – PL	–	53.60
Bankowy Fundusz Inwestycyjny Serwis Sp z.o.o.	Warsaw – PL	–	80.00
Brussels North Distribution NV	Brussels – BE	0476.212.887	99.05
CENTRINVEST NV	Leuven – BE	0442.800.248	100.00
Chiswell Street Finance Limited	St. Helier – UK	–	100.00
Clifton Finance Street Limited	St. Helier – UK	–	100.00
Dala Beheer BV	Amsterdam – NL	–	100.00
Dala XV BV	Amsterdam – NL	–	100.00
Distienen NV	Zaventem – BE	0452.312.285	100.00
Dorlick Vastgoedmaatschappij NV	Zaventem – BE	0434.885.345	100.00
Dorset Street Finance Limited	St. Helier – UK	–	100.00
Eurincasso s.r.o.	Prague – CZ	–	97.44
Fulham Road Finance Limited	St. Helier – UK	–	100.00
Gie Groupe KBC Paris	Paris – FR	–	100.00
Hyporeal Praha a.s.	Prague – CZ	–	97.44
Immo-Accent NV[2]	Brussels – BE	0465.538.335	99.99
Immo-Antares NV[2]	Brussels – BE	0456.398.361	95.00
Immo-Basilix NV[2]	Brussels – BE	0453.348.801	95.00
Immo-Beaulieu NV[2]	Brussels – BE	0450.193.133	50.00
Immobilière Distri-Land NV[2]	Brussels – BE	0436.440.909	87.52
Immo-Duo NV	Zaventem – BE	0435.573.154	100.00
Immo Genk-Zuid NV	Zaventem – BE	0464.358.497	100.00
Immo Kolonel Bourgstraat NV[2]	Brussels – BE	0461.139.879	50.00
Immolease-Trust NV	Zaventem – BE	0406.403.076	100.00
Immo-Llan NV[2]	Brussels – BE	0448.079.820	99.56
Immo Lux-Airport SA[2]	Luxembourg – LU	–	66.64
Immo Marcel Thiry NV[2]	Brussels – BE	0450.997.441	95.00
Immo-North Plaza NV[2]	Brussels – BE	0462.118.688	99.99
IMMO PARIJSSTRAAT NV	Leuven – BE	0439.655.765	100.00
Immo-Plejaden NV[2]	Brussels – BE	0461.434.344	99.99
Immo-Quinto NV	Zaventem – BE	0466.000.470	100.00
Immo-Regentschap NV[2]	Brussels – BE	0452.532.714	75.00
Immo-Tres NV[1]	Zaventem – BE	0465.755.990	100.00

Name	Registered office	VAT number or national identification number	Share of capital held at KBC group level (%)
Immo Zenobe Gramme NV[2]	Brussels – BE	0456.572.664	100.00
IPB Leasing a.s.	Prague – CZ	–	97.44
KB-Consult NV	Brussels – BE	0437.623.220	100.00
KBC Alternative Investment Management HK Limited	London – UK	–	100.00
KBC Alternative Investment Management (USA) Inc.	Delaware – US	–	100.00
KBC Asia Pacific Fund of Funds	George Town – KY	–	100.00
KBC Equity Fund Conseil Holding SA	Luxembourg – LU	–	51.86
KBC Financial Services (Ireland) Limited	Dublin – IE	–	100.00
KBC Lease (Hungary)	Budapest – HU	–	100.00
KBC Leverage Pacific Fund of Funds	George Town – KY	–	100.00
KBC Life Harvest Capital SA	Luxembourg – LU	–	100.00
KBC North American Finance Corporation	Delaware – US	–	100.00
KBC Pacific Market Neutral Fund of Funds	George Town – KY	–	100.00
KBC Private Equity Advisory Services Limited Liability Company	Budapest – HU	–	100.00
KBC Private Equity Advisory Services s.r.o.	Prague – CZ	–	100.00
KBC Private Equity Advisory Services Sp.z.o.o.	Warsaw – PL	–	100.00
KBC Structured Finance Limited	Sydney – AU	–	100.00
KBC Vastgoedinvesteringen NV	Brussels – BE	0455.916.925	99.00
Kredietfinance Corporation (June) Limited	Surrey – UK	–	100.00
Kredietfinance Corporation (September) Limited	Surrey – UK	–	100.00
Kredietlease (UK) Limited	Surrey – UK	–	100.00
LIZAR Sp z.o.o.	Warsaw – PL	–	80.00
Lombard Street Limited	Dublin – IE	–	100.00
Luxembourg North Distribution	Luxembourg – LU	–	99.11
Luxembourg Offices Securitisations SA	Luxembourg – LU	–	90.09
Mechelen City Center NV	Heffen – BE	0471.562.332	100.00
Net Banking Sp z.o.o.	Warsaw – PL	–	80.00
Oxford Street Finance Limited	St. Helier – UK	–	100.00
Palladium Series Fund LLC	Delaware – US	–	100.00
Parkeergarage De Panne NV	Brussels – BE	0881.909.548	90.00
Pembridge Square Limited	St. Helier – UK	–	100.00
Picaros Funding LLC	Wilmington – US	–	100.00
Picaros Purchasing No.1 Limited	Dublin – IE	–	100.00
Picaros Purchasing No.2 Limited	Dublin – IE	–	100.00
Prague Real Estate NV	Zaventem – BE	0876.309.678	50.00
Regent Street Limited	St Helier – UK	–	100.00
Risk Kft.	Budapest – HU	–	99.96
SM Vilvoorde NV	Zaventem – BE	0425.859.197	100.00
Swiss Capital s.a.	Romania – RO	–	100.00
Sydney Finance Street Limited	St. Helier – UK	–	100.00
TEE Square Limited	Road Town – VG	–	97.44
Threadneedle Finance Limited	St. Helier – UK	–	100.00
Trustimmo NV	Zaventem – BE	0413.954.626	100.00
Vastgoedmaatschappij Manhattan-Kruisvaarten NV	Zaventem – BE	0419.336.938	100.00
Vermögensverwaltungsgesellschaft Merkur mbH	Bremen – DE	–	99.76
Wetenschap Real Estate NV	Zaventem – BE	0871.247.565	50.00
Weyveld Vastgoedmaatschappij NV	Zaventem – BE	0425.517.818	100.00
Willowvale Company	Dublin – IE	–	100.00
KBC Bank: joint subsidiaries that are proportionately consolidated			
Ceskomaravská Stavebni Sporitelna a.s.	Prague – CZ	–	49.48
Covent Garden Real Estate NV	Zaventem – BE	0872.941.897	50.00
International Factors NV	Brussels – BE	0403.278.488	50.00
Real Estate Participation NV	Zaventem – BE	0473.018.817	50.00
Immobilière Royal Rogier NV	Brussels – BE	0437.901.847	25.00
Omegalux Immobilière SA	Luxembourg – LU	–	25.00
Société Agricole des Grands Lacs SA	Luxembourg – LU	–	50.00
Romarin Real Estate sas	Lille – FR	–	50.00

Name	Registered office	VAT number or national identification number	Share of capital held at KBC group level (%)
KBC Bank: joint subsidiaries that are not proportionately consolidated[1]			
FM-A Invest NV	Diegem – BE	0460.902.725	50.00
Immocert t'Serclaes NV	Zaventem – BE	0433.037.989	50.00
Jesmond Amsterdam NV	Amsterdam – NL	–	50.00
Miedziana Sp z.o.o.	Warsaw – PL	–	47.75
KBC Goldstate Fund Management Co. Limited	Shanghai – CN	–	49.00
Panton Kortenberg Vastgoed NV "Pako Vastgoed"	St.-Niklaas – BE	0437.938.766	50.00
Amdale Holdings Limited NV	Diegem – BE	0452.146.563	49.99
Pakobo NV	Diegem – BE	0474.569.526	49.99
Rumst Logistics NV	Machelen – BE	0862.457.583	49.99
Real Estate Administration a.s.	Prague – CZ	–	30.05
Resiterra NV	Zaventem – BE	0460.925.588	50.00
Rumst Logistics II NV	Machelen – BE	0880.830.076	50.00
Rumst Logistics III NV	Machelen – BE	0860.829.383	50.00
KBC Bank: companies accounted for using the equity method			
ABN AMRO International Treasury Service Szolg. Kft	Budapest – HU	–	99.96
Budatrend III. Ingatlanhasznosító Rt	Budapest – HU	–	34.33
Giro Elszámolásforgáltátó Rt	Budapest – HU	–	20.98
HAGE Hajdúsági Agráripari Résvényatársaság	Budapest – HU	–	24.99
Isabel NV	Brussels – BE	0455.530.509	25.33
Nova Ljubljanska banka d.d.	Ljubljana – SI	–	34.00
Prague Stock Exchange a.s.	Prague – CZ	–	24.39
KBC Bank: companies not accounted for using the equity method[1]			
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	21.18
Bedrijvencentrum Rupelstreek NV	Aartselaar – BE	0427.329.936	33.33
Brand and Licence Company NV	Brussels – BE	0884.499.250	20.00
Czech Banking Credit Bureau a.s.	Prague – CZ	–	19.49
Justinvest Antwerpen NV	Antwerp – BE	0476.658.097	33.33
KBC Credit Arbitrage	George Town – KY	–	40.00
Prvni Certifikacni Autorita a.s.	Prague – CZ	–	22.65
Rabot Invest NV	Antwerp – BE	0479.758.733	25.00
Transportbeton GmbH	Delmenhorst – DE	–	25.93
KBC Insurance: subsidiaries that are fully consolidated			
KBC Insurance NV	Leuven – BE	0403.552.563	100.00
ADD NV	Heverlee – BE	0406.080.350	100.00
Assurisk NV	Luxembourg – LU	–	100.00
ČSOB Pojišt'ovna a.s.	Pardubice – CZ	–	99.36
ČSOB Poist'ovňa a.s.	Bratislava – SK	–	99.52
Fidea NV	Antwerp – BE	0406.006.069	100.00
Groep VTB-VAB NV	Zwijndrecht – BE	0456.267.594	64.80
Car Dent Benelux NV	Zwijndrecht – BE	0460.861.351	64.80
Interassistance NV	Zwijndrecht – BE	0439.707.928	64.15
VTB-VAB NV	Zwijndrecht – BE	0436.267.594	64.80
VDB Fleet Services NV	Zwijndrecht – BE	0866.583.053	45.21
K & H Insurance	Budapest – HU	–	100.00
KBC Life Fund Management SA	Luxembourg – LU	–	100.00
KBC Life Fund Management Ireland Limited	Dublin – IE	–	99.00
Secura NV	Brussels – BE	0403.293.336	95.04
Securlux SA	Luxembourg – LU	–	94.94
TUiR WARTA SA	Warsaw – PL	–	100.00
Powszechne Towarzystwo Emerytalne Dom SA	Warsaw – PL	–	100.00
TUnŻ WARTA VITA SA	Warsaw – PL	–	94.06
WARTA Cultus Sp.z.o.o.	Warsaw – PL	–	100.00

Name	Registered office	VAT number or national identification number	Share of capital held at KBC group level (%)
WARTA Finance SA	Warsaw – PL	–	100.00
WARTA Investment Sp.z.o.o.	Warsaw – PL	–	100.00
WARTA Nieruchomosci Sp.z.o.o.	Warsaw – PL	–	100.00
VITIS Life Luxembourg SA	Luxembourg – LU	–	99.99
Data Office NV	Leuven – BE	0413.719.252	99.99
KBC Insurance: subsidiaries that are not fully consolidated[1]			
Almarisk NV	Merelbeke – BE	0420.104.030	100.00
Almarisk UK Limited	Surrey – UK	–	100.00
Concert Noble NV	Brussels – BE	0431.304.164	100.00
ČSOB Insurance Service Limited	Pardubice – CZ	–	100.00
Fundacja WARTA	Warsaw – PL	–	100.00
Gdynia America Shipping Lines (London) Limited	London – UK	–	73.68
KBC Financial Indemnity Insurance SA	Luxembourg – LU	–	100.00
KBC Frequent Click Conseil SA	Luxembourg – LU	–	100.00
KBC Verzekeringen Vastgoed Nederland I BV	Rotterdam – NL	–	100.00
KBC Zakenkantoor NV	Leuven – BE	0462.315.361	100.00
Maatschappij voor Brandherverzekering cvba	Leuven – BE	0403.552.761	90.55
Omnia cvba	Leuven – BE	0413.646.305	100.00
Van Clapdurp BVBA	Mortsel – BE	0418.119.488	100.00
WARTA Tourism Sp.z.o.o.	Warsaw – PL	–	100.00
KBC Insurance: joint subsidiaries that are proportionately consolidated			
NLB Vita d.d.	Ljubljana – SI	–	50.00
KBC Insurance: joint subsidiaries that are not proportionately consolidated[1]			
Pericles NV	Zaventem – BE	0871.593.005	50.00
KBC Insurance: companies accounted for using the equity method			
Procar SA	Wielun – PL	–	23.65
KBC Insurance: companies not accounted for using the equity method[1]			
AIA-Pool cvba	Brussels – BE	0453.634.752	22.00
Assurcard NV	Leuven – BE	0475.433.127	25.00
EUROSTANDARD Sp.z.o.o.	Warsaw – PL	–	26.94
Optimobil Belgium NV	Brussels – BE	0471.868.277	33.33
KBL EPB: subsidiaries that are fully consolidated			
Kredietbank SA Luxembourgeoise	Luxembourg – LU	–	99.88
Banca KBL Fumagalli Soldan SIM S.p.A.	Milan – IT	–	99.88
Brown Shipley & Co Limited	London – UK	–	99.88
Brown Shipley Holding (Jersey) Limited	Jersey – UK	–	99.88
Cawood Smithie & Co	London – UK	–	99.88
Fairmount Group Nominees Limited	Leatherhead – UK	–	99.88
Fairmount Pension Trustee Limited	London – UK	–	99.88
Fairmount Trustee Services Limited	Leatherhead – UK	–	99.88
KBL Investment Funds Limited	London – UK	–	99.88
Stark Trustee Company	Leatherhead – UK	–	99.88
The Brown Shipley Pension Portfolio Limited	London – UK	–	99.88
White Rose Nominee Limited	London – UK	–	99.88
Fidef Ingénierie Patrimoniale SA	La Rochelle – FR	–	99.88
Financière et Immobilière SA	Luxembourg – LU	–	99.88
Financière Groupe Dewaay	Luxembourg – LU	–	99.88
Puilaetco Dewaay Private Bankers SA	Luxembourg – LU	–	99.88
KB Lux Immo SA	Luxembourg – LU	–	99.88
Centre Europe SA	Luxembourg – LU	–	99.88
KB Luxembourg (Monaco) SA	Monaco – MC	–	99.88
sci KB Luxembourg Immo I (Monaco)	Monaco – MC	–	99.88
KBL Beteiligungs AG	Mainz – DE	–	99.88
Merck Finck & Co	Munich – DE	–	99.88

Name	Registered office	VAT number or national identification number	Share of capital held at KBC group level (%)
Merck Finck Invest Asset Management GmbH	Munich – DE	–	99.88
Merck Finck Pension Fund	Munich – DE	–	99.88
Merck Finck Treuhand AG	Munich – DE	–	99.88
Merck Finck Vermögensbetreuungs AG	Munich – DE	–	85.58
Unterstützung. u. Einrichtung der Bank	Munich – DE	–	99.88
Modernisierungsgesellschaft Lübecker Strasse	Mainz – DE	–	78.96
KBL Finance Limited	Dublin – IE	–	99.88
KBL France SA	Paris – FR	–	99.88
Abballea France	Brest – FR	–	99.88
KBL France Gestion	Paris – FR	–	99.83
Kredietbank Informatique GIE	Luxembourg – LU	–	99.88
Kredietbank (Suisse) SA	Geneva – CH	–	99.87
Privagest SA	Geneva – CH	–	89.88
Kredietrust Luxembourg SA	Luxembourg – LU	–	99.88
Puilaetco Private Bankers SA	Brussels – BE	0403.236.126	99.88
Banque Puilaetco Luxembourg SA	Luxembourg – LU	–	99.88
DL Quality Asset Management SA	Luxembourg – LU	–	99.88
Renelux SA	Luxembourg – LU	–	99.88
Rocher Limited	Douglas – IM	–	99.88
sci KB Luxembourg Immo III (Monaco)	Monaco – MC	–	99.88
Theodoor Gilissen Bankiers NV	Amsterdam – NL	–	99.88
Administratiekantoor Interland BV	Amsterdam – NL	–	99.88
Administratiekantoor voor Handel en Nijverheid BV	Amsterdam – NL	–	99.88
Administratiekantoor Gebr. Boissevain en Texeira BV	Amsterdam – NL	–	99.88
Administratiekantoor Gebr. Boissevain en Kerkhoven BV	Amsterdam – NL	–	99.88
Administratiekantoor van Theodoor Gilissen NV	Amsterdam – NL	–	99.88
Pacific Administratiekantoor BV	Amsterdam – NL	–	99.88
Trust- en Administratiekantoor Mij. Interland BV	Amsterdam – NL	–	99.88
Avocet Holding BV	Amsterdam – NL	–	99.88
Lange Voorbehout BV	Amsterdam – NL	–	99.88
Lechia BV	Amsterdam – NL	–	99.88
Neufvilles BV	Amsterdam – NL	–	99.88
Onafhankelijk Vermogensbeheer ’s-Gravenhage BV	The Hague – NL	–	99.88
Stroeve Asset Management BV	Amsterdam – NL	–	99.88
Stroeve Breda & Co. NV	Amsterdam – NL	–	99.88
TG Fund Management BV	Amsterdam – NL	–	99.88
TG Ventures BV	Amsterdam – NL	–	99.88
Theodoor Gilissen Global Custody BV	Amsterdam – NL	–	99.88
Theodoor Gilissen Trust BV	Amsterdam – NL	–	99.88
Van Kollem en Broekman Effecten BV	Amsterdam – NL	–	99.88
Wereldeffect BV	Amsterdam – NL	–	99.88
KBL EPB: subsidiaries that are not fully consolidated[1]			
Ceres SA	Münsbach – LU	–	99.88
Grundstückgesellschaft Lübeckerstrasse 28/29 Berlin GmbH	Mainz – DE	–	99.88
Merck Finck Beteiligungs GmbH	Munich – DE	–	99.88
Merck Finck Fund Managers Luxembourg SA	Munich – DE	–	99.88
Plateau Real Estate Limited	Douglas – IM	–	99.88
snc KBL France Courtage Assurances	Paris – FR	–	99.88
sci KB Luxembourg Immo II (Monaco)	Monaco – MC	–	99.88
Steubag G Betriebswirtschafts und Bankendienstleistungsberatung in Rheinland-Pfalz mbH	Mainz – DE	–	99.88
KBL EPB: joint subsidiaries that are proportionately consolidated			
None			
KBL EPB: joint subsidiaries that are not proportionately consolidated[1]			
Cogere SA	Luxembourg – LU	–	49.94
Gécalux sarl	Münsbach – LU	–	49.94

Name	Registered office	VAT number or national identification number	Share of capital held at KBC group level (%)
KBL EPB: companies accounted for using the equity method			
EFA Partners SA	Luxembourg – LU	–	52.64
European Fund Administration SA	Luxembourg – LU	–	52.64
KBL EPB: companies not accounted for using the equity method[1]			
Damsigt scp	Utrecht – NL	–	24.55
TVM GmbH	Grünwald – DE	–	31.21
TVM KG	Grünwald – DE	–	21.43
KBC Group NV: subsidiaries that are fully consolidated			
KBC Groep NV	Brussels – BE	0403.211.479	100.00
Almafin NV	Zaventem – BE	0404.040.632	100.00
City Hotels NV	Zaventem – BE	0416.712.394	85.51
City Hotels International NV	Zaventem – BE	0449.746.735	85.51
CH Corp	Rockville – US	–	85.51
City Hotels USA Inc.	Rockville – US	–	85.51
Renthotel Utah LC	Rockville – US	–	85.51
Renthotel Detroit LLC	Rockville – US	–	85.51
Renthotel Singer LLC	Rockville – US	–	85.51
Gevafin SA	Luxembourg – LU	–	100.00
KBC Bank NV	Brussels – BE	0462.920.226	100.00
KBC Exploitatie NV	Brussels – BE	0465.746.488	100.00
KBC Insurance NV	Brussels – BE	0403.552.563	100.00
Kredietcorp SA	Luxembourg – LU	–	100.00
Kredietbank SA Luxembourgeoise	Luxembourg – LU	–	99.88
Royal Oak Sah	Luxembourg – LU	–	99.00
KBC Group NV: subsidiaries that are not fully consolidated[1]			
Almaloisir & Immobilier sas	Nice – FR	–	100.00
Fidabel NV	Brussels – BE	0403.211.479	100.00
Gebema NV	Mortsel – BE	0461.454.338	100.00
General Building Leasing NV	Zaventem – BE	0445.312.548	100.00
Orim NV	Zaventem – BE	0459.182.558	100.00
Origo Belgium NV	Zaventem – BE	0435.778.735	100.00
Valuesource NV	Brussels – BE	0472.685.453	100.00
Valuesource Technologies Private Limited	Alwarpet – IN	–	99.99
KBC Group NV: joint subsidiaries that are proportionately consolidated			
None			
KBC Group NV: joint subsidiaries that are not proportionately consolidated[1]			
None			
KBC Group NV: companies accounted for using the equity method			
None			
KBC Group NV: companies not accounted for using the equity method[1]			
Etoiles d'Europe sas	Paris – FR	–	45.00

1 Insignificant, unless otherwise indicated (see footnote 2).
2 Real estate certificates.

COMPANY ANNUAL ACCOUNTS

BACKGROUND

The company annual accounts of KBC Group NV are presented here in abridged form. As required by law, the company annual accounts, the report of the Board of Directors and the auditor's report are filed with the National Bank of Belgium. These documents are available free of charge on request from:

KBC Group NV
Investor Relations – IRO
2 Havenlaan
1080 Brussels
Belgium

The auditor has delivered an unqualified audit opinion on the company annual accounts of KBC Group NV.

The company annual accounts have been prepared according to Belgian accounting standards (B-GAAP) and are, therefore, not comparable with the figures prepared in accordance with IFRS in the other sections of this annual report.

COMPANY BALANCE SHEET, PROFIT AND LOSS ACCOUNT, AND PROFIT APPROPRIATION (B-GAAP)

Company balance sheet after profit appropriation, according to B-GAAP

In millions of EUR	31-12-2005	31-12-2006
Fixed assets	8 787	8 130
IV Financial fixed assets	8 787	8 130
A Associated companies	8 775	8 119
1 Participating interests	8 474	7 816
2 Amounts receivable	301	303
B Companies linked by participating interests	12	11
1 Participating interests	2	1
2 Amounts receivable	10	10
Current assets	805	1 784
VII Amounts receivable within one year	43	68
A Trade debtors	28	36
B Other amounts receivable	15	32
VIII Investments	668	1 601
A Own shares	154	785
B Other investments	515	815
IX Cash at bank and in hand	82	100
X Deferred charges and accrued income	11	15
Total assets	9 592	9 914
Capital and reserves	7 070	7 852
I Capital	1 234	1 235
A Subscribed capital	1 234	1 235
II Share premium account	4 138	4 149
IV Reserves	622	1 100
A Legal reserve	123	123
B Reserves not available for distribution	155	787
C Untaxed reserves	190	190
D Reserves available for distribution	154	0
V Profit brought forward	1 076	1 369
Provisions and deferred taxes	13	10
VII Provisions for liabilities and charges	13	10
Creditors	2 509	2 052
VIII Amounts payable at more than one year	849	628
A Financial debts	849	628
1 Non-subordinated bonds	101	101
2 Credit institutions	240	20
3 Other loans	507	507
IX Amounts payable within one year	1 574	1 352
A Amounts payable at more than one year falling due within the year	59	20
B Financial debts	521	35
2 Trade debts	521	35
C Trade debts	1	1
E Amounts owed because of taxation, remuneration and social security charges	57	84
1 Taxes	10	24
2 Remuneration and social security charges	47	60
F Other creditors	936	1 212
X Accrued charges and deferred income	87	71
Total liabilities	9 592	9 914

Company profit and loss account, according to B-GAAP		
In millions of EUR	**31-12-2005**	**31-12-2006**
Charges		
A Interest and other debt charges	96	74
B Other financial charges	1	5
C Services and sundry goods	29	42
D Remuneration, social security charges and pensions	198	250
F Depreciation, amortisation, amounts written down and provisions for liabilities and charges	5	2
G 1) Write-downs on financial fixed assets	129	6
2) Write-downs on current assets	15	0
I Losses on sale of financial fixed assets	3	0
K Taxes	26	52
L Profit for the period	1 645	2 258
Total	**2 147**	**2 689**
N Profit for the period available for appropriation	1 705	2 258
Income		
A Income from financial fixed assets	1 873	2 146
B Income from current assets	37	45
C Other financial income	7	9
D Other operating income	230	292
G 1) Reversals of write-downs on financial fixed assets	0	3
I 2) Gains on sale of financial fixed assets	0	192
J Extraordinary income	0	1
[M Transfer from untaxed reserve]	61	0
Total	**2 147**	**2 689**

Appropriation account, according to B-GAAP		
In millions of EUR	**31-12-2005**	**31-12-2006**
A Profit to be appropriated	2 002	3 334
1 Profit for the period available for appropriation	1 705	2 258
2 Profit brought forward from the previous financial year	296	1 076
C Appropriations to capital and reserves	0	778
1 To the legal reserve	0	0
2 To other reserves	0	778
D Profit (Loss) to be carried forward	1 076	1 369
F Profit to be paid out	926	1 187
1 Dividends	911	1 168
2 Directors' entitlements	1	1
3 Employee profit-sharing	13	18

It will be proposed to the general meeting of shareholders that the profit for appropriation of 3 334 million euros be appropriated as shown in the table (column 31-12-2006). If this proposal is approved, the gross dividend will come to 3.31 euros per KBC Group NV share entitled to dividend for the 2006 financial year. Less the withholding tax of 25%, the net dividend will come to 2.4825 euros per ordinary share. For VV shares, withholding tax amounts to 15%, and the net dividend will in this case come to 2.8135 euros.

In calculating the number of shares entitled to dividend, the following must be taken into account:

- The 117 045 shares issued for the capital increase for personnel in 2006 will only be entitled to dividend from the 2007 financial year;
- A proposal will be submitted to suspend the entitlement to dividend for coupon number 40 for the remaining 8 229 723 treasury shares repurchased under the 2006 buyback programme, as well as for coupon number 40 and the following coupons for 2 000 000 treasury shares repurchased under the 2007 buyback programme;
- Consequently, based on 363 217 068 shares as at 31 December 2006, the number of shares entitled to dividend comes to 352 870 300.

NOTES TO THE COMPANY ANNUAL ACCOUNTS (B-GAAP)

Note 1: Financial fixed assets (B-GAAP; non-consolidated)

Financial fixed assets, according to B-GAAP				
In millions of EUR	Participating interests in associated companies	Amounts receivable from associated companies	Participating interests in companies linked by participating interests	Amounts receivable from companies linked by participating interests
Carrying value at 31-12-2005	8 474	301	2	10
○ Acquisitions in 2006	100	2	0	0
○ Disposals in 2006	-13	0	-1	0
○ Other changes in 2006	-745	0	0	0
Carrying value at 31-12-2006	7 816	303	1	10

KBC Group NV's participating interests in associated companies comprise mainly the shareholdings in KBC Bank NV (99.99%), KBC Insurance NV (99.99%), Kredietbank SA Luxembourgeoise (KBL EPB, 91.49% – excluding the KBL EPB shares held by Kredietcorp SA), KBC Exploitatie NV (99.99%), KBC Asset Management NV (48.14%) and Almafin NV (99.99%). The main changes compared with year-end 2005 are the increase in the shareholding in KBL EPB (which went from 89.95% to 91.49%), the subscription to the capital increase of KBC Exploitatie NV (50 million euros), the sale of 410 000 KBC Asset Management NV shares to KBC Bank NV subsidiaries, and the merger of Gevaert NV with KBC Group NV (which has resulted in the remaining subsidiaries of the former Gevaert – the main one being Almafin NV – coming directly under KBC Group NV).

The amounts receivable from associated companies relate to an ACB (a subordinated, automatically convertible bond loan) issued in 1999 in the amount of 250 million euros by KBC Bank NV that matured in 2006 and was converted into a subordinated perpetual loan to KBC Bank NV. Besides this, there are the subordinated loans of 24.8 million euros each granted by Almanij in 1998 and 2000 to Almafin NV. Movements since year-end 2005 relate to the increase in the amounts receivable from KBC Bank NV owing to the conversion of 33 386 MCBs into an equal number of KBC Group NV shares.

Participating interests in companies linked by participating interests are accounted for by the investment in ARDA IMMO NV (formerly Ardatis NV). Following the partial demerger of this company in 2006, KBC Group NV's shareholding has been reduced by 1.4 million euros.

The amounts receivable from companies linked by participating interests are accounted for by the portion of a bond loan issued in 2005 by Nova Ljubljanska banka that KBC Group NV subscribed to.

Note 2: Changes in capital and reserves (B-GAAP; non-consolidated)

Changes in capital and reserves, according to B-GAAP							
In millions of EUR	31-12-2005	Capital increase for staff	Conversion of MCBs and exercise of warrants	Cancellation of own shares	Exercise of options	Retained profit	31-12-2006
Capital	1 234	1	0	0	0	0	1 235
Share premium account	4 138	8	2	0	0	0	4 149
Reserves	622	0	0	522	-44	0	1 100
Profit (Loss) brought forward	1 076	0	0	-822	44	1 071	1 369
Capital and reserves	7 070	9	2	-300	0	1 071	7 852

At year-end 2006, the capital and reserves of KBC Group NV came to 7 852 million euros after profit appropriation. The main changes in 2006 stemmed from the capital increase for staff, the conversion of MCBs, the cancellation of treasury shares, the exercise of staff stock options and profit retention. The changes in capital and the share premium account are detailed below.

Note 3: Details of changes in capital and the share premium account (B-GAAP; non-consolidated)

At year-end 2006, the company's issued share capital amounted to 1 234 711 502 euros, represented by 363 217 068 shares, 55 353 657 of which were VV shares. Of these last, 117 045 will only be entitled to dividend from the 2007 financial year. The share capital is fully paid up. During the course of the financial year, share capital increased by 510 610 euros.

Changes in capital and the share premium account in 2005 and 2006, according to B-GAAP

In EUR	Date	Capital	Share premium account	Number of shares
Contribution of 1998-2008 MCBs	24-03-2005	1 233 728 361	4 130 235 790	366 426 420
Contribution of 1998-2008 MCBs	29-06-2005	1 233 730 605	4 130 280 186	366 427 086
Contribution of 1998-2008 MCBs	28-09-2005	1 233 733 840	4 130 344 179	366 428 046
Exercise of warrants	10-11-2005	1 233 734 699	4 130 363 702	366 428 301
Exercise of warrants	07-12-2005	1 233 735 343	4 130 378 325	366 428 492
Capital increase for staff	28-12-2005	1 234 188 473	4 137 992 795	366 562 952
Contribution of 1998–2008 MCBs	28-12-2005	1 234 200 892	4 138 238 437	366 566 637
Contribution of 1998-2008 MCBs	31-03-2006	1 234 296 971	4 140 138 914	366 595 147
Cancellation of own shares	27-04-2006	1 234 296 971	4 140 138 914	363 095 147
Contribution of 1998-2008 MCBs	29-06-2006	1 234 300 527	4 140 208 609	363 096 193
Contribution of 1998-2008 MCBs	27-09-2006	1 234 306 161	4 140 319 015	363 097 850
Capital increase for staff	29-12-2006	1 234 704 114	4 148 451 301	363 214 895
Contribution of 1998-2008 MCBs	29-12-2006	1 234 711 502	4 148 596 088	363 217 068

The main changes in 2006 are as follows:

- As a result of a capital increase decided upon by the Board of Directors under its authority to raise capital, 117 045 new VV shares were issued that were reserved exclusively for the personnel of KBC Group NV and some of its Belgian subsidiaries. Consequently, the pre-emption right of existing shareholders was suspended. The shares were issued at a price of 72.88 euros and will be blocked for two years. Through this capital increase, the group aims to strengthen its ties with personnel. Given the limited extent of the capital increase, the financial ramifications for existing shareholders are minor.
- Further, during the course of the financial year, 33 386 new shares were created through the contribution of 33 386 subordinated 1998-2008 MCBs redeemable in KBC Group NV shares.
  At year-end 2006, there were a total of 2 606 452 1998-2008 MCBs in circulation (for a nominal amount of 182.5 million euros, with a base rate of 3.5% and a maturity date of 30 November 2008) that had not yet been contributed to the capital of KBC Group NV. The holders of these bonds have the right until 30 November 2008 to request that their MCBs be converted according to a ratio of one new KBC Group NV share for one MCB. MCBs that have not been contributed by their holders will be converted automatically into new KBC Group NV shares at maturity. This will result in the number of VV shares increasing by 2 606 452.
- Under the 2006 share buyback programme, 11 729 723 treasury shares were repurchased during the financial year, 3 500 000 of which were cancelled at the General Meeting of Shareholders on 27 April 2006. This cancellation was charged entirely to the reserve not available for distribution (see 'Group Structure, strategy and international presence').

The authorisation to increase capital may be exercised until 17 June 2009 for an amount of 198 876 943 euros. Consequently, based on a par value of 3.40 euros a share, a maximum of another 58 493 218 new KBC Group NV shares can be issued under this authorisation.

Note 4: Shareholders

As appears from the notifications received pursuant to the Belgian Act of 2 March 1989 on the disclosure of significant participations in listed companies and the regulation of public takeover bids, and to Articles 631 and 632 of the Belgian Companies Code, the shareholder structure is as follows:

Shareholder structure on 02-03-2005[1] (notification in accordance with the Act of 2 March 1989)

	Address	Number of shares	Number of convertible bonds
Almancora Comm. VA	5 Philipssite, box 10, 3001 Leuven, Belgium	75 815 338	0
Cera CVBA	5 Philipssite, box 10, 3001 Leuven, Belgium	23 345 500	0
MRBB CVBA	40 Diestsevest, 3000 Leuven, Belgium	42 562 665	0
Other core shareholders	C/o Ph. Vlerick, 2 Ronsevaalstraat, 8510 Bellegem, Belgium	42 715 838	0
KBC-group companies[2]	2 Havenlaan, 1080 Brussels, Belgium	11 017 286	0

1 12 June 2006 for KBC group companies.
2 KBC Group NV, KBC Bank NV, IIB Bank Limited, VITIS Life Luxembourg SA, Assurisk SA, Ligeva NV, KBC Investments Limited and KBC Securities NV.

In March 2005, Almancora, Cera, MRBB and the other core shareholders disclosed that they had a shareholding in KBC Group NV of 20.69%, 6.37%, 11.62% and 11.66%, respectively, on 2 March 2005. At that time, there were 366 423 447 KBC Group NV shares in circulation. In June 2006, KBC Group NV – together with a number of group companies – disclosed that they had a combined shareholding in KBC Group NV of 3.03% on 12 June 2006. At that time, there were 363 095 147 KBC Group NV shares in circulation.

Shareholder structure on 31-12-2006 (notification in accordance with the Belgian Companies Code)		
	Address	Number of shares
Assurisk SA	8-10 avenue de la Gare, 1610 Luxembourg, Grand Duchy of Luxembourg	700
KBC Bank NV	2 Havenlaan, 1080 Brussels, Belgium	5 116 045
KBC Investments Limited	111 Old Broad Street, EC2N 1FP London, United Kingdom	137 390
KBC Securities NV	12 Havenlaan, 1080 Brussels, Belgium	1
Ligeva NV	12 Havenlaan, 1080 Brussels, Belgium	6 000
VITIS Life Luxembourg SA	7 boulevard Royal, postbox 803, 2018 Luxembourg, Grand Duchy of Luxembourg	10 800

The notifications received pursuant to the Belgian Companies Code regarding shareholdings as at year-end 2006 are shown in the table. Together, these holdings represent 5 270 936 shares, or 1.45% of a total of 363 217 068 shares in circulation.
Information on (changes in) KBC shares held by KBC Group NV is provided in 'Shareholder information', in the 'KBC share in 2006' table, under the heading 'Share buyback plan and changes in the number of KBC Group NV treasury shares'. The average par value of the KBC share came to 3.40 euros during 2006.

Note 5: Balance sheet

'Investments' came to 1 601 million euros at year-end 2006. The year-on-year increase (933 million euros) resulted from the rise in 'other investments' (up 300 million euros; mainly term investments at no more than one month) and 'own shares' (up 632 million euros, on account of the 2006 share buyback programme; the remaining shares repurchased under this programme that were not cancelled in 2006 will be cancelled in 2007).

'Amounts payable at more than one year' were 220 million euros lower, on balance, mainly on account of the redemption before maturity (2010) of a 200-million-euro straight loan granted by KBC Bank NV and the transfer of 20 million euros in funding for the 2002 stock option plan to 'amounts payable within one year'.

'Financial debts payable within one year' fell by 486 million euros, owing mainly to the debt-reduction policy (non-renewal of the ongoing commercial paper programme).

The main component of the 'other loans' heading are dividends to be paid.

Note 6: Profit and loss account

KBC Group NV employs around 3 600 individuals on behalf of group companies participating in the cost-sharing structure under a co-operation agreement. This co-operation relates to, among other things, ICT, communication, marketing, market research and logistical services. The costs incurred for these services are not borne by the holding company, but are divided up among the participants according to objective criteria. The total costs incurred in this way on behalf of and charged to the participants in the cost-sharing structure came to 290 million euros in 2006.

KBC Group NV made a net profit of 2 258 million euros in 2006. The main income items were dividend receipts totalling 2 128 million euros from KBC Bank, KBC Insurance, KBC Asset Management and KBL EPB. The 274-million-euro increase on 2005 is the resultant primarily of higher dividends being paid by KBC Insurance NV, KBC Bank NV and KBC Asset Management NV (total: +565 million euros) and the fact that there were no longer any dividends from Gevaert NV (-322 million euros).
The main expense items (aside from the expenses incurred for the cost-sharing structure) were debt-service charges and costs stemming from the group's acquisition activities and external communication.

Note 7: Auditor's remuneration

Basic remuneration for audit services: in 2006, KBC Group NV paid Ernst & Young Bedrijfsrevisoren (E&Y) fees of 137 980 euros.
Remuneration paid to E&Y for non-audit services came to 116 634 euros in 2006, viz.:
- other certifications: 32 134 euros;
- tax advice: 14 500 euros;
- other non-audit assignments: 70 000 euros.

Note 8: Conflicts of interest

Please see the 'Corporate governance' section, under 'Conflicts of interest that fall within the scope of Article 523 or 524 of the Belgian Companies Code'.

ADDITIONAL INFORMATION

RESTATEMENT OF THE FIGURES FOR 2005

KBC originally opted to limit volatility caused by the mismatch (under IAS 32 and IAS 39) between the loan portfolio (measured at amortised cost) and the ALM derivatives used for hedging the interest-rate risk in the loan portfolio (measured at fair value) by using the 'fair value option' instead of hedge accounting. Part of the bond portfolio was classified as 'Financial instruments at fair value through profit or loss', so that the changes in the fair value of hedging derivatives were offset (to a large extent) by opposite fair value changes in the portfolio of financial instruments at fair value through profit or loss. With this approach, the interest component of the hedging derivatives was recorded to 'Net gains from financial instruments at fair value through profit or loss'.

In the fourth quarter of 2005, KBC decided to apply 'fair value hedge accounting for a portfolio hedge of interest rate risk' on the basis of the carved-out version of IAS 39, as approved by the EU (i.e. portfolio hedging) for much of KBC Bank's activities in Belgium. As a result, hedging via the fair value option was largely replaced by portfolio hedging, which means that both ALM derivatives and the underlying loan portfolio are measured at fair value. This adjustment had a negative impact before tax of 40 million euros for the 2005 financial year and the effect was initially fully absorbed in the fourth quarter of 2005. The interest component of the portfolio hedge derivatives remained at the time in 'Net gains from financial instruments at fair value through profit or loss'.

In the first quarter of 2006, KBC restated its figures for 2005, spreading the aforementioned effect over the four quarters of 2005 (instead of just one) and moving interest on portfolio hedge derivatives from 'Net gains from financial instruments at fair value through profit or loss' to 'Net interest income'. This did not affect net profit for 2005.

The table provides an overview of the original and restated figures. The adjustments were limited to 'Net interest income' and 'Net gains from financial instruments at fair value through profit or loss'. An overview of the adjustments made per quarter appears in the *Quarterly Report – KBC Group, 4Q 2006* (available at www.kbc.com).

Restatement of the figures for 2005 **In millions of EUR**	**Original figures**	**Restated figures**
Net interest income	4 348	4 219
Net gains from financial instruments at fair value through profit or loss	513	642

GLOSSARY OF RATIOS USED

Basic earnings per share	[net profit (group share)] / [average number of ordinary shares, plus mandatorily convertible bonds, less treasury shares].
CAD ratio (banking)	[consolidated regulatory capital of KBC Bank and KBL EPB] / [total risk-weighted volume of KBC Bank and KBL EPB]. Detailed calculations in the 'Consolidated annual accounts' section, Note 43. This information is also available for KBC Bank and KBL EPB separately.
Combined ratio (non-life insurance)	[net claims incurred / net earned premiums] + [net expenses / net written premiums].
Cost/income ratio	[operating expenses of the banking business and European private banking business] / [gross income of the banking business and European private banking business].
Cover ratio	[individual impairment on non-performing loans] / [outstanding non-performing loans]. For a definition of 'non-performing', see 'Non-performing ratio'. The numerator may also include individual impairment on performing loans and portfolio-based impairment.
Diluted earnings per share	[net profit (group share), adjusted for interest expense (after tax) for non-mandatorily convertible bonds] / [average number of ordinary shares, plus mandatorily convertible bonds, less treasury shares, plus the potentially dilutive effect of options and non-mandatorily convertible bonds].
Dividend per share	[amount of dividend paid out] / [number of shares entitled to dividend at the end of the period]. The net dividend per share is net of withholding tax on shares.
Equity market capitalisation	[closing price of KBC share] x [number of ordinary shares].
Equity per share	[parent shareholders' equity] / [number of ordinary shares and mandatorily convertible bonds, less treasury shares (at period-end)].
Gearing ratio	[sum of the consolidated equity of KBC Bank, KBC Insurance, KBL EPB, the remaining former Gevaert group companies and KBC Exploitatie] / [consolidated equity of KBC group].
Loan loss ratio	[net changes in individual and portfolio-based impairment for credit risks] / [average outstanding loan portfolio]. For a definition of the loan portfolio, see the 'Value and risk management' section.
Non-performing ratio	[amount outstanding of non-performing loans (loans for which principal repayments or interest payments are more than ninety days in arrears or overdrawn)] / [total outstanding loan portfolio].
Return on allocated capital for a particular business unit	[net profit, including minority interests, of a business unit, adjusted to take account of allocated capital instead of actual capital] / [average allocated capital of the business unit]. The net profit of a business unit is the sum of the net profit made by all the companies in that business unit, adjusted to take account of allocated central overheads and the funding cost of goodwill paid. The capital allocated to a business unit is based on a tier-1 ratio of 8% for the banking activities and a solvency ratio of 200% for the

	insurance activities. For the banking activities, the allocated tier-1 capital comprises core capital (85%) and hybrid capital (15%). For the insurance activities, the allocated solvency capital comprises solely core capital. In calculating the return on allocated capital, only core capital is taken into account in the denominator.
Return on assets (ROA)	[net profit (group share)] / [average total assets].
Return on equity	[net profit (group share)] / [average parent shareholders' equity, excluding the revaluation reserve for available-for-sale investments].
Solvency ratio (group)	[consolidated solvency capital available to the KBC group] / [minimum regulatory solvency capital of KBC Bank, KBC Insurance, KBL EPB, and the holding-company activities combined]. See the 'Value and risk management' section, under Solvency.
Solvency ratio (insurance)	[consolidated solvency capital available to KBC Insurance] / [minimum regulatory solvency margin]. Detailed calculations in the 'Consolidated annual accounts' section, Note 44.
Tier-1 ratio (banking)	[consolidated tier-1 capital of KBC Bank and KBL EPB] / [total risk-weighted volume of KBC Bank and KBL EPB]. Detailed calculations in the 'Consolidated annual accounts' section, Note 43. This information is also available for KBC Bank and KBL EPB separately.

CONTACT DETAILS AND FINANCIAL CALENDAR

Information on products, services and publications of the KBC group can be obtained from the KBC-Telecenter on weekdays between 8 a.m. and 10 p.m., and on Saturdays and bank holidays between 9 a.m. and 5 p.m.
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Shareholders and the press can also contact KBC's Press Office and Investor Relations Office; details are available in the 'Shareholder information' section, along with a financial calendar.

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