

KBC 2006 Embedded Value Results

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I Introduction

For 5 years now, KBC has published its embedded value results to provide an indication of the economic value created by its life insurance portfolio. This embedded value framework has also been used internally as a management tool for the governance of the life insurance portfolio. Profit-testing, value-of-new-business analysis and other applications derived from the detailed embedded value model have been integrated into the everyday operations of the different life insurance entities and divisions.

It is clear that the traditional embedded value figures presented some disadvantages, especially in terms of comparability, due to different opinions being held regarding how several important parameters used in the projections would evolve. Traditional EV figures also failed to reflect the real cost of options and guarantees in a way that was consistent with the cost of hedging them in the financial markets. For these reasons, KBC opted to implement a market-consistent embedded value model.

The step towards market-consistent embedded value (MCEV) was encouraged by both external and internal developments. Important external developments included Solvency II and IFRS Phase 2, which have resulted in market-consistent valuation gaining in importance and have taken the modelling of life insurance business to the next level. Another important development came in the form of the European Embedded Value (EEV) principles. These principles provide a framework that has been designed to improve comparability and transparency in embedded value reporting across Europe. With this move towards MCEV, KBC is not only complying with these principles, it is also taking a further step towards more objective and comparable reporting on the value of its life business.

Internally, ALM and economic capital systems and methodology have been enhanced and become more market-consistent over the past few years, and efforts are ongoing to refine these techniques further. The step towards MCEV will bring KBC's EV methodology and reporting more into line with its internal ALM and risk management processes, as well as with the new external reporting standards that are currently being developed.

In the life business, these new valuation techniques are playing an even more important role, as they are used for profitability analysis and profit-testing. Looking at the profitability of life products through these 'new glasses' provides a new and enhanced view of the relative performance of the different products and business lines.

Watson Wyatt has reviewed the compliance of the used methodology and calculations with the European Embedded Value principles.

II Highlights

In 2006, KBC made the transition to a market-consistent embedded value framework, both for internal and external use. This was a further step towards bringing performance measurement, internal ALM and risk management processes into line with one another within the KBC group,

and making comparisons between bank and insurance products possible. For a bancassurer like KBC, this is an important step.

The completion of the new framework and other model refinements resulted in a restated MCEV on 31/12/2005 of 3 897 million EUR, a 10.2% increase.

In 2006, shareholder value including dividends increased by 25.1%. This performance was driven both by the value of new business and by a successful investment strategy.

An important contribution came from the value of new business which amounted to 161 million EUR.

III Scope

Life business included in cash flow projections

KBC has a broad range of insurance products that are distributed through three main distribution channels, namely bank branches, tied insurance agents and brokers.

Although strong growth in insurance activities has been achieved by the CEE subsidiaries, the bulk of the business is still accounted for by the three Benelux subsidiaries: KBC Insurance (bank branches and tied agents) and Fidea (brokerage) in Belgium and VITIS Life in Luxemburg. An overview of the technical reserves for life insurance can be found in Annex 1.

The portfolios of these three companies are modelled and used in the cash flow projections for valuation purposes. The covered business lines account for:

- 94.5% of the technical life reserves of the KBC group
- 89.6% of total premium inflow (including unit-linked) of the KBC group

The health business is not included in the calculations, due to its close relationship with the P&C business.

In this valuation no allowance has been made for the embedded value of the non-life activities of the KBC Insurance group.

Scope of the ANAV figures

The Adjusted Net Asset Value (ANAV) figures presented are based on the consolidated IFRS accounts for the KBC Insurance group.

IV Methodology and assumptions

1 Methodology

A market-consistent valuation is a valuation of both the assets and the liabilities of the company in a way that is consistent with prices in the financial markets. The value of unquoted assets and liabilities is equivalent to the value that would be placed on the cash flows generated by these assets and liabilities in a deep and liquid market. It is in a sense simply an application of standard valuation principles by insurance companies which is also consistent with modern financial valuation theory applied in the financial markets and hence also with the replication concepts used in ALM, for instance.

Valuing MCEV directly addresses three key criticisms of traditional EV and to a less extent of European EV:

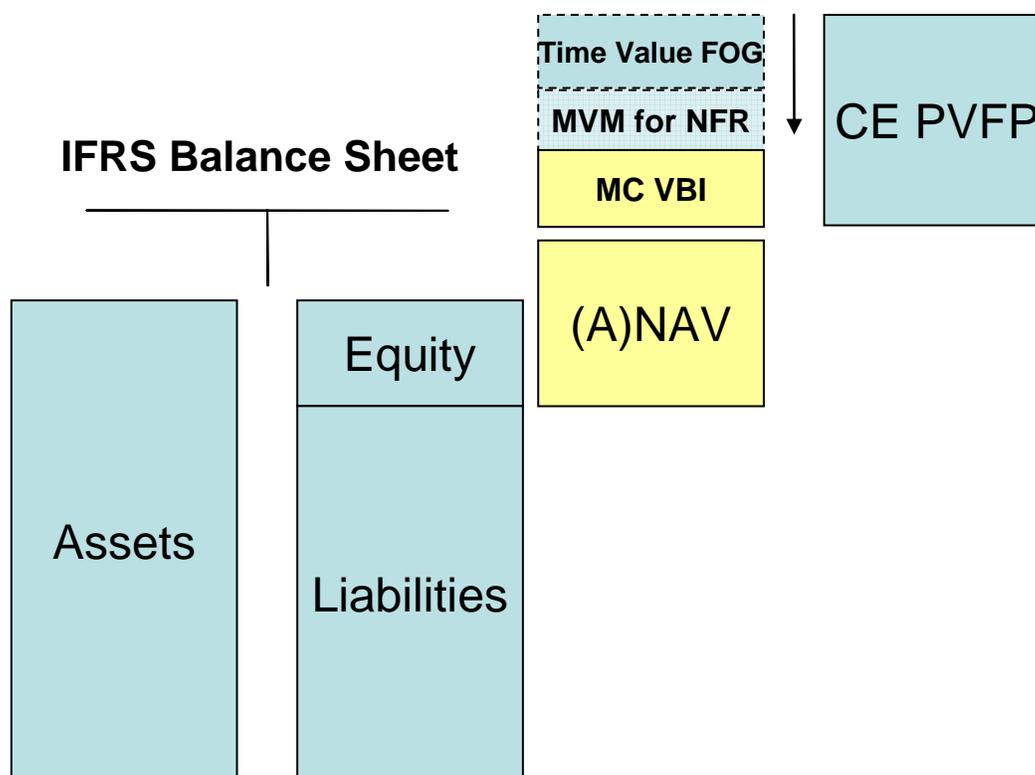
- The risk discount rate (or equivalent) is set objectively, and is based on observable risk-free market rates of return at the valuation date.
- The costs of options and guarantees are valued objectively and explicitly, on the basis of stochastic option pricing techniques used in the financial markets.
- The costs associated with the non-financial risks of an insurance company are explicitly allowed for through a cost-of-capital approach.

The principles underlying MCEV and especially the valuation of in-force policyholder liabilities in line with market prices are:

- **No arbitrage:** If two assets or liabilities have exactly the same cash flows, they should have the same present value.
- **Replication:** Any asset or liability whose cash flows are driven solely by the performance of traded assets can be replicated through (dynamic) investment in a portfolio of these traded assets and the risk-free asset.
- **Market prices:** The modelling of the market-consistent liabilities is consistent with unsmoothed market information as at the valuation date (index levels, risk-free rates, market prices of traded options, etc.) This information may be adjusted; for example, to include the frictional costs associated with the issuers of the market instruments.

2 Presentation

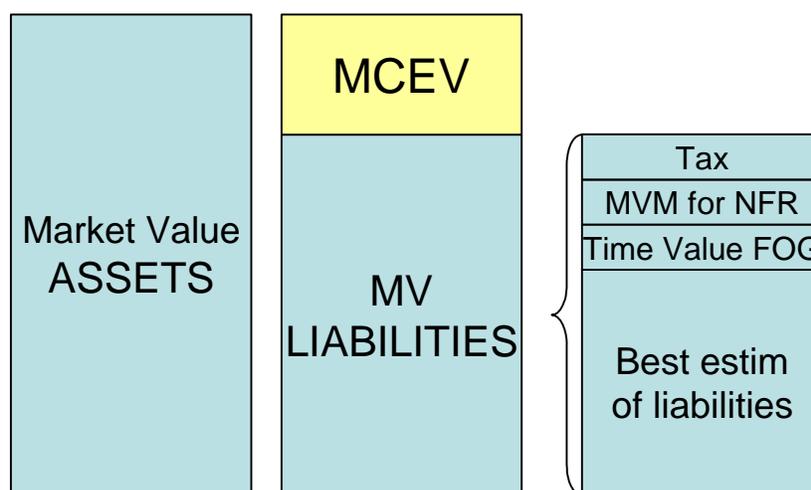
Several methods exist to present the market-consistent value of the life insurance business. KBC has opted to present the figures in a way that is intuitively close to the traditional way of presenting embedded values and in line with the European Embedded Value principles. The main building blocks of the traditional embedded value framework are still present.



- **Adjusted Net Asset Value (ANAV).** The ANAV represents the net tangible assets of the KBC Insurance group. The ANAV is derived from shareholders' equity on the consolidated IFRS balance sheet of KBC Insurance Group. This shareholders' equity is adjusted in order to reflect the full economic (market-consistent) value.
- **Value of Business In Force (VBI).** The VBI is the market-consistent value of the life insurance portfolio. The VBI is composed of different elements:
 - The **certainty-equivalent present value of future profits (CE PVFP)**, which represents the value of the business without taking account of any future investment risk premiums (expected excess returns obtained by taking a risk position on the asset side). This value takes into account the intrinsic value of options and guarantees in the portfolio.
 - The **time value of financial options and guarantees (FOG time value)**, which is deducted from the CE PVFP in order to take the time value of financial options and guarantees offered to the policyholders into account. The FOG time value is calculated on a market-consistent basis, consistent with the valuation of these instruments on the financial markets.
 - A **charge for non-financial risks (MVM for NFR)**, which is also deducted.

An alternative presentation of the same MCEV is the ‘balance sheet’ presentation, in which the MCEV is shown as part of a full fair-value balance sheet. In this presentation, it is easier to understand that the MCEV equals the difference between the fair value of the assets and the fair value of the liabilities. Accordingly, the MCEV is equal to the Net Asset Value of the company, plus the present value of future margins on existing business (after tax).

Full balance sheet approach



Both approaches are equivalent and the final result is not influenced by the presentation used.

3 ANAV methodology

Starting from the shareholders' equity on the consolidated IFRS accounts, the net tangible assets are derived. The following main adjustments are made to arrive at the ANAV:

- Unrealised capital gains/losses that are not yet reflected in the IFRS balance sheet are added. These could be the capital gains on the held-to-maturity (HTM) bonds on the balance sheet, for example.
- Some intangibles on the balance sheet need to be eliminated (goodwill, etc.), since they conceptually represent a book value of what, in this exercise, will be calculated as the value of the business in force. Note that no value is attributed for future new business in this exercise.
- Some additional reserves on the IFRS balance sheet are considered to be part of the ANAV from an economic viewpoint. These reserves are added to the ANAV.
- Unrealised capital gains that will be included in the VBI as part of the portfolios' value need to be subtracted from the ANAV in order to preclude double-counting.
- Tax adjustments relative to the above changes in capital need to be taken into account.

4 VBI methodology

The market consistent value of business in force (MC VBI) can be divided up into two blocks:

- The expected present value of future liability cash flows. This best-estimate value of the liabilities is presented as the sum of the CE PVFP and the time value of financial options and guarantees (FOGs). This way, the time value of the financial options and guarantees is explicitly accounted for in the valuation.
- The additional, explicit cost of non-financial risk (MVM, or market value margin, for NFR)

The different building blocks used to calculate a market-consistent Value of Business in Force (VBI) are described in detail below.

CE PVFP

The Certainty-Equivalent PVFP is the base value of the business without taking into account risk margins on the expected investment returns. This CE PVFP can be calculated using the traditional embedded value models, excluding all risk margins from the projections and discounting at the risk-free rate of return. This effectively counters a potential drawback of the former methodology, whereby changing to a more risky asset mix or changing assumptions about risk premiums could result in higher EV figures. The value that is calculated takes the intrinsic value of the options and guarantees in the portfolio into account, but ignores the time value of options and guarantees, which is valued separately.

Time value of FOGs

The FOG time value is disclosed explicitly to place a market-consistent value on the asymmetry of shareholder profits around their expectations as a result of financial options and guarantees embedded in the insurance cash flows. The expected or intrinsic cost of the financial options and guarantees is allowed for in the Certainty-Equivalent PVFP.

The time value of options and guarantees needs to be deducted from the basic CE PVFP.

The options and guarantees in respect of which an explicit time value is calculated in this exercise are:

- All interest rate guarantees that are given under policies in the portfolio
- Profit-sharing in addition to the guarantees given to the policyholder.

At this time, KBC has chosen not to model other policyholder behaviour options, such as lapses, on a stochastic basis. Including this will require further study and an extension of the models. It

is clear that the effect of these options is of secondary importance compared with the options and guarantees that are included in the model.

The time value of options and guarantees is calculated as the difference between a stochastic valuation of the shareholders margins (calculated by using 1000 risk-neutral scenarios on the basis of a KBC proprietary economic scenario generator) and a single deterministic valuation based on the central scenario at the time of projection (current market conditions also used in the CE PVFP valuation).

MVM for non-financial risks

Where the market-consistent value of future liability cash flows can be determined as the cost of setting up a replicating portfolio, the price can be determined from observable market prices. In order to determine the full market value of the liabilities, an explicit Market Value Margin (MVM) for non-hedgeable risks needs to be deducted. This way, an investor is compensated for the cost of taking on non-hedgeable risks.

KBC models the MVM for non-financial risks according a cost-of-capital approach. This approach is supported by the CRO Forum and is in line with approaches taken in, *inter alia*, Solvency 2 and the Swiss Solvency Test. The basic premise of the cost-of-capital approach is that sufficient capital is needed to cover these non-hedgeable risks during the run-off of the business.

The non-hedgeable risks that are taken into account as the basis for the MVM calculations are life insurance risks (mortality and longevity), operational risks and non-hedgeable ALM risks. The capital required for these risks is estimated using KBC's internal Economic Capital (ECap) model. This ECap model used in the MVM calculations is based on the capital requirements for an AA solvency rating for the life business on a stand-alone basis.

In line with the proposals of CEIOPS (Committee of European Insurance and Occupational Pensions Supervisors) in the third Quantitative Impact Study (QIS3) for Solvency 2 and the approach taken in the Swiss Solvency Test, a cost-of-capital risk premium (above the risk-free rate of return) of 6% is used to determine the MVM.

KBC believes that this cost-of-capital approach to estimate the cost of non-hedgeable risks is the most transparent, easily verifiable and understandable technique currently available in the marketplace.

5 VNB methodology

The value of new business (VNB) includes only the value of the new policies written in 2006. The value of new premiums to existing business is recognised only in the value of the business in force.

Expected future new business is not taken into account in the VNB or VBI figures.

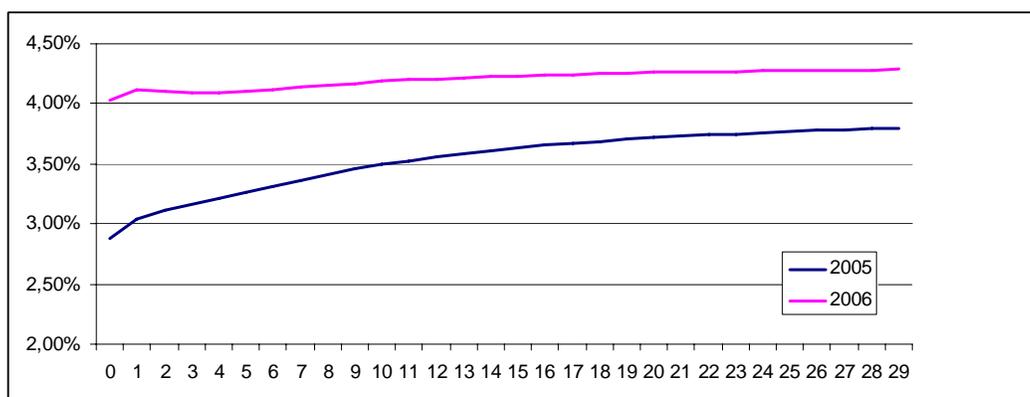
The methodology used for the valuation of new business is the same as is used for the valuation of existing business. The value of new business is calculated at point of sale, using end-of-year assumptions.. The reported VNB includes the initial expenses incurred at the inception of the policies involved.

6 Assumptions

Economic assumptions

Market yield

The euro swap curve for 29/12/2006 was adopted as the basis for the risk-free investment assumptions in KBC's market-consistent valuation. The evolution of the yield curve (forward rates) between 2005 and 2006 has been plotted on the figure below (rates beyond 30 years were derived from the assumption of a flat forward curve). This yield curve has been used to derive stochastic economic scenarios (term structure of interest rates and equity returns), risk-free discount factors and to extract forward reinvestment yields in the CEPVFP.



Volatilities

The volatilities in a risk-neutral model are calibrated to the implied volatilities of market prices for different asset classes. The Economic Scenario Generator is calibrated to volatilities of at-the-money 10-year swaptions (source: Reuters) and at-the-money equity options for the Eurostoxx 50 (source: Dresdner Kleinwort). The term structure of implied volatilities for swaptions was

assumed flat beyond 30 years, while - for the equity component - a constant target forward volatility of 23% has been assumed beyond 5 years (this is consistent with average historical implied volatilities). The market input for 2005 and 2006 is summarised in the tables below.

Swaption volatilities		
Years	2005	2006
1	17.40%	14.00%
3	17.20%	14.10%
5	16.70%	13.60%
10	15.10%	12.50%
20	14.00%	11.80%
30	13.70%	11.30%

Equity volatilities		
Years	2005	2006
1	15.16%	16.60%
3	17.56%	18.30%
5	19.26%	19.70%
10	21.21%	21.41%
20	22.12%	22.22%
30	22.42%	22.48%

Inflation

Inflation rates are assumed to be a flat 2% throughout the projections. Expenses are inflated at expected wage inflation instead of CPI inflation. Future expected wage inflation is set at 2.5%, flat.

Modelling of participating business (with profits business)

Participating business is business that is typically characterised by:

- A minimum guaranteed return;
- Bonuses on top of this minimum guarantee level. The amount granted to the clients in the modelled portfolios is – in line with with local regulations – determined at the management’s discretion. The models reflect profit-sharing according to past KBC practice and local market practices, reflecting the link with the performance of the financial markets and taking into account management actions.

The nature of this business makes stochastic modelling necessary in order to capture the variation in value that stems from changing economic environments.

The minimum guarantee level and bonuses attributed impact that part of the Certainty-Equivalent PVFP that is not linked to the actual investment result.

The time value of the financial options and guarantees will reflect the likelihood of additional payment to the policyholder. This is the value on top of the intrinsic value of those options, which has already been captured in the Certainty-Equivalent PVFP. The nature of the bonus policy leads to asymmetric results, since it is likely that part of the returns will be paid out to policyholders if the market performs well, while conversely, if the market does not perform well, shareholders will bear part, if not all, of the negative returns.

Tax assumptions

Tax is modelled on a top-down basis. The appropriate tax rates are applied to all items that are recognised as (future) profits.

Expenses

All expenses of the modelled business are included in the projections by means of a detailed Activity-Based Costing model. This includes all investment expenses, expenses of projects under development and expenses of the holding companies. One-off investments are expected to be repeated in the future for a similar amount.

The projected expenses are expected to grow at the same rate as expected future wage inflation. Wage inflation is assumed to be 2.5%, flat, throughout the projection. There is no allowance made for future productivity gains.

Non-economic assumptions

Cash flows are based on best-estimate assumptions in order to reflect the obligations to the policyholders.

- The mortality experience tables used in reporting are based on the Belgian mortality experience figures that are published by Assuralia and updated each year.
- Lapses and dormancy figures are based on yearly experience studies performed by the life actuaries of KBC. Based on historic figures and management judgement of future best estimates, lapse and dormancy figures are derived for the following years. The lapse and dormancy assumptions are set on the product level and take into account several aspects, such as the sales channel, age of policyholder(s), lifetime of the policy, fiscal treatment.

Y Restatement of results at year-end 2005

Last year's publication was based on a traditional calculation and presentation of embedded value. With the introduction of the Market-Consistent EV model and other modelling improvements, the 2005 EV results have been restated. The transition from the published EV results for 31/12/2005 on a traditional basis to a market-consistent value has resulted in a 10.2% increase, as detailed in the following table.

	<u>31/12/2005</u>	<u>restatement</u>		<u>MCEV 31/12/2005</u>
PVFP	675.107	973.391	CE PVFP	1.241.510
cost of tied surplus	-206.783	-237.094	Time Value FOG's	-209.322
VBI	468.324	736.298	MVM for NFR	-110.893
			MC VBI	921.295
ANAV	3.068.163	3.068.163	ANAV	2.975.918
Embedded Value	3.536.487	3.804.461	MCEV	3.897.213

The transition from traditional EV per 31/12/2005 to MCEV per 31/12/2005 was made in 2 steps:

Step 1: Adjustment of the traditional EV figures (+7.6%)

First, the traditional embedded value result was restated. As indicated last year, the published embedded value results had not until then included the investment margins after expenses earned by KBC Asset Management on the unit-linked funds sold through KBC Insurance. This additional value to KBC was disclosed for the first time last year in the EV presentation. In line with the European Embedded Value principles, KBC has now opted to include all group earnings in the embedded value results for this year.

The restatement of the traditional embedded value figures also reflects some methodological changes to determine the best-estimate lapse and dormancy figures.

Step 2: From traditional to Market-Consistent EV (+2.4%)

The transition from the traditional embedded value calculation to the market-consistent calculation has led to changes in both the ANAV and the VBI.

The split between ANAV and VBI has changed. In the past, part of the unrealised capital gains on the assets backing the life portfolio and associated taxes were reported under the ANAV. Under the market-consistent methodology, these are now attributed to the MC VBI and therefore excluded from the ANAV.

The re-allocation of these unrealised capital gains and the fact that the market value margins for non-hedgeable risks are lower than the cost of the tied surplus in previous years has resulted in a higher figure for the value of the portfolio (VBI).

The overall embedded value result is slightly higher than in the traditional calculation, which reflects the cautious approach taken by KBC in the past when setting EV parameters.

VI MCEV results at year-end 2006

1 Overview

The table below shows the market-consistent embedded value result for year-end 2006 and compares this figure with the restated MCEV results for year-end 2005 as presented above. These figures show a 14% increase in the market-consistent embedded value. Including dividends paid out in 2006, KBC created a shareholder value of 976 million EUR in 2006, or a return on Embedded Value of 25.1% (compared to the restated 2005 results). This strong growth is the result mainly of a good investment performance and the strong value of new business results.

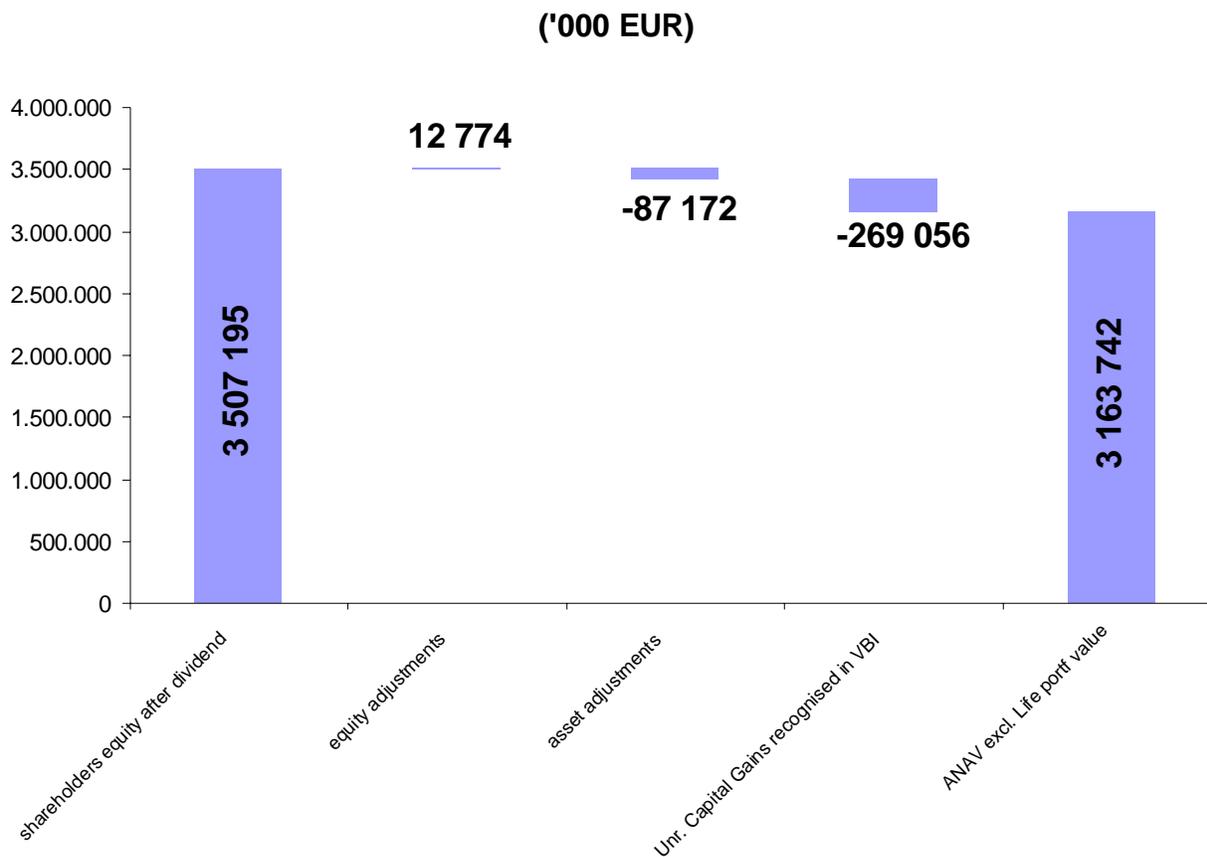
Details on changes in the ANAV and the portfolio value are described below.

	<u>MCEV 31/12/2005</u>	<u>MCEV 31/12/2006</u>	<u>delta</u>
MC VBI	921.295	1.279.925	38,93%
ANAV	2.975.918	3.163.742	6,31%
MCeV	3.897.213	4.443.667	14,02%

2 ANAV

As described above, the MCEV methodology has had an impact on the presentation of the ANAV figures. Unrealised capital gains that were previously incorporated into the ANAV are now part of the market-consistent value in force. In addition, the release of extra reserves and the resulting tax effects for the life business are no longer included in the ANAV.

The following graph shows the composition of the ANAV, and explicitly indicates the amount that was previously reported in ANAV but is now part of portfolio value.



3 MC VBI

The stochastic valuation techniques used to calculate the MCEV make it possible to explicitly show the time value of financial options and guarantees. The evolution of the yield curve in 2006 reduced this time value significantly, both as a result of the rise and the flattening of the yield curve.

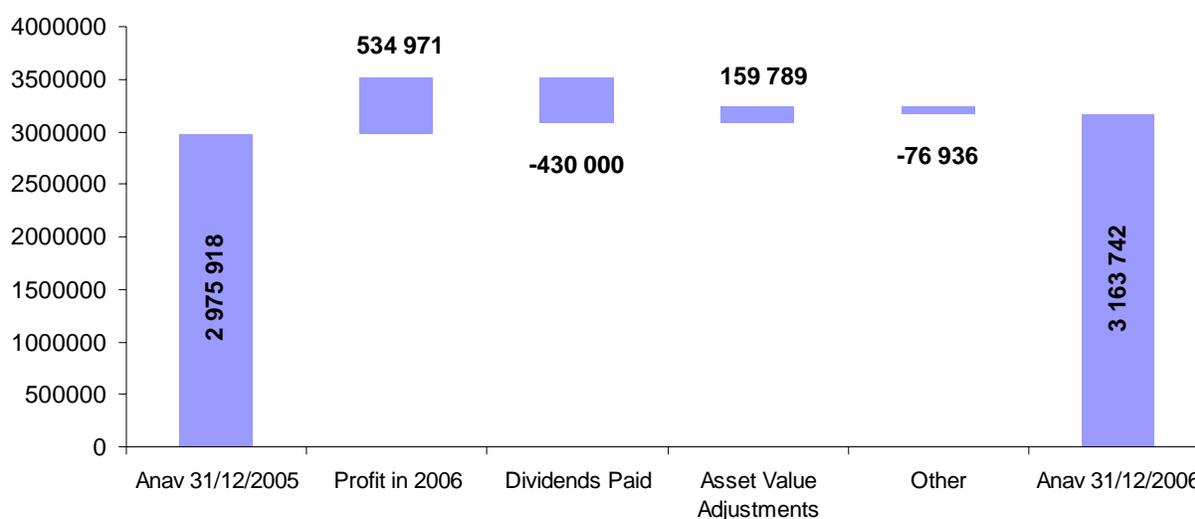
	<u>MCEV 31/12/2005</u>	<u>MCEV 31/12/2006</u>
CE PVFP	1.241.510	1.498.485
Time Value FOG's	-209.322	-66.728
MVM for NFR	-110.893	-151.832
MC VBI	921.295	1.279.925

If the MC VBI is expressed as a percentage of the modelled life reserves, a positive development can be seen in comparison with 2005.

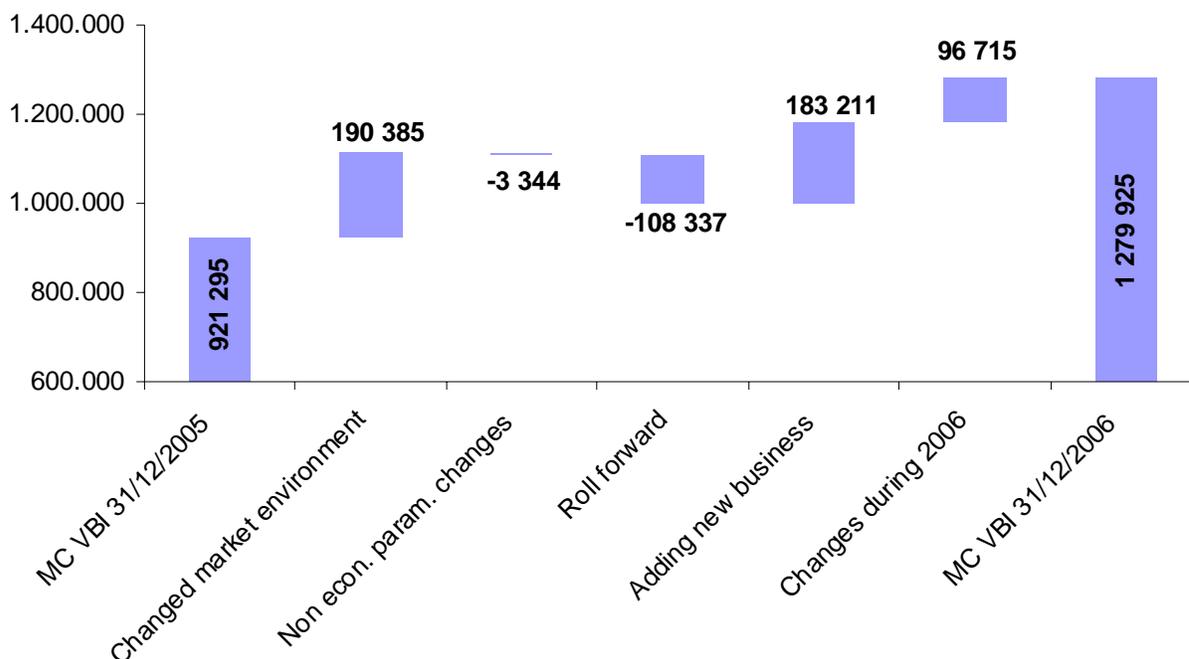
(‘000)	MC VBI	Modelled technical provisions	MC VBI / Modelled technical provisions
2005	921 295	17 808 614	5.17%
2006	1 279 925	20 018 206	6.39%
% change	38,93%	12,41%	

4 Analysis of Variance

The evolution of the embedded value in 2006 is analysed the following two graphs. They respectively analyse changes in the ANAV and MC VBI.



Profit made by the KBC Insurance group in 2006 is recognised in the ANAV. Part of this profit is paid out to the KBC group as a dividend.



In 2006, the performance of the financial markets benefited the KBC Insurance group. The combined effect of the rise in the yield curve and strong growth in equity had a positive effect on the MC VBI. Among other things, the time value of options and guarantees decreased significantly, due to the positive interest rate scenario.

Overall, the change in non-economic parameters has had a small impact on the MC VBI. A small increase in expenses per unit was almost entirely offset by improving lapse experience and better operating margins.

The roll-forward contains the modelled profits over 2006 that have been released from the MC VBI and brought to the ANAV.

At the end of the year 183 mln. EUR is added through the sale of new policies. This is the value of the new business at the end of the year. This value is composed of the 162 mln EUR at sales date and 21 mln EUR of new business strain. The new business strain is the loss on initial expenses and commissions that is already recognised in the profit and loss account of 2006. Sales volumes have decreased, partly because of the exceptional sales of unit-linked business that KBC experienced in December 2005. The business margins widened for the unit-linked, pensions and savings businesses. The composition of this value is described in more detail below.

The MC VBI increased further in 2006, thanks to additional premiums paid by policyholders under existing single premium contracts and to favourable economic and non-economic circumstances (reflected in 'changes during 2006').

VII Sensitivities

1 Non-Economic Sensitivities

Three groups of sensitivities have been calculated for the non-economic parameters.

- Lapses +/-10%. This sensitivity changes the basic lapse assumption by multiplying the original lapse assumption figures by 0.9 or 1.1. Where the original lapse assumption for a certain year was assumed to be 100%, this value is used in the sensitivity calculation.
- Expenses +/-10%. All non-commission expenses are increased or decreased by 10% throughout the projection. Expense inflation is kept at the same level as in the basic calculation.
- Mortality Rate +/-10%. All mortality experience figures in the projection are multiplied by 0.9 or 1.1.

Since these sensitivities only have an impact on the MC VBI, these figures are expressed as a percentage of the portfolio value.

('000)	+10%	-10%
MC VBI	1 279 925	
Lapses	-2,51%	2,77%
Expenses	-2,02%	2,02%
Mortality	-1,58%	1,61%

2 Economic sensitivities

As economic sensitivities, immediate shocks in the initial market conditions are simulated and the effect of those shocks on the total embedded value is measured. The shocks used are:

- Up- and downward parallel shifts of 100 basis points in the risk-free interest rate curve;
- A 10% increase and decrease in the value of equity markets at the start of the projection;

These shocks in the initial economic conditions have an impact on the value of the portfolios, as well as on the other assets covering the net asset value of the company. The impact of these shocks is therefore expressed as an impact on the total embedded value of the KBC Insurance group.

The fact that the assets covering the net asset value are also shocked (with no corresponding liabilities) explains why an interest increase has a negative impact. The asymmetric behaviour of changes in the level of the yield curve is a consequence of profit-sharing by policyholders.

	impact on EV
Embedded Value 31/12/2006	4 443 667
Risk free yield curve + 100bp	-2,07%
Risk free yield curve - 100bp	0,16%
equity +10%	4,93%
equity -10%	-4,77%

VIII Value of new business, 2006

1 VNB results and ratios

The exceptional volumes of new business sold in 2005 resulted in a significant VNB figure for 2005. Although the overall VNB in 2006 was lower than for the previous year, the value expressed as a percentage of the Present Value of New Business Premiums (PVNBP) and as percentage of the Annualised Premium Equivalent (APE) went up.

The higher margins in the pensions and savings business stem from the higher interest rate environment in 2006.

	Value of NB	PVNBP	VNB/PVNBP
2005	282 850 463	5 000 204 914	5,66%
2006	161 774 064	2 763 832 862	5,85%

APE is expressed as the total premium income from policies sold during 2006, with single premium payments being divided by 10.

	Value of NB	APE	VNB/APE
2005	282 850 463	570 384 740	49,59%
2006	161 774 064	301 399 375	53,67%

2 VNB sensitivities

The same sensitivities as used in the VBI are used for the VNB results. Because there is a different portfolio composition, the impact on the VNB is different from the impact on the VBI figures. The inclusion of the initial expenses in the new business calculation is the main factor accounting for the higher sensitivities relative to expenses.

('000)	+10%	-10%
MC VNB		161 774
Lapses	-4,10%	4,58%
Expenses	-3,02%	3,02%
Mortality	-2,24%	2,29%

The impact of changing the risk-free yield curve is illustrated in the table below. The asymmetric behaviour of the value under the interest rate shocks is a consequence of the participating business, where the minimum guaranteed rate constitutes a floor in favour of the policyholders.

The impact of these sensitivities on the KBC portfolio is largely tempered by the relatively high percentage of unit-linked business in the portfolios. Unit-linked business is primarily margin-driven.

	impact on VNB
VNB 2006	161 774
Risk free yield curve +50 Bp	4,57%
Risk free yield curve -50 Bp	-5,37%
Risk free yield curve +100 Bp	8,85%
Risk free yield curve -100 Bp	-12,15%

IX Review

Watson Wyatt NV (“Watson Wyatt”) has reviewed the calculation of the embedded value of KBC as at 31 December 2006 and the value of its new business written during 2006. The covered business included all life insurances business lines written in the group insurance companies KBC Verzekeringen, Vitis and Fidea.

Watson Wyatt has concluded that the methodology and assumptions used comply with the European Embedded Value Principles and with the European Embedded Value Guidance. The risks to shareholder profits in the embedded value were evaluated using a market consistent approach.

As highlighted in the disclosure the shareholder equity included in the embedded value relates to both covered and non-covered business in the composite KBC Insurance group.

Watson Wyatt has performed limited checks on the results of the calculations and has discovered no material issues. Watson Wyatt has not, however, performed detailed checks on the models and processes used.

In arriving at these conclusions, Watson Wyatt has relied on the accuracy and completeness of data and information supplied by KBC.

KBC is responsible for the embedded value calculations and attention is drawn to their cautionary statements in the disclosure document.

To the fullest extent permitted by law, Watson Wyatt does not accept or assume responsibility to anyone other than KBC for its work or for the opinions it has formed.

X Cautionary Statements

Embedded Value is the result of cash-flow projections based on underlying assumptions and expectations.

Many assumptions made with regard to general economic conditions, the performance of financial markets, taxes, changes in legislation, the frequency and severity of insured loss events,

mortality and morbidity levels and trends, etc., are beyond KBC's control. If an assumption is altered, this can result in a significantly different Embedded Value. Deviations from assumed experience are normal and are to be expected. Even without any change in the parameters, actual results will vary from those projected, due to normal random fluctuations.

Embedded Value cannot be considered as an absolute value. Embedded Value, together with a sensitivity analysis, provides an idea of the magnitude of the expected value created by insurance activities.

Under no circumstances should the inclusion of the projections (including the relevant underlying assumptions and expectations) be regarded as a representation, warranty or prediction that the business will achieve or is likely to achieve any particular results.

XI Appendices

KBC Life reserves 31/12/2004-31/12/2006

		<u>31/12/2004</u>	<u>31/12/2005</u>	<u>31/12/2006</u>
Benelux	Unit Linked	3.862.761	7.578.799	8.971.038
	Universal Life	9.006.352	10.229.815	11.047.168
	Total	12.869.113	17.808.614	20.018.206
CEE	Unit Linked	68.488	198.707	395.966
	Universal Life	556.839	669.780	778.229
	Total	625.327	868.487	1.174.195
Total KBC		13.494.440	18.677.101	21.192.401