KBC Group – Life business
Embedded Value Report
31/12/2010

Contents

MCEV KBC: scope

- **Scope 2010 = Life insurance portfolios of KBC Insurance (BE) + Warta TUnZ (PL) + ČSOB Pojišťovna (CZ)**
  - → Same scope as last year
  - → Premiums of entities in scope (in €1.000) = 3.413.379
    - ⇨ 97% of total premiums of KBC group (excluding Fidea and Luxembourg)
  - → Technical provisions of entities in scope (in €1.000) = 23.156.810
    - ⇨ 98% of total technical provisions of KBC group (excluding Fidea and Luxembourg)
- KBC applies a market consistent valuation methodology compliant with the *European Embedded Value principles*.

Market Consistent Embedded Value (MCEV): results

MCEV: break-down in 2 components

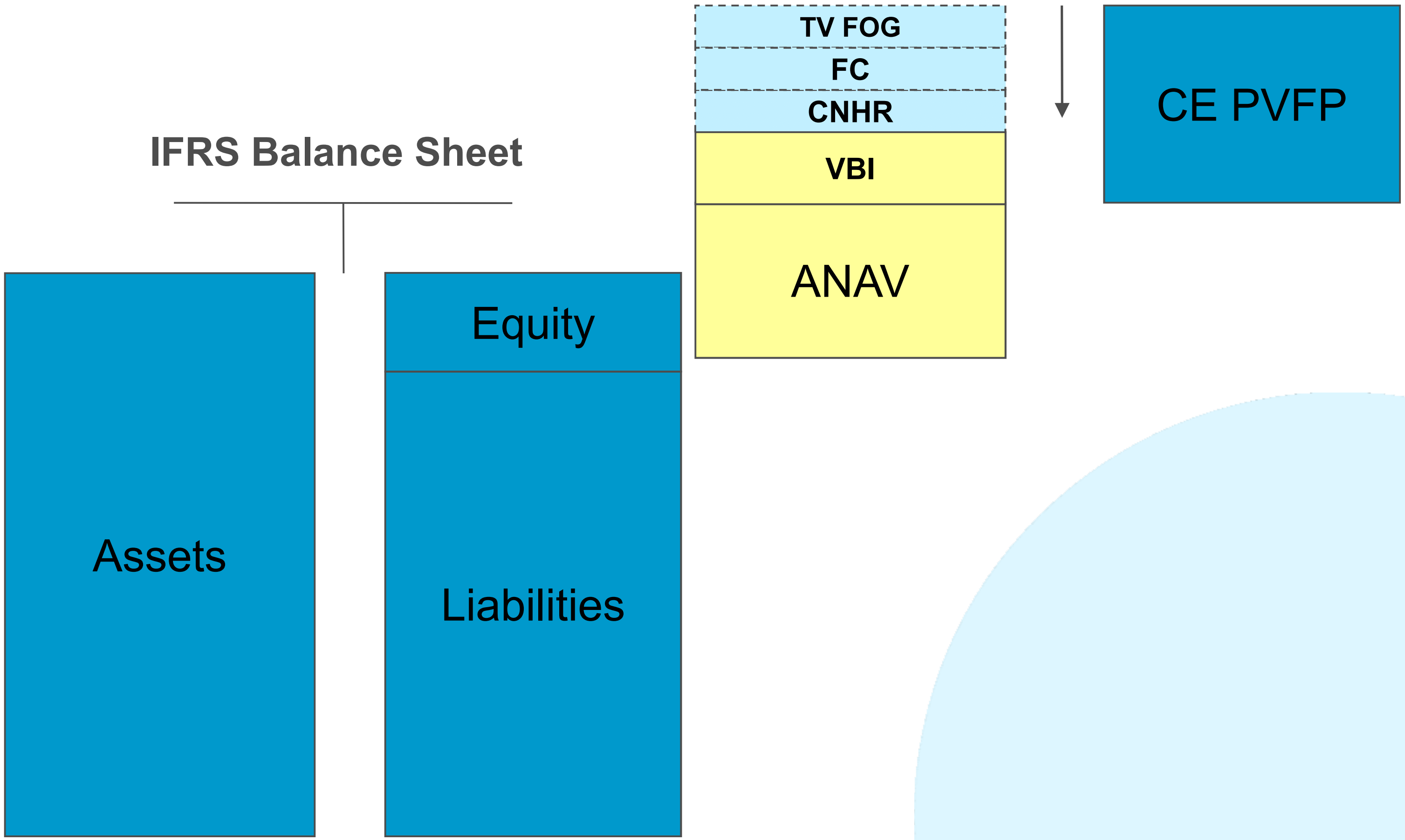
- The **Market Consistent Embedded Value**

  = **ANAV** + **VBI**

  - The *shareholders' equity* from an economic point of view, with relation to the life insurance business.
    = the **Adjusted Net Asset Value (ANAV)**

  - The *market consistent value* of the existing *life insurance portfolio*.
    = the **Value of Business in Force (VBI)**

MCEV: presentation



See further for more details concerning the abbreviations

Evolution MCEV 2009 ⇨ 2010

MCEV ('000 EUR)	2009	2009 restated*	**2010**	**% change 2009 restated-2010**
ANAV	2 558 202	2 558 202	3 042 603	+18,94%
VBI	944 804	801 985	681 312	-15,05%
MCEV	**3 503 007**	**3 360 187**	**3 723 914**	**+10,82%**

*More details concerning the restatement can be found in the appendix.
Around 6% of the total MCEV is generated through the inclusion of the expected future profits arising from the management of unit-linked funds by KBC Asset management.

ANAV: composition

ANAV = *Shareholders Equity* before dividend payments on consolidated IFRS balance sheet of the life insurance business of the entities in scope.

- **-** *Intangible assets e.g. goodwill.*
- \+ *Minorities.*
- **+/-** *Unrealized capital gains/losses not* recognized in *IFRS balance sheet*, e.g. on held-to-maturity bonds.
- **+** Release of *additional reserves* on the IFRS balance sheet, which are part of *ANAV* from *economic viewpoint*.
- **-** Unrealized capital gains/losses on the assets covering the *life insurance liabilities* ⇨ moved to VBI.
- **+/-** *Tax* adjustments on preceding items.

ANAV: 31/12/2010

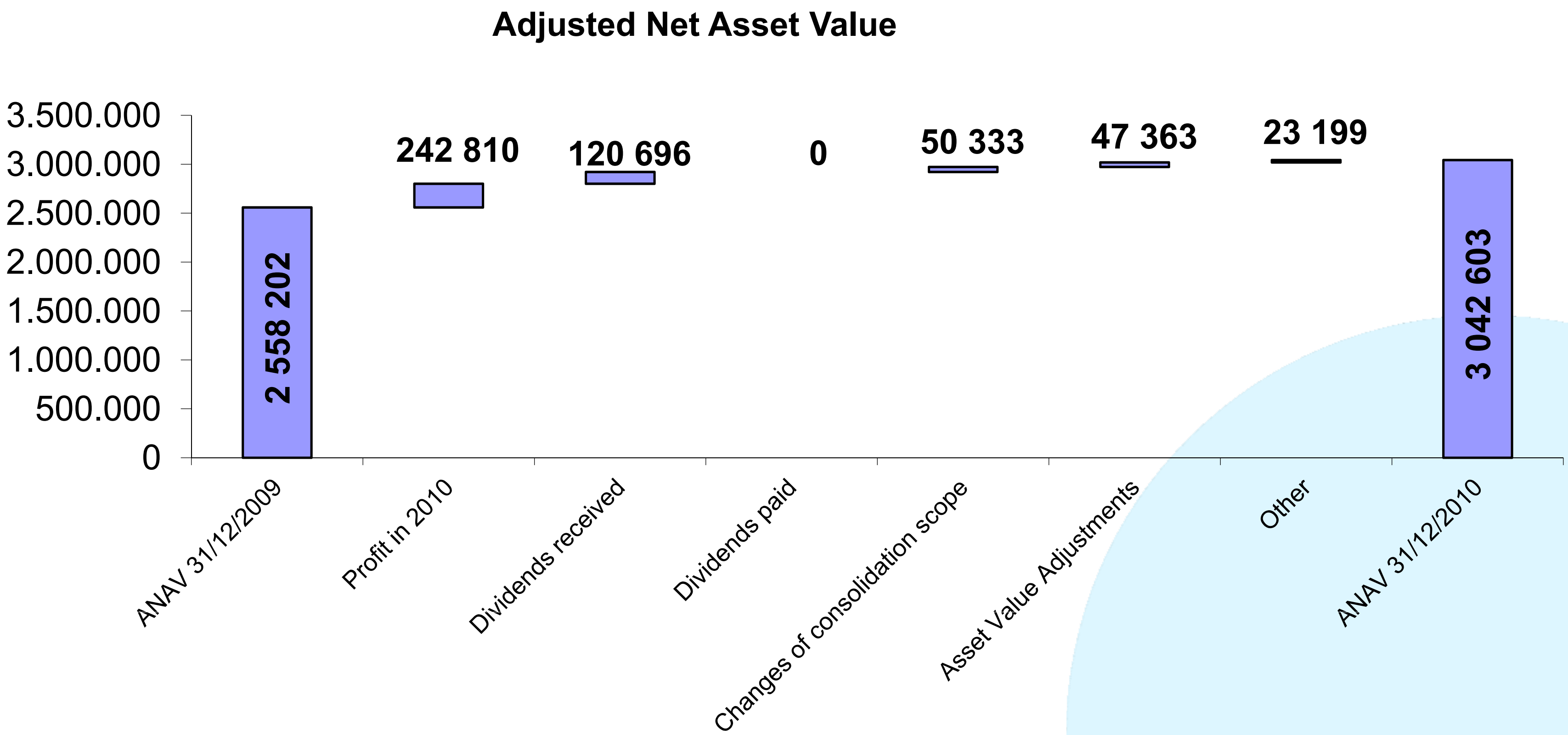
ANAV ('000 EUR)	31/12/2009	31/12/2010
Parent shareholders' equity allocated to the covered life business	2 766 456	3 174 947
Adding minority interests*		26 658
Unrealized capital gains not recognised in IFRS	78 737	90 440
Elimination of Intangible assets/Goodwill	-79 415	-90 085
Allocation of unrealized capital gains to VBI	-379 164	-330 945
Reserves adjustments	171 588	171 588
ANAV	**2 558 202**	**3 042 603****

* To take into account the 25% of ČSOB Pojišťovna hold by the KBC Group.
**includes the dividend which will be paid in 2011.

ANAV: 31/12/2010

- Minority interests are added to account for the remaining 25% interest of KBC Group through the bank ČSOB in the insurer ČSOB Pojišťovna.
- The unrealized capital gains/losses, on assets backing the life insurance, that are counted as a part of the VBI are deducted.
- From an economic viewpoint, some additional reserves (e.g. reserve for low interest rate risk) on the IFRS balance sheet are part of the shareholders' equity. Therefore these reserves are added to the ANAV.

Evolution ANAV 2009 ⇨ 2010 ('000 EUR)



Evolution ANAV 2009 ⇨ 2010

- The increase in the ANAV is mainly explained by
  - The profit of the year allocated to the life business of the three companies in scope;
  - Dividends received from entities not in scope of MCEV calculation;
  - No dividends have been paid for 2010. The dividends expected to be paid out during 2011 are still included in the ANAV.
  - Transfer of consolidations reserves of participations (Secura and Vitis) sold. These reserves are not included in the parent shareholders' equity. Hence, they are not taken into account in the profit, but are added explicitly.
  - Slightly higher unrealized capital gains on assets. Proportional more equities remain in the ANAV compared to the proportion of equities in the total life portfolio. This explains the higher unrealized capital gains in the ANAV, while a lower amount of unrealized capital gains is moved to the VBI.

VBI: composition

VBI =

1. Certainty Equivalent Present Value of Future Profits (**CE PVFP**) after tax.
2. Subtract the Time Value of Financial Options and Guarantees (**TV FOG**)*.
3. Subtract the Frictional Costs (**FC**).
4. Subtract the Cost of Non-Hedgeable Risks (**CNHR**)

* TV FOG zero for BU BE due to the profit sharing method.

1. CE PVFP after tax

- **Base value** of the business calculated without risk premiums on the expected investment returns and discounted using the risk-free yield curve.

  Risk-free rate:
  - Unit-linked liabilities of KBC Insurance: swap rate;
  - Other liabilities of KBC Insurance: swap rate + illiquidity premium;
  - BU CEER: swap rate.
- Includes the expected or intrinsic value of the **financial options and guarantees** (FOG), but ignores the time value of FOG.
- Includes the **unrealized capital gains/losses** on the assets *covering* the *life insurance* liabilities = part moved from ANAV
- Include taxes to be paid on the VBI.

2. Time value of FOG

- Difference between a stochastic valuation of the shareholders' margins (based on 1000 risk-neutral scenarios) and a single deterministic valuation based on the same market conditions as used in the CE PVFP calculation.
- At this time, only the time value of **profit sharing** is calculated. KBC has chosen not to model other policyholder behaviour options, such as lapses, on a stochastic basis.
- TV FOG is zero for KBC Insurance, due to the *profit sharing policy*. By putting a certain reserve aside for granting profit sharing, there is a clear split between the returns for the shareholders and the policyholders, which leads to a TV FOG of zero.

3. Frictional costs

- **Frictional costs (FC) of required capital** reflects the investment costs relative to assets backing *required capital* and the taxation on the return on these assets.

- Based on the risk appetite of KBC group, the *required capital* for the covered life business stood at 1 069 Million EUR at end 2010, composed of:
  - For KBC Insurance:140% * Solvency I requirement;
  - For BU CEER: 175% * Solvency I requirement.

4. Cost of non-hedgeable risks

- **CNHR** = projection of the yearly cost of remaining non-hedgeable risks discounted at the risk free rate.

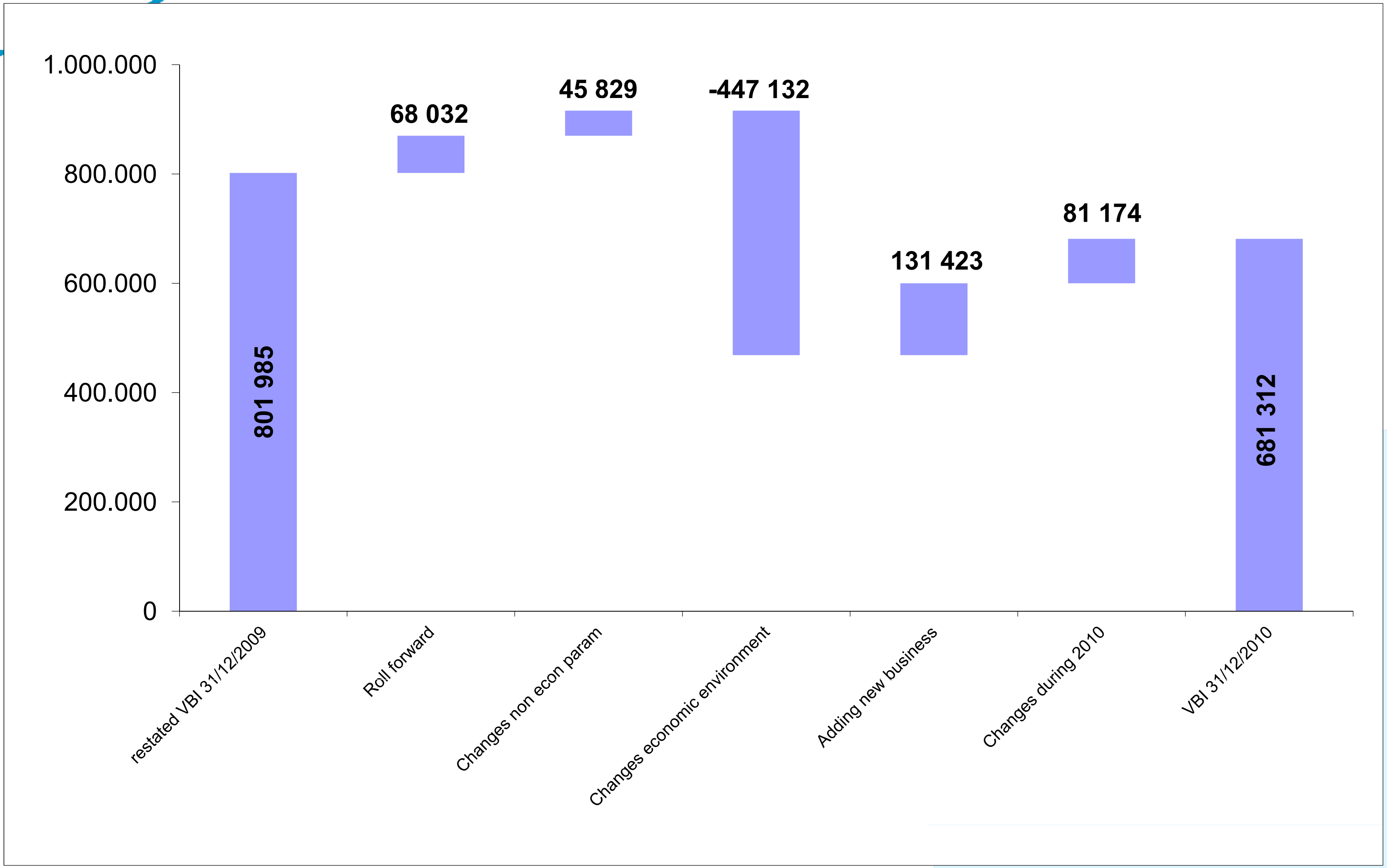
  The non-hedgeable risks are based on an *internal economic capital model* and cover *operational risk, mortality and longevity risk*. The non-hedgeable ALM risk is assumed to be zero.
- The CNHR is calculated based on the cost of capital method: *3% p.a. pre tax* charge on the *NHR capital*.
- The *NHR capital* is based on the capital requirements for an A solvency rating.

VBI: 31/12/2010

<table>
<tr><th>VBI ('000 EUR)</th><th>2009</th><th>2009 restated</th><th>2010</th></tr>
<tr><td>CE PVFP after tax*</td><td>1 077 491</td><td>957 046</td><td>808 688</td></tr>
<tr><td>TV FOG**</td><td>-6 941</td><td>-7 304</td><td>-3 217</td></tr>
<tr><td>Frictional costs</td><td rowspan="2">-125 746</td><td rowspan="2">-147 757</td><td>-89 132</td></tr>
<tr><td>Costs for NH risks***</td><td>-35 027</td></tr>
<tr><td>VBI</td><td>944 804</td><td>801 985</td><td>681 312</td></tr>
<tr><td>Technical provisions****</td><td>20 916 135</td><td>20 916 135</td><td>22 896 869</td></tr>
<tr><td>VBI/TP</td><td>4,52%</td><td>3,83%</td><td>2,98%</td></tr>
</table>

* Details concerning the restatement can be found in the Appendix.
** Restatement due to changes in FX rates.
*** In 2009 the FC and costs for NH risks were still calculated as one number due to the applied market value margin methodology.
**** Of the entities in scope exclusive of extra reserves for low interest rate risks.

Evolution VBI 2009 ⇨ 2010 ('000 EUR)



VBI: 31/12/2010

- The positive impact in the changes in **non-economic parameters** is mainly due to a decrease in the surrender scheme and a decrease of the yearly expenses due to an increase in the number of affiliates at BU BE .
- The decrease in swap rates and additionally the decrease in the illiquidity premium has a negative impact on the VBI, shown in the changes in **economic environment**. Furthermore, the increase in Belgian government bond rates results in a decrease of the unrealized capital gains of the assets backing the life business.
- The **changes during 2010** consist for almost the half of value created by additional premiums paid by policyholders under existing single premium contracts.

Value of New Business (VNB) 2010

VNB 2010 at point of sale

- The **Value of New Business 2010** accounts for the value of *new life insurance policies written during 2010*.
  = The present value of all future profits attributable to the shareholders from those new contracts.
- Measured at point of sale, which is different from the VNB *at year-end* in the *VBI* because of the profit or loss created between the point of sale and year-end.
- The VNB is calculated using the *economic assumptions* applicable at the end of the respective quarter the products were sold.
- It is common to calculate the ratio of the VNB at point of sale compared to
  - the *Present Value of New Business Premiums* (PVNBP)
  - the *Annualized Premium Equivalent* (APE)
    = recurrent premiums + 1/10th of single premiums

VNB 2010 at point of sale

('000 EUR)	2009*	2010*
VNB	53 044	75 268
PVNBP	2 362 723	2 440 394
VNB/PVNBP	2,25%	3,08%
APE	279 714	249 756
VNB/APE	18,96%	30,14%

*Methodology changed in 2010 compared to 2009 for universal life products due to the recently adopted profit sharing method. The original numbers of 2009 are given here.

VNB 2010 at point of sale

Increase in Value of New business and the related ratios is

- Mainly due to higher new business volumes in branch 23 products, which typically have higher ratios.
- The ratios of branch 21 increased due to a change in the product mix sold.

Sensitivity analysis

Sensitivity analysis: goal

- Calculation of MCEV relies upon the current *market conditions* and several *best estimate assumptions*.

- This section analyses the impact of changes in these assumptions
  - *Economic* sensitivities on MCEV and VNB
  - *Non-economic* sensitivities on VBI and VNB

Sensitivity analysis

- <u>Non-economic sensitivities</u>
  - *Expenses* +/-10%. Expense inflation is kept at the level of the basic calculation.
  - *Lapses* and *dormancy* +/-10%.
  - *Mortality rate* +/-5%.

- <u>Economic sensitivities</u>
  - +/-50 and 100 Bp in the *risk-free interest curve*.
  - +/-10% in the *value of equity markets* at the start of the projection.

Sensitivity analysis: non-economic

- Effect changes non-economic parameters on **VBI**

	Increase	% change on VBI	Decrease	% change on VBI
Expenses	+10%	-10,65%	-10%	9,78%
Lapses & Dormancy	+10%	-9,25%	-10%	10,65%
Mortality	+5%	-4,33%	-5%	3,49%

Increase in sensitivities due to a lower VBI compared to last year, while the sensititivities in absolute value are similar to last year.

Sensitivity analysis: non-economic

- Effect changes non-economic parameters on **VNB**

	Increase	% change on VNB	Decrease	% change on VNB
Expenses	+10%	-3,42%	-10%	3,41%
Lapses & Dormancy	+10%	-4,40%	-10%	4,98%
Mortality	+5%	-2,53%	-5%	2,54%

Sensitivity analysis: economic

Effect changes economic parameters on **MCEV**

	Increase	% change on MCEV	Decrease	% change on MCEV
Interest rate	+50bp	0,21%	-50bp	-0,05%
Interest rate	+100bp	-0,07%	-100bp	-0,75%
Equity	+10%	1,67%	-10%	-1,67%

Shocks on the volatilities were not performed, because the impact would be non-material given the small TV FOG, due to the profit sharing method of BU BE.

Sensitivity analysis: economic

Effect changes economic parameters on **VNB***

	Increase	% change on VNB	Decrease	% change on VNB
Interest rate	+50bp	11,79%	-50bp	-12,29%
Interest rate	+100bp	23,09%	-100bp	-25,02%

*Sensitivities are performed without taking into account the assets backing the new business.

Appendix

Review statement

Towers Watson has reviewed the methodology and assumptions used to calculate the embedded value at 31 December 2010 and the value of new business written in 2010, for the in-scope life insurance operations of KBC Insurance Belgium, ČSOB Pojišťovna CZ and Warta TUnZ PL.

Towers Watson has concluded that the methodology and assumptions used comply with the EEV Principles and Guidance, and in particular that:

- The methodology makes allowance for the aggregate risks in the covered business through KBC's market consistent methodology as described in this document;
- The operating assumptions have been set with appropriate regard to past, current and expected future experience;
- The economic assumptions used are internally consistent and derived from observable market data. It is noted that for 2010 reference rates have been based on swap rates as at 31 December 2010 for the CEE business unit and the unit linked business of the Belgium business unit, and based on swap rates plus a uniform uplift of 14bp for a duration of 15 years and a linear decrease to 0bp over the next 5 years for the remainder of the Belgium business unit;
- For participating business, the assumed bonus rates and the allocation of profit between policyholders and shareholders, including in particular the methodology used to determine the value of the profit sharing budget for KBC Insurance Belgium's new profit sharing policy, are consistent with the projection assumptions, established company practice and local market practice.

Towers Watson has also performed limited high-level checks on the results of the calculations and has confirmed that any issues discovered do not have a material impact on the disclosed total KBC embedded value at 31 December 2010 and the value of new business written in 2010. Towers Watson has not, however, performed detailed checks on the models and processes involved.

The scope of Towers Watson's review did not include providing an opinion on the adequacy of this disclosure document.

In arriving at these conclusions, Towers Watson has relied on data and information provided by KBC. This opinion is made solely to KBC in accordance with the terms of Towers Watson's engagement letter. To the fullest extent permitted by applicable law, Towers Watson does not accept or assume any responsibility, duty of care or liability to anyone other than KBC for or in connection with its review work, the opinions it has formed, or for any statement set forth in this opinion.

Restatement 2009

Several refinements were made, mainly at BU BE:

- Treatment of partial surrender was refined for certain product groups.
- Extra modelling of some product groups.
- Modelling is brought more in line with the use of the recently adopted profit sharing budget. This change also assures that pricing and modelling is made consistent.
- Change in methodology to calculate *market value margin* as the sum of frictional costs and cost of non hedgeable risks.

Economic parameters

Swap yield curve

	EUR		PLN		CZK	
maturity	2009	2010	2009	2010	2009	2010
1	1,37%	1,25%	3,32%	3,59%	1,29%	1,22%
2	1,81%	1,61%	5,08%	4,86%	2,25%	2,06%
3	2,19%	1,94%	5,47%	5,16%	2,65%	2,33%
5	2,81%	2,50%	5,81%	5,50%	3,03%	2,65%
7	3,27%	2,94%	5,83%	5,63%	3,26%	2,90%
10	3,74%	3,40%	5,83%	5,66%	3,64%	3,26%
15	4,11%	3,79%	5,73%	5,41%	4,06%	3,70%
20	4,19%	3,72%	5,48%	5,10%	4,14%	3,77%
25	4,13%	3,58%	5,48%	5,10%	4,03%	3,63%
30	4,01%	3,33%	5,48%	5,10%	3,87%	3,44%

Economic parameters

- **Illiquidity premium**: KBC Insurance applies an illiquidity premium above the swap rates for its non-linked products. Based on the illiquidity premium available on the financial markets and the actual asset portfolio, KBC Insurance used an illiquidity premium of *14 bp*.

  The illiquidity premium is added to the risk free rates up to 15 years and is reduced linearly to zero over the next 5 years.

Economic parameters

- **Implied volatility**:

<u>KBC Insurance</u>: Due to the change in the profit sharing policy, KBC Insurance is no longer sensitive to a change in interest rate volatilities and equity volatilities.

<u>ČSOB Pojišťovna</u>: The model has been calibrated to volatilities of at-the-money 10-year swaptions. Euro data have been used since CZK swaptions market practically does not exist.

<u>Warta TUnZ</u>: Implied volatilities of a 4.5% cap for PLN are used to calibrate the model.

EUR		
Swaption volatilities		
Year	**2009**	**2010**
1	22,20%	25.20%
3	18,90%	21.30%
5	16,50%	18.80%
10	14,30%	17.60%
20	17,20%	24.50%
30	18,40%	24.10%

PLN		
Cap volatilities		
Year	**2009**	**2010**
1	23,9%	18.0%
3	24,3%	22.1%
5	24,4%	23.6%
10	20,2%	23.3%

Economic parameters

- **Inflation: The inflation rates are adjusted according to KBC's most recent forecasts**

BU Belgium	2009		2010	
	Wage	CPI	Wage	CPI
2010	1,1%	1,6%	0,9%	2,1%
2011	1,7%	1,8%	2,0%	1,8%
2012	2,3%	2,1%	2,1%	1,9%
≥2013	2,3%	2,1%	2,3%	1,9%

Warta Tunz PL	CPI	
	2009	2010
2010	2,3%	3,3%
2011	2,5%	3,3%
2012	2,5%	2,7%
≥2013	2,5%	2,5%

ČSOB Pojišťovna CZ	2009		2010	
	Wage	CPI	Wage	CPI
2010	4,0%	2,0%	1,7%	1,5%
2011	4,5%	2,3%	3,0%	2,3%
2012	4,5%	2,3%	4,0%	2,2%
≥2013	4,5%	2,3%	4,0%	2,0%

Non-economic parameters

- **Mortality**: Assumptions based on most recent industry experience.
- **Lapses and dormancy rates**:
  - Assumptions based on annual experience investigations of surrenders and paid-ups. Those studies result in best estimate predictions for the future.
  - Assumptions are set by product and distribution channel.
- **Tax**: The marginal corporate tax rate is applied to the full profits emerging in the model and to the relevant unrealized capital gains.
- **Expenses**:
  - KBC Belgium: Expenses of the covered life insurance business are included in the projections by means of a detailed Activity-Based Costing model. They are expected to grow at the same rates as expected future wage inflation.
  - CE entities: Own allocation system to derive their expenses.

BU Belgium: MCEV

('000 EUR)	2009	2009 restated	2010
ANAV	**2 497 339**	**2 497 339**	**2 982 201**
CE PVFP after tax	938 035	811 564	670 584
TV FOG	0	0	0
Frictional costs	-108 242	-94 915	-83 215
Cost for NH risks		-37 209	-28 121
VBI	**829 793**	**679 440**	**559 248**
MCEV	**3 327 132**	**3 176 779**	**3 541 449**

BU Belgium: VBI/VNB

('000 EUR)	2009	2009 restated	2010
VBI	**829 793**	**679 440**	**559 248**
Technical provisions*	19 560 473	19 560 473	21 376 266
VBI/TP	4,24%	3,47%	2,62%
VNB	**42 999**	**42 999**	**73 214**
PVNBP	**1 554 401**	**1 554 401**	**1 634 494**
VNB/PVNBP	2,8%	2,8%	4,5%
APE	197 480	197 480	156 844
VNB/APE	21,8%	21,8%	46,7%

*Technical provisions exclusive extra reserves for low interest rate risk

BU Belgium: 2009 ⇨ 2010

- The decrease in **VBI** is mainly due to a *decrease* in the *swap rates* and a *decrease* in the *illiquidity premium* (from 20 bp to 14 bp). Furthermore, the increase in Belgian government bond rates results in a *decrease* of the *unrealized capital gains* of the assets backing the life business.
- The increase in **VNB** and the related ratios is mainly due to higher new business volumes in *branch 23* products, which typically have higher ratios. Additionally, the ratios of branch 21 increased due to a change in the product mix sold.

BU CEER: MCEV*

<table>
<tr><th>('000 EUR)</th><th>2009</th><th>2009 restated</th><th>2010</th></tr>
<tr><td>ANAV</td><td>60 863</td><td>60 863</td><td>60 402</td></tr>
<tr><td>CE PVFP after tax</td><td>139 456</td><td>145 482</td><td>138 104</td></tr>
<tr><td>TV FOG</td><td>-6 941</td><td>-7 304</td><td>-3 217</td></tr>
<tr><td>FC</td><td rowspan="2">-17 503</td><td rowspan="2">-15 634</td><td>-5 917</td></tr>
<tr><td>Cost for NH risks</td><td>-6 906</td></tr>
<tr><td>VBI</td><td>115 012</td><td>122 545</td><td>122 063</td></tr>
<tr><td>MCEV</td><td>175 875</td><td>183 408</td><td>182 466</td></tr>
</table>

*Contribution of BU CEER from the perspective of KBC Group taking into account 100% of ČSOB Pojišt'ovna.

BU CEER: VBI/VNB

('000 EUR)	2009	2009 restated	2010
VBI	**115 012**	**122 545**	**122 063**
Technical provisions	1 355 661	1 355 661	1 520 603
VBI/TP	8,48%	9,04%	8,03%
VNB	**10 045**	**10 045**	**2 054**
PVNBP	**808 322**	**808 322**	**805 901**
VNB/PVNBP	1,24%	1,24%	0,25%
APE	82 234	82 234	92 912
VNB/APE	12,2%	12,2%	2,21%

BU CEER: 2009 ⇨ 2010

- No increase in **ANAV** due to *dividends* paid out during 2010 to KBC Insurance.
- The decrease in **VBI** is mainly due to a *decrease* in the *swap rates* and a cancellation of the *illiquidity premium* of 20 bp (in 2009).
- The decrease in **VNB** and related ratios is caused by one specific *unit-linked product* sold by ČSOB Pojišťovna and an underestimation of the applicable *lapse rates* during 2010.