REPORT ON THE FIRST HALF OF 2005

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SUMMARY TABLE

Key financial data 1H 2005

Profitability	EUR m or %	Balance sheet and solvency	EUR bln or %	Credit portfolio (banking and KBL EPB)	EUR bln or %
Net profit - Group share	1 253	Total assets, group	306	Total credit portfolio (granted)	165
Banking	784	Parent shareholders' equity, group	14	Non-performing ratio	2.8%
Insurance	246	Tier-1 ratio (banking+KBL EPB)	10%	Loan loss ratio (annualized)	0.06%
Asset management (AM)	126	Solvency ratio (insurance)	397%		
KBL European Private Bankers (KBL EPB)	94			Other information (mid 2005)	number
Gevaert	63			Bank branches in Belgium	956
Adjusted return on equity, group	20%			Bank branches in Central Europe	1 019
Cost/income ratio (banking+AM+KBL EPB)	57%	Assets under management	EUR bln	Insurance agencies in Belgium	597
Combined ratio (insurance)	94%	Assets under management, group (including group assets)	170	Number of staff (FTEs)	49 844

Definition of ratios: see 'Glossary of ratios used'

NOTE REGARDING THE PRO FORMA REFERENCE FIGURES

Reference figures for 2004 shown in this report are *pro forma* figures, based on a combined KBC-Almanij entity. Comparability, however, is not complete, as the 2004-figures have not been adjusted to take account of IAS32/39 and IFRS4.

MESSAGE FROM THE CEO

Our new KBC Group, born out of the merger of the 'old' KBC and its parent company Almanij, was well received - to say the least - by the financial markets. Moreover, in the first six months of 2005, our share price climbed no less than 16%, managing to substantially outperform the DJ Euro Stoxx Banks index, which went up by 8%.

Thanks to the new group structure, there is far greater transparency and visibility. Moreover, we have immediately started working on quantifying and realizing operational synergies within our new group. At this stage, we expect synergies in wealth management - the area most affected by the new structure - to gradually increase to 75 m euros per year (before tax).

We are continuing to adhere to our strategy, seeking to maintain a clear focus on retail and wealth-management activities, concentrating on Europe, with Belgium and Central Europe as our 'home markets', and further enhancing efficiency and achieving solid solvency levels. We are convinced we can realize all this on a stand-alone basis.

Our strategy is reflected in our ambitious financial targets for the period up to 2008. These targets appear in the table on the next page, whilst a definition of each ratio can be found in the last section of this report.

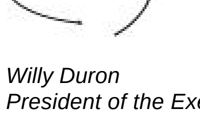
As regards profitability and efficiency, we are striving to achieve an ROE of 16% and average EPS growth of 10% per annum, a cost/income ratio of 58% for our banking activities and a combined ratio of 95% for our non-life insurance activities.
As regards solvency, we are aiming to achieve a minimum tier-1 ratio of 8% for KBC Bank and KBL European Private Bankers combined and a minimum solvency ratio of 200% of the legal requirement for our insurance business.

Although these ratios do not, at first sight, differ much from the ones applicable to the 'pre-merger' KBC, most of them are in fact more stringent, as both the enlargement of the group and the new IFRS accounting rules have had an adverse effect on these ratios.

In the next few years, we also plan to reinforce our presence in our core markets and core activities. In Central Europe, this will involve buying out a number of minority shareholders and, if and when opportunities arise, even making new acquisitions. In that respect, we are currently examining the possibility of acquiring a bank in Romania (BCR) and, provided we are satisfied with the risk and potential return involved, we plan to launch a bid on this bank. Looking further ahead, we have also started a project to re-assess our long-term strategic horizon (i.e. after 2008), in order to ensure value and growth in the longer term.

We are clearly pleased with the results for the first half of this year. On the whole, with a net profit increase of 55%, a return on equity of 20%, a cost/income ratio of 57% and a combined ratio of 94%, the first half of 2005 has been much better than the corresponding period in 2004, thanks to, among other things, a robust increase in commission income, strong technical results in the non-life business and solid sales in insurance in general, as well as low costs and loan loss provisions.

Looking ahead, we remain confident for the full year 2005 and we now expect the full-year profit to exceed 2 billion euros.



Willy Duron
President of the Executive Committee of KBC Group

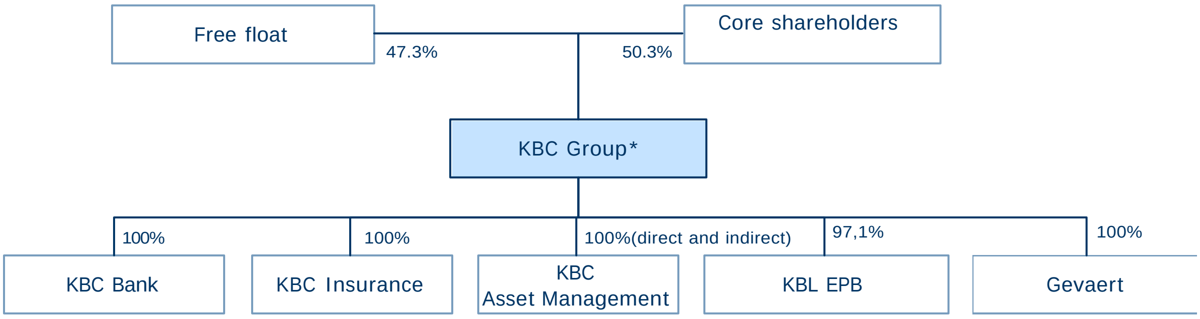
FINANCIAL TARGETS

Group financial targets	Target level	to be achieved
Adjusted return on equity, group	16%	on average in 2006-2008
Earnings per share growth, group	10%	as CAGR in 2006-2008
Cost/income ratio (banking, asset management and KBL EPB together)	58%	by 2008
Combined ratio (non-life insurance)	95%	by 2008
Tier-1 ratio (banking and KBL together)	8%	in 2006-2008
Solvency ratio (insurance)	200%	in 2006-2008

Definition of ratios: see 'Glossary of ratios used'

GROUP STRUCTURE

KBC Group structure, 30 June 2005



* KBC Group shares held by KBC Group companies represent approximately 2% of share capital.

FINANCIAL CALENDAR

Financial calendar	
Publication of 1H 2005 results	01-Sep-05
Publication of 3Q 2005 results	24-Nov-05
Publication of FY 2005 results	02-Mar-06
General Meeting	27-Apr-06

For the most up-to-date version of the calendar, including other events such as analyst meetings and investor road shows, see the KBC web site (www.kbc.com)

Shareholder Information

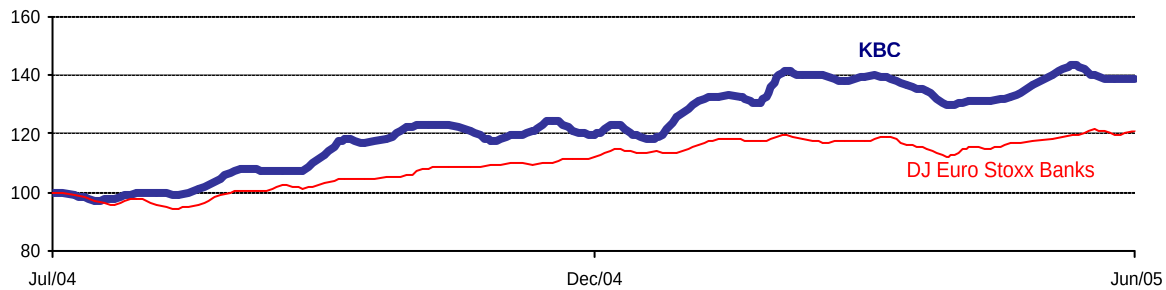
Shareholders

Shareholders, 30-06-2005[1]	number	(in %)
Ordinary shares		
Almancora	75 815 338	20.7%
CERA	23 345 499	6.4%
Maatschappij voor Roerend bezit van de Boerenbond	42 562 675	11.6%
Other core shareholders	42 715 837	11.7%
Subtotal	184 439 349	50.3%
KBC Group companies[2]	8 491 505	2.3%
Free float	173 496 232	47.3%
Total	366 427 086	100.0%
Mandatorily convertible bonds (MCBs)[3]	2 644 483	

1 Taking into account the existing shares, MCBs and freely convertible bonds, the maximum potential number of shares in the future will come to 374 300 269.
2 Including, among other things, shares held for ESOP. Excluding shares held in the trading book of KBC Securities and KBC Financial Products (included in free float).
3 Number of shares on conversion. More information can be found on page 159 of the 2004 Annual Report of KBC.

KBC share

Relative performance of the KBC share (end June 2004 = 100)[1]



Ticker codes:	Bloomberg:	KBC BB		Datastream:	B:KB	Reuters:	KBKBt.BR
Share price from 30-06-2004 to 30-06-2005 (EUR)							
Highest price:	67.9	Lowest price:	45.1	Average price:	57.5	Closing price 30-06-2005:	65.3

1 Graphs are based on end-of-week prices.

RATIOS

Key ratios

Profitability	1H 2004 pro forma	1H 2005
Adjusted return on equity (group)	14%	20%
Cost/income (banking , asset management and KBL EPB)	61%	57%
Combined ratio, insurance (non-life insurance business)	93%	94%
Basic earnings per share (group, EUR)	2.23	3.50
Diluted earnings per share (group, EUR)	2.18	3.42
Balance sheet, solvency and market capitalization	**31-12-2004 pro forma**	**30-06-2005**
Parent shareholders' equity per share (group, in EUR)	33.6	40.0
Tier-1 ratio (banking and KBL EPB)	10.0%	9.6%
Solvency ratio (insurance)	347%	397%
Equity market capitalization, end of period (group, EUR billion)	-	23.9

Definition of ratios: see 'Glossary of ratios used'.

RATINGS

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

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GROUP RESULTS

The full consolidated income statement and balance sheet, a condensed consolidated statement of changes in equity and cash flow statement, a reconciliation of Belgian GAAP and IFRS and a number of other notes to the accounts are provided in the 'Consolidated financial statements' section.

Consolidated income statement (EUR m)	2Q 2004 pro forma	1Q 2005	2Q 2005	1H 2004 pro forma	1H 2005
Net interest income	966	1 048	1 074	1 961	2 122
Gross earned premiums	1 404	729	978	2 679	1 707
Dividend income	121	34	135	146	169
Net gains from financial instruments at fair value	191	133	92	415	225
Net realized gains from available-for-sale assets	60	168	97	253	265
Net fee and commission income	324	429	410	681	839
Other income	113	215	118	218	333
Gross income	3 178	2 756	2 904	6 353	5 660
Operating expenses	-1 105	-1 104	-1 209	-2 373	-2 313
Impairment	-90	-15	-42	-242	-57
on loans and receivables	-74	3	-38	-107	-34
on available-for-sale assets	-12	-16	0	-130	-16
on goodwill	-2	-2	-5	-2	-7
on other	-3	0	0	-4	0
Gross technical charges, insurance	-1 240	-612	-852	-2 408	-1 464
Ceded reinsurance result	-22	-17	-17	-27	-33
Share in results of associated companies	-60	21	13	-39	33
Profit before tax	662	1 030	797	1 264	1 826
Income tax expense	-177	-256	-212	-347	-469
Profit after tax	485	773	584	916	1 357
Minority interests	-51	-57	-48	-107	-104
Net profit - Group share	434	717	536	810	1 253

Highlights, consolidated balance sheet (EUR m)	31-12-2004 pro forma	30-06-2005
Total assets	285 163	305 557
Loans and advances to customers	111 177	108 704
Securities	98 862	111 913
Deposits from customers and debt securities	157 712	167 807
Gross technical provisions	13 259	13 920
Liabilities under investment contracts	3 931	4 715
Parent shareholders' equity	12 328	14 382

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS32/39 and IFRS4 are only applied as of 2005, without restatement of the 2004 figures. 'Pro forma' means: based on a combined 'old KBC'-Almanij entity.

COMMENTS

Scope of consolidation, valuation rules and currency translation

The results (including the pro forma results for 2004) are for the new KBC Group created at the beginning of 2005 through the merger between the KBC Bank and Insurance Holding Company and Almanij. During the first half of 2005, no changes were made in the scope of consolidation that had a material impact on the results.

The results have been drawn up in accordance with the International Financial Reporting Standards (IFRS). However, in compliance with European regulations, IAS 32 and 39 concerning financial instruments and IFRS 4 on insurance contracts have not been applied in respect of the reference figures for 2004 (2004 version of the IFRS). As a result, the figures for 2005 are not entirely comparable with the pro forma figures for 2004.

There were no major fluctuations in exchange rates during the second quarter of 2005 compared to the first. The Czech koruna and the Polish zloty increased in value over the first six months of the year by 8% and 16%, respectively, compared to the corresponding period of 2004. Fluctuations in other currencies are less relevant.

Financial headlines 2Q 2005

The volume of deposits, loans and assets under management continued to grow vigorously, keeping commission income high and enabling net interest income to hold up well, despite the flattening of the yield curve. Sales of life insurance reached a record level (1.2 billion euros; according to the IFRS, from 2005, only 578 m euros of this amount can be regarded as premium income for accounting purposes). Net gains from financial instruments at fair value were limited.
Costs were up on the preceding quarter and on the second quarter of 2004, owing partly to one-off charges associated with the merger between the KBC Bank and Insurance Holding Company and Almanij. Loan losses remained at an extremely favourable level and the non-life insurance result was again very good.

Financial headlines 1H 2005

Profit for the first half of the year (1 253 m euros) was up by 55% year-on-year, with a return on equity of 20% being achieved. The retail segment (primarily in Belgium) accounted for 43% of Group profit, the Central European region for 25%, services to corporate customers (further: corporate services) and capital market activities for 18% and 8% respectively, European private banking for 8% and Gevaert for 5%.

Net interest income (2 122 m euros) cannot be compared with net interest income for 2004 owing to the new accounting treatment under IFRS. Otherwise, net interest income remained more or less unchanged, despite the difficult interest rate climate, thanks to volume growth. Compared with the situation at the start of the year, the loan portfolio increased by 6%, outstanding deposits by 7% and the life reserves by 11%.

Premium income (1 707 m euros) cannot be compared with premium income for 2004 owing to the new accounting treatment under IFRS (especially as regards unit-linked life insurance). On a comparable basis, premium inflow increased by 4% to 2 778 m euros.

Nor can profit from financial instruments at fair value (225 m euros) be compared with the figure recorded for 2004. Among other things, the introduction of the IFRS led to the amount of interest earned on derivatives being reduced by 175 m euros (although there was a 175-m-euro positive impact on net interest income).

Commission income (839 m euros) went up by 23%, due mainly to successful sales of investment funds and life insurance, and to asset management. Since the start of the year, customer assets under management have increased by 12%.

The level of charges (2 313 m euros) fell by 3%, and the cost/income ratio in the banking business dropped to 57%.

Provisions for problem loans (34 m euros) were down by 68%, bringing the loan loss ratio to just 0.06%. Impairment recorded on the investment portfolio (16 m euros) was still very limited, as well. This was one of the factors that have significantly boosted the contribution to profit made by the insurance business.

In the non-life insurance business, a strong technical result was achieved once again (combined ratio of 94%).

The holding company made a larger negative contribution to the results, owing to the (largely non-recurring) costs associated with the merger between the KBC Bank and Insurance Holding Company and Almanij. At Gevaert, profit was up by 111 m euros, as a result of the significant restructuring expenses that had been taken in the first half of 2004 at Agfa Gevaert.

For the retail and private banking businesses in Belgium, the return on capital allocated came to 29%, for the Central European activities to 54%, for corporate services to 20%, for capital market activities to 28%, for European private banking activities to 16% and for Gevaert to 11%.

Solvency

On 30 June 2005, the net capital and reserves of KBC Group came to 14.4 billion euros (40.0 euros per share), of which 1.6 billion euros was held in the revaluation reserve for available-for-sale assets.

The core capital ratio (Tier 1) for the banking business (KBC Bank and KBL European Private Bankers) comes to 9.6%, and the solvency ratio of the insurance business to 397%. The Group’s gearing ratio stands at 111%.

Gross income

The second quarter of 2005, just like the first, was characterized by high commission income (410 m euros), limited earnings on financial instruments at fair value (92 m euros) and net interest income (1.1 billion euros) that held up well, despite the flattening of the yield curve. At the same time, dividend income (135 mn euros) is traditionally concentrated in the second quarter of the year, and a record 1.2 billion euros was recorded for sales of life insurance (mainly unit-linked, however, which for IFRS accounting purposes is only recorded as 'premium income' to a limited extent). Moreover, in the second quarter, 97 m euros in gains on investments were realized, partly on account of the activities at Gevaert being scaled down.

The main features of the first six months of 2005 were as follows:

Net interest income (2.1 billion euros) was 161 m euros higher than the pro forma level for the corresponding period of last year (+8%), though this was facilitated by the IFRS treatment of derivatives (impact: +175 m euros). The interest rate climate was difficult, however, and this – aside from the influence of the IFRS - caused the interest margin (1.64%) in the banking business to narrow by thirteen basis points compared to the first half of 2004. However, the impact this had on interest income could for the most part be offset by sustained volume growth.

Net interest income (EUR m)	2Q 2005	1H 2005
Interest income	2 720	5 208
Loans and advances to banks	375	701
Loans and advances to customers	1 419	2 648
Deposits with ceding companies	1	2
Fixed-income securities not measured at fair value through P&L	705	1 428
Financial assets at fair value through P&L	219	429
Interest expense	-1 645	-3 085
Deposits from banks	-548	-962
Deposits from customers	-775	-1 497
Debt securities	-240	-460
Subordinated liabilities	-82	-167
Investment contracts at amortized cost	0	0
Net interest income	1 074	2 122

Premium income in the insurance business came to 1.7 billion euros, 815 m euros of which was realized in the non-life business, and 892 m euros in the life insurance business. In the non-life business, a 6% increase was recorded (6% in Belgium, 14% in Central Europe and – 15% in the reinsurance business). The figure for premium income in the life business cannot be compared with the figure for 2004, since, under the IFRS, sales of some types of life insurance can no longer be recorded as premium income from 2005. Aside from this, total turnover in life products came to 2.0 billion euros, boosting outstanding life reserves by 11% (10% in Belgium and 15% in Central Europe). Unit-linked products proved very popular, with premium turnover rising to 1.1 billion euros.

Gross earned premiums (EUR m)	2Q 2005	1H 2005
Life*	578	892
Non-life	400	815
Gross earned premiums	978	1 707

* Excludes investment contracts without Discretionary Participation Feature (i.e. mainly the unit-linked insurance).

Commission income (0.8 billion euros) was 158 m euros higher (+23%) than the pro forma figure for the first half of 2004, thanks mainly to the continuing robust growth in income generated by sales of investment funds and asset management. The IFRS treatment of the margin on unit-linked insurance also had an impact (+32 m euros).

Net fee and commission income (EUR m)	2Q 2005	1H 2005
Fee and commission income	626	1 285
Securities and asset management[1]	415	855
Commitment credit	36	71
Payments	99	194
Other	76	166
Fee and commission expense	-216	-447
Acquisition costs	-89	-202
Other	-127	-244
Net fee and commission income	410	839

1 Including from investment contracts

Gains realized on investments came to 265 m euros, which is comparable to the level of gains realized in the first half of 2004. These gains were realized on the sale of the investment in the Irish insurance group, FBD, as well as on sales of holdings in Gevaert's equity portfolio, among other things.

Net realized gains from AFS assets (EUR m)	2Q 2005	1H 2005
Fixed-income securities	22	49
Shares	75	216
Net realized gains from AFS assets	97	265

AFS: available-for-sale

Net gains from financial instruments at fair value (225 m euros) were down by 190 m euros (-46%) on the pro forma figure for a year earlier, mainly on account of the change in the method for valuing financial instruments that has applied since the start of 2005. For instance, there was the adverse impact of the transfer of -175 m euros from net interest income.

Net gains from financial instr. at fair value (EUR m)	2Q 2005	1H 2005
Trading instruments (including derivatives)	-180	-195
Other financial instruments at fair value	175	231
Foreign exchange trading	98	190
Net gains from financial instruments at fair value	92	225

Dividend income came to 169 m euros, 23 m more (+16%) than the pro forma level for the first half of 2004.

The 'other income' item (333 m euros) was 114 m euros higher (+52%) than the pro forma level for last year, mainly because of the settlement of an unpaid loan granted to the Slovakian government (impact: 101 m euros before tax – net impact on the result 68 m euros).

Operating expenses

Cost performance remained sound. During the first half of the year, operating expenses fell by 61 m euros (-3%), mainly because of savings measures implemented in Belgium during the course of 2004, and the decline in activity in the interprofessional securities business. The cost/income ratio in the banking and asset management businesses came to 57%, compared to a pro forma figure of 61% for 2004.

However, operating expenses were higher for the second quarter than for the first (higher performance-based wage costs and one-off costs relating to the merger between the KBC Bank and Insurance Holding Company and Almanij), a period when the level of costs had been exceptionally low in several respects. Moreover, in the second quarter of the year, 20 m euros were provisioned, primarily for the continuing reorganization of the private banking business (15 m euros) and the banking business in the Czech Republic. In the second quarter of 2004, there had been a significant reversal of provisions (+73 m euros).

Operating expenses (EUR m)	2Q 2005	1H 2005
Staff expenses	-714	-1 350
General administrative expenses	-382	-763
Depreciation and amortization of fixed assets	-92	-186
Provisions for risks and charges	-20	-14
Operating expenses	-1 209	-2 313

Impairment

The second quarter was again characterized by the low level of impairment recorded on loans (38 m euros). This has kept the loan loss ratio for the first half of 2005 limited to 0.06%. The loan loss ratio comes to 0.03% for Belgium, 0.07% for Central Europe and 0.09% for the international loan portfolio. 90% of problem loans are covered by loan loss provisions.

Impairment recorded on the securities portfolio and on goodwill paid on acquisitions was also limited (to 16 and 7 m euros, respectively, in 2005).

Impairment (EUR m)	2Q 2005	1H 2005
Loans and advances	-38	-34
Available-for-sale assets	0	-16
Goodwill	-5	-7
Other	0	0
Impairment	-42	-57

Gross technical charges insurance and ceded reinsurance result

The second quarter, too, was characterized by a strong technical result in the non-life business. This kept the claims ratio limited to 64% for the first half of the year. Gross claims came to 484 m euros and the result in the reinsurance business to -33 m euros. For non-life insurance, the claims reserve ratio amounted to 178%, on a par with the level recorded at the start of the year (177%).
The combined ratio for the Group stands at 93.7% (the same level as the pro forma 93.5% recorded for the first half of 2004). For Belgium, the corresponding figure comes to 93.4% (compared with 93%), for Central Europe to 95.6% (compared to 95.1%), and for the reinsurance business to 90.4% (compared with 91.9%).

Taxes

The tax burden for the first six months of the year amounted to 469 m euros (212 m euros of which relate to the second quarter). For the corresponding period of 2004, it came to a pro forma 347 m euros.

Profit outlook for the full year 2005

KBC is optimistic about how its strategy will play out in the various business segments. For 2005, it is expected that there will be a reduction in costs in the banking business, and there are no indications at present that loan quality or the technical result in the insurance business will worsen significantly. On the other hand, developments in the interest rate and equity markets remain a source of uncertainty.

Previously, KBC had already set itself a medium-term target for average annual EPS growth of at least 10% per annum. Given the fine results achieved for the first six months of the year and based on current expectations regarding the relevant economic and financial parameters, KBC expects to exceed this target and achieve a Group profit of over 2 billion euros in 2005.

RESULTS PER BUSINESS SEGMENT

IFRS SEGMENTATION

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

- Banking (including KBC Bank and its subsidiaries)
- Insurance (including KBC Insurance and its subsidiaries)
- Asset Management (including KBC Asset Management and its subsidiaries)
- KBL European Private Bankers (KBL EPB) (including Kredietbank Luxembourgeoise and its subsidiaries)
- Gevaert (including Gevaert and its subsidiaries)
- Holding Company Activities (including KBC Group on a non-consolidated basis and KBC Exploitatie)
- Intersegment transactions are transactions conducted between the different primary segments at arm's length. As a number of items are reported on a net basis (e.g. net interest income), the balance of the intragroup transactions for these items is immaterial.

The figures for the Holding Company Activities also include the so-called '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.

The IFRS secondary segment reporting format is based on geographic areas, and reflects KBC Group's focus on its two home markets - Belgium and Central Europe (Poland, Czech and Slovak Republics, Hungary and Slovenia) – and its focused presence in other countries ('rest of the World', i.e. mainly Western Europe excluding Belgium, the US and Southeast Asia).

In this section, detailed information is given according to the primary segment reporting format. The 'Consolidated financial statements' section includes an overview of both the primary and secondary segment reporting formats.
The 'Results per area of activity' section provides an additional breakdown based on the so-called 'area of activity reporting'.

Breakdown into primary IFRS segments	Banking	Insurance	Asset Management	KBL European Private Bankers	Gevaert	Holding Company Activities	Intersegment Eliminations	Total
2Q 2004 (pro forma)								
Net profit, group share (EUR m)	367	58	58	23	-65	-7	0	434
(% of total)	85%	13%	13%	5%	-15%	-2%	0%	100%
2Q 2005								
Net profit, group share (EUR m)	314	124	68	41	31	-41	0	536
(% of total)	59%	23%	13%	8%	6%	-8%	0%	100%
1H 2004 (pro forma)								
Net profit, group share (EUR m)	699	3	109	66	-48	-19	0	810
(% of total)	86%	0%	13%	8%	-6%	-2%	0%	100%
1H 2005								
Net profit, group share (EUR m)	784	246	126	94	63	-59	0	1 253
(% of total)	63%	20%	10%	8%	5%	-5%	0%	100%

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS32/39 and IFRS4 are only applied as of 2005, without restatement of the 2004 figures. 'Pro forma' means: based on a combined 'old KBC'-Almanij entity.

BANKING*

Banking income statement (EUR m)	2Q 2004 pro forma	1Q 2005	2Q 2005	1H 2004 pro forma	1H 2005
Net interest income	825	898	910	1 661	1 807
Gross earned premiums	-	-	-	-	-
Dividend income	41	19	49	54	67
Net gains from financial instruments at fair value	177	71	51	397	121
Net realized gains from available-for-sale assets	60	56	6	176	63
Net fee and commission income	226	321	284	500	605
Other income	71	149	74	123	223
Gross income	1 400	1 513	1 373	2 911	2 887
Operating expenses	-816	-807	-878	-1 804	-1 685
Impairment	-72	2	-36	-112	-34
on loans and receivables	-77	4	-38	-120	-34
on available-for-sale assets	5	-2	2	8	1
on goodwill	0	0	0	0	0
on other	0	0	0	0	0
Gross technical charges, insurance	-	-	-	-	-
Ceded reinsurance result	-	-	-	-	-
Share in results of associated companies	3	12	6	13	17
Profit before tax	516	720	465	1 009	1 185
Income tax expense	-108	-196	-109	-225	-306
Profit after tax	408	524	356	784	879
Minority interests	-41	-54	-42	-85	-96
Net profit - Group share	367	470	314	699	784

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS32/39 and IFRS4 are only applied as of 2005, without restatement of the 2004 figures. 'Pro forma' means: based on a combined 'old KBC'-Almanij entity.

* KBC Bank (hence excluding KBL European Private Bankers, which is a separate segment – see below).

Profit contribution

In the first half of 2005, net profit (Group share) of the banking business amounted to 784 m euros, up 12% on the figure for the first half of 2004 (though the latter figure has not been adjusted to take account of IAS32/39 and IFRS4).

The performance in the first half of 2005, compared to the corresponding period last year, resulted from a decrease in costs and loan loss impairments, combined with a small decrease (-0.8%) in gross income and an increase in taxes (up from 225 m euros to 306 m euros).

The decrease in gross income was due entirely to a decrease (-113 m euros) in realized gains, especially in the second quarter of 2005, and more specifically, on shares (the first half of 2004 included a large capital gain on the sale of the investment in the Belgian telecom, Belgacom) and to lower gains from financial instruments at fair value (-276 m euros compared to the reference period).

Excluding IFRS-effects, net interest income remained roughly unchanged, despite the increased competition and the difficult interest rate climate. Commission income increased robustly (+21%), thanks mainly to fund, securities and corporate finance transactions. Other income soared (+ 81%), though it included a large one-off item (+101 m euros, with a net impact on the bottom line of 68 m euros), relating to the settlement of an unpaid loan to the Slovak state (the 'Slovak Collection Unit' award - see 'Consolidated Financial Statements KBC Group', note 19).

Costs, as already mentioned, were trimmed by almost 7% and as a result, the cost/income ratio for this business segment, including the closely related asset management business and KBL European Private Bankers (KBL EPB), stood at a comfortable 57%, compared to 61% a year earlier. The change in impairments also contributed very positively to the net profit generated by the banking segment: impairments on loans and receivables, which stood at 120 m euros in the reference period, fell to 34 m euros. As a result, the (annualized) loan loss ratio (also including KBL EPB) in the first half of 2005 came to a low 0.06%, compared to 0.20% a year earlier (see Risk Management information below).

On the whole, 36% (282 m euros) of the banking segment's net profit was generated in Central Europe during the first half of 2005. Excluding the impact of the Slovak Collection Unit item, this still comes to 30% (more details under 'Annex: results per area of activity').

Acquisitions and divestitures

Apart from some small indirect acquisitions in the former Yugoslavia (Euromarket Banka in Montenegro in April 2005, Continental Banka in Serbia in July 2005 and, pending official approval, Razvojna banka in the Republic of Srpska (Bosnia) in August 2005) via NLB (in which KBC holds a 34% share), no major acquisitions or divestitures have been carried out to date in 2005.

As regards the medium term, KBC intends to gradually buy out third-party shareholders in a number of its Central European banking subsidiaries, if and when opportunities arise.

KBC also announced its intention to further strengthen the weight of its second home market by looking at new acquisitions. In this respect, given the satisfactory level of development of Romania and the ongoing privatization process there, KBC has decided to examine the possibility of acquiring BCR, the leading universal bank in that country. This might lead to a bid being launched, provided the risk and potential return involved are satisfactory.
In Poland, it remains the intention to gain additional market share, either by means of an acquisition or, if no suitable acquisition targets are available, through intensified organic growth.

Staff and clients

As at mid-2005, the number of staff in the banking segment amounted to 35 623 FTEs, down 1% on the figure at the end of 2004. The largest group companies in terms of FTEs are KBC Bank NV (11 221 FTEs at mid-2005), CSOB in the Czech and Slovak Republics (9 927 FTEs) and Kredyt Bank in Poland (6 521 FTEs).
Worldwide, these employees cater for over 9 m banking customers (roughly 3.3 m of which in Belgium and 6 m in Central Europe, including the customers of the NLB group).

Network and market share

KBC's banking operations are carried out through various channels, including extensive brick-and-mortar networks.
In Belgium, the number of branches stood at 956 (844 KBC Bank branches and 112 CBC Banque branches), 12 fewer than at the end of 2004. The branches are segmented into 902 retail branches, 29 corporate branches and 25 private banking branches, with the retail activities being complemented by 728 Centea bank agencies and the private banking activities by the private banking boutiques of Puilaetco and Dewaay (subsidiaries of KBL EPB – see below). In the first half of 2005, KBC's share of the Belgian banking market was roughly unchanged, at an estimated 21% (for customer deposits) and 23% (for loans).
In Central Europe, the group boasts a network of 1 019 bank branches in its five core countries, via its subsidiaries CSOB in the Czech and Slovak Republics, K&H Bank in Hungary and Kredyt Bank in Poland and its minority participation in Nova Ljubjanska banka in Slovenia. The share of the market (average share of customer deposits and customer loans) in the first half of 2005 was an estimated 21% in the Czech Republic, 6% in Slovakia, 11% in Hungary, 5% in Poland and 41% in Slovenia.

Outside Belgium and Central Europe, KBC's (mainly corporate) banking activities are pursued via a focused network of representative offices, branches and specialized subsidiaries. Apart from the decision to close down the Mexico representative office, there have been no major changes to this network in the first half of 2005.

Success in E-bancassurance

The branch networks in Belgium and in Central-Europe are complemented by telephone and Internet channels, which are constantly being enhanced and gaining in popularity. For example, in the first half of 2005, the percentage of electronically or automatically processed domestic payments in Belgium increased to 91% and the number of active subscribers to KBC-Online and CBC-Online, KBC's main e-banking system in Belgium, went up by yet another 8% to approximately 370 000.

Corporate image-building in Central Europe

All of KBC's Central European majority-owned banking (and insurance) entities have changed to or are in the process of adopting the same corporate logo, while retaining their local names.
At present, CSOB, K&H Bank and their related insurance companies already use this 'KBC-logo', while Kredyt Bank and Warta in Poland will adopt this logo in September 2005.

Updated private banking strategy

In view of the new group structure, more specifically the inclusion of KBL EPB, the group's private banking strategy has been updated, resulting in a dual-brand strategy in Belgium. Private banking clients can henceforth choose between KBC Bank's private banking network and the boutique-style private banking service of Puilaetco and Dewaay (both part of the KBL EPB network). More information on this matter is provided in the section on KBL EPB.

Unity of control in Central European equities and corporate finance businesses

In each of its Central European home markets, KBC is aiming to centralize control of the investment banking operations, by including the relevant entities under the umbrella of its equity house, KBC Securities. The goal is to further enhance the effectiveness of the KBC Group in these activities, especially in terms of cross-border operations and develop the Central European equity businesses even further. In this regard, KBC Securities' Polish branch made an operational start in the second quarter of 2005 after incorporating Kredyt Bank's investment banking operations, thus allowing KBC Securities to become directly active on the Polish market. KBC Securities already fully controls Patria Finance in the Czech Republic and has close operational ties with K&H Equities in Hungary.

Improving efficiency through co-sourcing

In March 2005, the German DZ Bank (via its subsidiary Transaktionsinstitut) and KBC Bank (via Fin-Force) concluded a partnership for the processing of cross-border payment transactions in Europe, with a view to benefiting from economies of scale and to strengthening their position as leading European service-providers. To cement this co-operation initiative, DZ Bank and KBC Bank also took a shareholding in each other's subsidiaries (DZ Bank now owns 10% of Fin-Force whilst KBC Bank owns 5% of Transaktionsinstitut).
This co-sourcing initiative follows a similar one with the Dutch Rabobank for securities processing in 2004.

INSURANCE

Insurance income statement (EUR m)	2Q 2004 pro forma	1Q 2005	2Q 2005	1H 2004 pro forma	1H 2005
Net interest income	115	131	136	217	266
Gross earned premiums	1 404	729	978	2 679	1 707
Dividend income	62	10	76	67	86
Net gains from financial instruments at fair value	2	-5	9	4	4
Net realized gains from available-for-sale assets	-2	106	38	62	144
Net fee and commission income	-78	-81	-67	-168	-148
Other income	16	19	10	33	29
Gross income	1 518	907	1 180	2 895	2 088
Operating expenses	-129	-123	-131	-254	-254
Impairment	-36	-16	-4	-164	-20
on loans and receivables	-1	-1	0	-1	-1
on available-for-sale assets	-35	-14	-4	-162	-18
on goodwill	0	-1	0	0	-1
on other	0	0	0	0	0
Gross technical charges, insurance	-1 240	-612	-852	-2 408	-1 464
Ceded reinsurance result	-22	-17	-17	-27	-33
Share in results of associated companies	7	0	0	10	0
Profit before tax	98	140	176	53	316
Income tax expense	-35	-18	-48	-47	-66
Profit after tax	62	122	128	6	250
Minority interests	-4	0	-4	-3	-4
Net profit - Group share	58	122	124	3	246

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS32/39 and IFRS4 are only applied as of 2005, without restatement of the 2004 figures. 'Pro forma' means: based on a combined 'old KBC'-Almanij entity.

Profit contribution

In the first half of 2005, net profit (Group share) of the insurance business amounted to 246 m, compared to only 3 m euros for the first half of 2004 (though the latter figure has not been adjusted to take account of IAS32/39 and IFRS4).

The good result in the first half of 2005 was due to higher gains realized on available-for-sale assets (+ 82 m euros, including the 89 m euros gain on the sale of the Irish insurance company FBD in the first quarter), higher net interest and dividend income (+49 m euros and +19 m euros, respectively), less negative net fee and commission income (+20 m euros, owing in part to the margin deposit accounting under IFRS) and especially the impressive improvement in impairments on available-for-sale assets (-18 m euros in the first half of 2005 as opposed to -162 m euros in the reference period).

The combined ratio in the non-life business stood at a comfortable 94%, roughly the same as in the reference period, and resulted from a somewhat better expense ratio (down from 31.0% to 29.8%) and a slightly weaker claims ratio (up from 62.5% to 64.0%). The claims reserve ratio in the non-life business was 178%.

On the whole, approximately 12% (30 m euros) of the net profit of the insurance segment was generated in Central Europe, the bulk of which by Warta in Poland and CSOB Pojist'ovna in the Czech Republic (more details under 'Annex: results per area of activity').

Premium income

From 1 January 2005 onwards, deposit accounting has been applied to investment contracts without Discretionary Participation Feature (DPF). Simplified, this means that the stated earned premium income excludes almost all premiums generated by unit-linked insurance contracts ('class 23' in Belgium). Sales of the latter were very good in the first half of 2005, generating 1 111 m euros of premium income, up 52% on the 732 m euros recorded in the reference period.

Gross premium income for interest-guaranteed products ('class 21') was - after an exceptional first half of 2004 (1 179 m euros) - again somewhat lower (851 m euros), partly as a result of the guaranteed interest rate on single premium interest-guaranteed products (Life Capital) falling further to 2.5%.

In the non-life business, gross premium income (815 m euros in the first half of 2005) was up 6% on the year-earlier figure.

Acquisitions and divestitures

In early March 2005, KBC sold its 22% interest in the Irish insurance company, FBD Holdings. This sale was a strategic move, as KBC did not see potential to acquire a majority stake in the company in the foreseeable future. Apart from this, no other major acquisitions, divestitures or changes in participation percentage occurred in the first half of 2005.

As is the case for KBC's banking presence in Central Europe, KBC Insurance aims to have a market share of at least 10% in its core markets and will therefore continue to look for acquisition opportunities in those countries where KBC's market share is deemed to be too small (see below).

Staff and clients

The total number of staff in the insurance segment (excluding the agent network) amounted to 7 625 FTEs at mid-2005, down 1% on the figure for the end of 2004. The largest group companies in terms of FTEs are Warta in Poland (3 595 FTEs at mid-2005) and KBC Insurance in Belgium (1 699 FTEs).

Worldwide, the KBC Group has roughly 1.4 m customers in Belgium and 3.3 m in Central Europe (with Warta in Poland accounting for half of this number).

Network and market share

KBC's insurance products are sold via brokers, agents and the bank networks.

In Belgium, besides the bank branches of KBC Bank and CBC Banque and the agencies of Centea (see under 'banking'), insurance products are sold by a network of (as at mid-2005) 597 tied insurance agencies and through a broker network (selling the products of subsidiary Fidea).

KBC Insurance's share of the Belgian market (based on premium income for 2004) is estimated at 8.5% for non-life insurance and 15% for life insurance. The latter includes a very strong position in unit-linked products (estimated at 30%).

In Central Europe, KBC Insurance has subsidiaries in each of the core countries where KBC Bank has a presence. Via these subsidiaries, it boasts an estimated share of 8% and 4% (in the life and non-life markets, respectively) in the Czech Republic, 4% and 4% in Slovakia, 3% and 11% in Poland, 4% and 4% in Hungary, and 6% in Slovenia (where it has only a life insurance business).

Continued success in cross-selling

With more than 40% of KBC Bank clients in Belgium also having bought insurance products of KBC Insurance, the cross-selling and bancassurance concepts are clearly proving to be a success in KBC's first home market.
Since a few years, these concepts have also been implemented in KBC's Central European markets, where, for instance, in the first half of 2005, cross-selling of mortgage loans and life insurance amounted to 60% in the Czech Republic and almost 80% in Slovakia.

Likewise, the bank channel is very important for the sale of (especially life) insurance products: for the whole KBC Group, around 66% of non-linked life premium income was generated via bank branches in the first half of 2005. For unit-linked life insurance, this even amounted to 98%.
For non-life insurance, agents (68%) and brokers (24%) remain the most important sales channels, though in the first half of 2005, the bank channel already accounted for 7% of premium income (for Belgium alone, it was 11%). The figures exclude reinsurance.

Corporate image-building in Central Europe

Like KBC's banking subsidiaries in Central Europe, all of KBC's majority-owned insurance entities in Central Europe have changed to or are in process of adopting the KBC corporate logo.

At present, the insurance companies in the Czech and Slovak Repubics and in Hungary (where Argosz has changed its name to K&H General Insurance) are using this KBC-logo, while Warta in Poland intends to do this in September 2005.

Product development

In mid-2005, KBC Insurance launched an all-encompassing business property insurance product ("patrimoniumpolis") for companies, which also covers damage caused by natural disasters.
Such insurance is based on a preceding risk analysis and allows companies to be optimally insured by means of only one contract, covering all insurable material damage and business interruptions (instead of a number of different insurance policies), thus eliminating double-coverage or gaps in their insurance portfolio.
Moreover, by adding coverage for natural disasters, KBC is clearly ahead of the relevant legislation. Some years ago, KBC already introduced insurance against natural disasters for private persons.

ASSET MANAGEMENT

Asset Management income statement (EUR m)	2Q 2004 pro forma	1Q 2005	2Q 2005	1H 2004 pro forma	1H 2005
Net interest income	0	0	-1	1	-1
Gross earned premiums	-	-	-	-	-
Dividend income	1	2	4	4	7
Net gains from financial instruments at fair value	4	4	4	4	8
Net realized gains from available-for-sale assets	1	0	0	1	1
Net fee and commission income	86	88	96	163	184
Other income	1	0	1	1	1
Gross income	93	94	105	174	199
Operating expenses	-14	-15	-15	-27	-30
Impairment	0	0	0	2	0
on loans and receivables	0	0	0	0	0
on available-for-sale assets	0	0	0	2	0
on goodwill	0	0	0	0	0
on other	0	0	0	0	0
Gross technical charges, insurance	-	-	-	-	-
Ceded reinsurance result	-	-	-	-	-
Share in results of associated companies	0	0	0	0	0
Profit before tax	78	79	90	149	169
Income tax expense	-21	-21	-22	-40	-43
Profit after tax	58	58	68	109	126
Minority interests	0	0	0	0	0
Net profit - Group share	58	58	68	109	126

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS32/39 and IFRS4 are only applied as of 2005, without restatement of the 2004 figures. 'Pro forma' means: based on a combined 'old KBC'-Almanij entity.

Profit contribution

In the first half of 2005, net profit (Group share) of the asset management business amounted to 126 m euros, up 16% on the figure for the first half of 2004 (though the latter figure has not been adjusted to take account of IAS32/39 and IFRS4).

These results are attributable to robust income growth (+14%), exceeding the increase in costs (+10%). The increase in gross income was related to, inter alia, increased assets under management (see further), positively impacting fee income (+13%) .

Acquisitions and divestitures

No major acquisitions or divestitures occurred in the first half of 2005.

Staff

The total number of staff at KBC Asset Management (excluding Central European asset management subsidiaries which are majority-owned by banking or insurance subsidiaries of the group) amounted to 326 FTEs at mid-2005, up 3% on the figure for the end of 2004.

Streamlining asset management activities in Central Europe

In recent years, the asset management companies of KBC's subsidiaries in Central Europe have been streamlined, with the result that KBC now has a single asset management company in each country, working under the umbrella of KBC Asset Management.
In the first half of 2005, this streamlining operation was completed with the creation of KBC TFI in Poland, which emerged from the merger of four former asset management subsidiaries of Kredyt Bank and Warta.

Market share

KBC is a very important asset management player on its home markets.

In recent years, KBC's share of the Belgian market for investment funds has constantly been over 30%, making it the market leader for these products. In the first six months of 2005, KBC Asset Management was able to maintain this strong position by launching no fewer than 107 new investment (sub-)funds on the Belgian market, in co-operation with KBC Bank, KBC Insurance, CBC Banque and Centea.

In Central Europe, too, the group is continuously strengthening its position in the investment fund business. In the first half of 2005, 28 new (sub-)funds were introduced in this region (16 in the Czech Republic, 9 in Hungary, 2 in Slovenia and 1 in Poland), in co-operation with KBC's local subsidiaries in these countries.
At present, KBC already has an estimated 26% share of the Czech market for investment funds and almost 8% in Slovakia, 11% in Hungary, 4% in Poland and 10% in Slovenia. Especially in the capital-guaranteed funds, KBC boasts a very strong – even leading – position in the Central European region.

The strong position, in both Belgium and Central Europe, is largely due to ongoing innovation of the product offering. Indeed, most of the new funds launched in the first half of 2005 included innovative features and/or a capital guarantee.

Success in the institutional market

KBC Asset Management is highly successful on the institutional market, too. In the first six months of 2005, for instance, it won on balance another 25 new mandates to manage the investments of institutional customers and VIP clientele in Belgium, bringing the total to 356 portfolios as at mid-2005.

Sustainable and socially responsible business

KBC Asset Management offers a whole range of sustainable investment funds, which again proved attractive to several new retail and institutional investors in the first half of 2005.

As at mid 2005, the amount of capital in sustainable investments in shares, bonds and balanced funds came to roughly 1 billion euros, three times as much as at the end of 2004, mainly due to the success of the "KBC Institutional Fund Ethical Euro Bonds" fund.

Moreover, as was the case last year, KBC Asset Management again organized specific Sustainable Funds Shareholders Days during the first half of 2005, to explain SRI (Socially Responsible Investment) decisions and to allow shareholders in KBC's sustainable funds to put questions to the fund managers and SRI researchers.

Assets under management

At mid-2005, assets under management or advice (AUM) totalled 170 billion euros. Excluding the group assets, the third-party AUM of the whole KBC Group amounted to 156 billion euros, up 11% on the figure for the end of 2004.

Over half of these third-party assets (82 billion euros, up 17% on the figure for the end of 2004) is managed by KBC Asset Management, and includes the lion's share of retail funds, discretionary management of private assets in Belgium and assets managed for institutional investors. Roughly, two thirds of the 17% increase in managed assets came from net inflows, the remainder stemming from an increase in the value of the assets themselves. Over and above these third-party assets, KBC Asset Management also manages around 15 billion of group assets.
The rest of the AUM of the KBC Group are located in KBL EPB (50 billion euros – see below) and banking segments (24 billion euros).

KBL EUROPEAN PRIVATE BANKERS

KBL European Private Bankers income statement (EUR m)	2Q 2004 pro forma	1Q 2005	2Q 2005	1H 2004 pro forma	1H 2005
Net interest income	43	38	41	116	79
Gross earned premiums	-	-	-	-	-
Dividend income	4	2	5	5	7
Net gains from financial instruments at fair value	8	45	38	8	82
Net realized gains from available-for-sale assets	0	2	19	12	21
Net fee and commission income	92	100	106	188	206
Other income	10	24	9	15	33
Gross income	158	211	217	344	429
Operating expenses	-135	-134	-153	-256	-287
Impairment	11	-1	-4	25	-5
on loans and receivables	5	1	-1	15	0
on available-for-sale assets	8	0	1	12	1
on goodwill	-2	-1	-5	-2	-6
on other	0	0	0	0	0
Gross technical charges, insurance	-	-	-	-	-
Ceded reinsurance result	-	-	-	-	-
Share in results of associated companies	0	1	1	1	2
Profit before tax	35	77	60	113	137
Income tax expense	-7	-21	-18	-29	-39
Profit after tax	29	56	42	85	98
Minority interests	-6	-3	-1	-19	-4
Net profit - Group share	23	53	41	66	94

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS32/39 and IFRS4 are only applied as of 2005, without restatement of the 2004 figures. 'Pro forma' means: based on a combined 'old KBC'-Almanij entity.

Profit contribution

In the first half of 2005, net profit (Group share) of the KBL European Private Bankers segment (KBL EPB) amounted to 94 m euros, up 42% on the figure for the first half of 2004 (though the latter figure has not been adjusted to take account of IAS32/39 and IFRS4).

In the first half of 2005, gross income rose by 25% year-on-year and included continued growth in net fee and commission income (+9%), higher realized gains on available-for-sale investments and net gains from financial instruments at fair value.
The decrease in net interest income (from 116 m euros to 79 m euros or, corrected for IFRS impact, from 110 m euros to 99 m euros) was caused by a decrease in the loan portfolio and generally lower interest rates.
In the same period, costs went up from 256 m euros to 287 m euros, mainly as a result of Puilaetco being included in the scope of consolidation and a provision being set aside for the reorganization in Banco Urquijo in Spain. Nevertheless, KBL EPB still saw its cost/income ratio going down from 74% to 67% and hence contributed positively to the improvement of the overall cost/income ratio from 61% in the first half of 2004 to 57% in the first half of 2005 (calculated for the banking business, asset management business and KBL EPB combined).
Impairments on loans and receivables and on available-for-sale assets were virtually zero in the first half of 2005.

Acquisitions and divestitures

In July 2005, CCF and KBL EPB signed an agreement on the takeover of HSBC Dewaay, which is active in Belgium (Brussels, Antwerp and Knokke) and has a subsidiary in Luxemburg. It manages around 2.5 billion euros of client assets and hence substantially reinforces the position of KBL EPB in Belgium. Indeed, together with Puilaetco (bought in mid-2004), KBL EPB has achieved substantial critical mass in Belgium, with combined client assets of over 6.5 billion euros.

Outside Belgium, a number of companies were acquired in the first half of 2005, again in order to gain critical mass in countries where KBL EPB was already present. In the Netherlands, the acquisition of Effectenbank Stroeve from Rabobank was finalized in mid-2005. Stroeve will be merged with KBL EPB's Dutch subsidiary Theodoor Gilissen Bankiers, allowing the latter to substantially increase assets under management (from 4.5 billion euros to more than 7.5 billion euros) and enabling it to become a top-5 player in the Dutch private banking market.
Earlier, in February 2005, KBL France bought Aurel Leven Gestion (with assets under management of roughly 0.5 billion euros), which is being integrated into KBL France.
Lastly, in order to simplify the structure, Banque Continentale Luxembourg (which had been a subsidiary of KBL) was fully merged with KBL in Luxemburg at the start of 2005.

Staff

The total number of staff in the KBL EPB segment came to 3 678 FTEs at mid-2005, virtually the same level as at the end of 2004 (this includes an increase of 22 FTEs due to the acquisition of Aurel Leven in the first half of 2005, combined with ongoing rationalization measures). The staff total excludes the roughly 140 Dewaay staff, as this company was acquired after 30 June 2005.
Around 34% of the workforce of the KBL EPB group are located in Luxemburg.

Network and strategy

Following the creation of the new group structure, KBC started to update its private banking strategy. It was decided to build a private banking business through two different but complementary models (network-led and local pure-play private banks).

In Belgium, the KBC/CBC private banking offer remains integrated in the retail network (via 25 specialized KBC/CBC branches), while Puilaetco and Dewaay will be positioned as independent boutique private banks.

In Central Europe, the network-led model will be followed, underpinned by KBC Bank's experience in Belgium.

Outside Belgium and Central Europe, KBL EPB will continue to build up its European Private Bankers boutique-style network in selected European countries. The focus will be on the strengthening of the existing presence, to reach critical mass in each country.

Besides private banking and some niche activities in Luxemburg, the parent company will focus on its support function and continue to develop specific support activities (such as IT, back-office operations, global custody services and product support) within a Hub Service Centre for KBL EPB's private banking activities throughout Europe. The aim here is to improve efficiency throughout the whole KBL EPB group.

Assets under management

As at 30 June 2005, total assets under management or advice (AUM) of KBL EPB amounted to 50 billion euros (still excluding Dewaay), up 8% on the figure for the end of 2004. Roughly 46 billion euros is accounted for by private banking clientele (with the remaining 4 billion euros constituting institutional assets managed by KBL EPB). Overall, the group's (KBL+KBC) private banking assets now amount to roughly 69 billion euros in thirteen European countries.

The total third-party AUM of the entire KBC Group, including KBL EPB, came to 156 billion euros as at mid-2005 (see the 'Asset Management' section).

Private banking synergies in the new group

The new private banking structure and co-operation initiatives are expected to lead to a positive pre-tax impact on KBC Group's results of approximately 75 m euros per year, more than half of which as early as 2006. The effective implementation of the synergy projects already started in the second quarter of 2005, incorporating no less than 33 projects in various domains. The largest synergy-related benefits are expected in the areas of asset management, insurance and IT. Up to now, all projects are on schedule.

Product innovation

In 2005, KBL EPB launched the first pension pooling vehicle in Luxemburg.
A pension pooling vehicle is an investment fund exclusively designed to pool assets invested by the various supplementary pension schemes of one and the same multinational group. Such pooling can achieve cost savings through economies of scale, better risk diversification and tax efficiency. This new fund was launched by KBL in February 2005 for the companies of the Suez group.

GEVAERT

Gevaert (EUR m)	2Q 2004 pro forma	1Q 2005	2Q 2005	1H 2004 pro forma	1H 2005
Net interest income	-5	-2	0	-9	-2
Gross earned premiums	-	-	-	-	-
Dividend income	3	1	2	3	3
Net gains from financial instruments at fair value	0	20	-6	1	14
Net realized gains from available-for-sale assets	1	4	34	2	37
Net fee and commission income	0	0	0	0	0
Other income	18	23	26	52	49
Gross income	17	46	56	49	101
Operating expenses	-18	-20	-22	-39	-42
Impairment	7	0	2	7	1
on loans and receivables	0	0	1	0	1
on available-for-sale assets	10	0	1	10	1
on goodwill	0	0	0	0	0
on other	-3	0	0	-3	0
Gross technical charges, insurance	-	-	-	-	-
Ceded reinsurance result	-	-	-	-	-
Share in results of associated companies	-69	8	6	-63	15
Profit before tax	-63	33	42	-45	75
Income tax expense	-2	-2	-11	-2	-12
Profit after tax	-65	32	31	-48	63
Minority interests	0	0	0	0	-1
Net profit - Group share	-65	32	31	-48	63

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS32/39 and IFRS4 are only applied as of 2005, without restatement of the 2004 figures. 'Pro forma' means: based on a combined 'old KBC'-Almanij entity.

Profit contribution

In the first half of 2005, net profit (Group share) of the Gevaert segment amounted to 63 m euros, compared to -48 m euros a year earlier.

The improvement of the net profit in the first half of 2005 was partly due to the fact that the 2004 reference period included a negative amount (-63 m euros) in the 'share in results of associated companies' heading, caused by a loss on a divestiture of the consumer imaging department at Agfa-Gevaert in the second quarter of 2004.

A second factor contributing to the profit increase was the virtual doubling of gross income (from 49 m euros to 101 m euros). In the first half of 2005, gross income was positively impacted by, inter alia, revaluation gains on the private equity portfolio (mainly in the first quarter) and gains realized on the sale of investments relating to the repositioning of Gevaert in the group (the main item being the sale of the investment in Bourbon, leading to a gain of 32 m euros).

Repositioning of activities in the group

Since the creation of the new KBC Group, a strategy has been worked out to redefine the position of Gevaert within the group. This includes both the sale of certain equity holdings and the repositioning of some activities to other companies of the KBC Group.

In this respect, the greater part of the equity holdings in listed companies has been sold. The main remaining holding is the 27% participating interest in Afga-Gevaert (which is also a non-core investment, and will be disposed of in due time).

Most other activities will be integrated in other KBC Group companies in 2005 or early 2006. In this respect, the private equity activities have been shifted to KBC Investco (which has changed its name to KBC Private Equity), most real estate activities are being transferred to KBC Bank's specialized real estate division (or will be sold if they do not fit in KBC's real estate portfolio) and a number of leasing activities will be integrated into KBC Lease.

RISK MANAGEMENT INFORMATION

RISK GOVERNANCE

The main risks incurred by a financial services group such as KBC are credit risks, ALM risks, market risks, operational risks and technical insurance risks.

- Credit risk is the risk of non-payment or non-performance by a borrower, guarantor, counterparty to a professional transaction or issuer of a debt instrument, due to that party's insolvency or lack of willingness to pay, or to events or measures taken by the political or monetary authorities of a particular country. The latter risk is also referred to as country risk.
- Asset/Liability Management (ALM) entails managing the macroeconomic risks[1] attendant on balance-sheet and off-balance-sheet transactions in the banking book (i.e. all activities not belonging to the trading book, including the forex and securities trading activities of the bank and the specialized subsidiaries) and those of the insurance business.
- Market (or trading) risk is the risk of loss due to movements in the relevant markets causing a drop in the value of the interest rate, currency, equity and derivatives positions held by the dealing rooms either at the bank or at the specialized subsidiaries KBC Financial Products, KBC Securities, KBC Peel Hunt and Patria Finance. The insurer's interest rate, currency and equity risks are covered by ALM risk management.
- Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
- The technical insurance risks include tariffication and acceptance risk, the risk that reserves will prove inadequate, the risk of serious accidents and catastrophes, and the risk of insurance fraud.

It goes without saying that the merger between KBC and Almanij also impacts the value and risk management function of the new KBC Group. KBC policy regarding value and risk management is based on the principle of 'a single group-wide and integrated framework', so value and risk management for the former KBC and KBL EPB are in the process of being integrated. This is expected to be largely finalized by the end of 2005.

SCOPE

Extensive risk management data and figures for KBC Bank and KBC Insurance are provided in the 2004 annual report of KBC, on pages 62 to 87. Information regarding risk management at KBL EPB is provided in the KBC-Almanij merger prospectus, on pages 126 to 128.

For a selection of these data, updated figures and information will be provided on a quarterly basis; a full overview will be provided in the next annual report. As KBL EPB's risks are in the process of being integrated into the Group risk reporting systems (see above), some data will, for the time being, only concern KBC Bank and KBC Insurance. The data are based on non-audited management information.

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

CREDIT RISK MANAGEMENT

Although quite a few transactions involve credit risk, the main source of credit risk is the loan portfolio of the bank. A snapshot of this portfolio is shown in the table below. It includes all payment credit, guarantee credit (except for confirmations of letters of credit and similar export-/import-related commercial credits), standby credit and credit derivatives (granted by KBC Bank and KBL EPB and all their majority-held subsidiaries) to private persons, companies, governments and banks. Bonds held in the investment portfolio are included if they are corporate- or bank-issued, hence government bonds (which are used more for treasury and liquidity management purposes) and trading book exposure are not included.

The table also provides information on impaired and non-performing loans. On the bank's internal Probability of Default (PD) scale, impaired loans coincide with the worst loan classes, i.e. loans to clients with a PD of 10, 11 and 12. For these impaired loans, specific loan impairments are recorded. A portfolio-based impairment is additionally recognized on the 'still good' portfolio (a formula based on PD classes 8 and 9). The related loan loss ratio (for a definition, see the 'Glossary of ratios used'; note: negative figures indicate a net retrieval of loan loss impairments) is also given in the table. The 1H 2005 loan loss ratio for Central Europe (in total 0.07%) can be broken down as follows: CSOB -0,12% (a net retrieval of provisions), K&H Bank 0.93% and Kredyt Bank -0.64% (again, a net retrieval).

Loan portfolio snapshot (KBC Bank and KBL EPB)	31-12-2004 PRO FORMA	30-06-2005
Total loan portfolio (EUR bln)		
Amount granted	156.1	165.4
Amount outstanding	113.6	122.3
Total loan portfolio, by origin (as a % of the portfolio of credit granted)		
Network in Belgium	45.5%	44.7%
Network in Central Europe	14.6%	15.0%
Network in the rest of the world	39.9%	40.2%
Total	100.0%	100.0%
Total loan portfolio, by sector (selected sectors as a % of the portfolio of credit granted)		
Real estate	5.5%	5.5%
Electricity	2.9%	2.8%
Aviation	0.9%	0.7%
Automobile	3.4%	3.2%
Total loan portfolio, by country rating (as a % of the portfolio of credit granted)		
Investment grade countries (AAA - BBB)	99.2%	99.2%
Non-investment-grade countries (BB -D)	0.8%	0.8%
Total	100.0%	100.0%
Impaired loans (PD10+11+12; in EUR m or %)		
Specific loan impairments	2 617	2 708
Portfolio-based loan impairments [1]	169	330
Loan-loss ratio [2]		
Network in Belgium	0.09%	0.03%
Network in Central Europe	0.48%	0.07%
Network in the rest of the world	0.26%	0.09%
Total	0.20%	0.06%
Non-performing (NP) loans (PD11+12; in EUR m or %)		
Amount outstanding	3 333	3 373
Specific loan impairments for NP loans	2 109	2 279
Non-performing ratio		
Network in Belgium	2.5%	2.2%
Network in Central Europe	6.6%	5.5%
Network in the rest of the world	1.7%	2.3%
Total	2.9%	2.8%
Cover ratio		
Specific loan impairments for NP loans / outstanding NP loans	63.3%	67.6%
Specific & portfolio-based loan impairments for performing and NP loans / outstanding NP loans	83.6%	90.1%

Definition of ratios: see 'Glossary of ratios used'.

1 In 2004: provision for international credits and provision for country risks.

2 Negative figures indicate a net retrieval of loan loss impairments. Figures 2004: as published in KBC's annual report (hence excluding KBL EPB and general provisions).

Non-performing loans are impaired loans (and corporate and bank bonds in the investment portfolio) for which principal repayments or interest payments are more than ninety days overdue. This coincides with loans to clients with a PD class 11 and 12. The table provides detailed information on non-performing loans, including the so-called 'non-performing ratio' and the 'cover ratio' (for a definition, see the 'Glossary of ratios used'). The latter ratio only takes into account the specific impairments for non-performing loans. If the specific impairments for still performing loans (PD 10) and the portfolio-based impairments are also taken into account (in the numerator), the cover ratio would amount to 90%.

As mentioned above, the loan portfolio clearly constitutes the main source of credit risk for the bank. However, a number of activities that are excluded from the credit portfolio figures also contain an element of credit risk:

- short-term commercial exposure: trade-related commitments, whose term does not surpass 2 years and for which the counterparty is a bank (such as confirmed or guaranteed documentary credits and documented pre-export financing and post-import financing). As at the end of June 2005, this exposure (100% weighted, excluding the portion covered by the Belgian Export Credit Agency, NDD) amounted to 0.9 billion euros (the figure excludes KBL EPB).
- counterparty risk of interprofessional transactions: refers to placements (money market transactions) and the pre-settlement risk of derivatives (forex products, swaps, options etc.). As at the end of June 2005, this exposure (weighted as positive present value, plus add-on) came to 17.5 billion euros (figure excludes KBL EPB).
- Trading book securities and government bonds in the investment book (more details in the 'Consolidated Financial Statements', in the note on Securities).

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

KBC's methodology for calculating country risk is explained on page 70 of the 2004 Annual Report.
The table shows the result of this calculation for 30 June 2005. This calculation encompasses more than the loan portfolio, as it also includes (the country risk involved in) interprofessional transactions and short-term commercial transactions. On the other hand, transactions in local currency (and the whole euro zone) are excluded from the calculation, as they do not entail any transfer risk.

Country risk 30-06-2005 (excluding transactions in local currency, in EUR m, KBC Bank and KBL EPB)	Total	Western Europe (excl. euro zone)	Central and Eastern Europe	Asia	North America	Middle East	Latin America	Africa	Oceania	International Institutions
Breakdown by type										
IFC 'B' loans	50	1	0	8	0	3	22	17	0	0
Performance risk loans	1 115	23	554	14	0	57	115	339	13	0
Other loans	13 346	2 594	6 141	1 964	1 382	467	412	150	201	36
Bonds and shares	5 328	1 722	952	488	1 428	90	183	18	213	233
Professional transactions (weighted risk)	8 397	6 195	634	718	509	118	33	30	86	74
Medium and long-term export finance	63	25	7	5	0	15	5	6	0	1
Short-term commercial transactions	892	15	91	231	11	462	35	36	1	11
Total	29 190	10 574	8 377	3 427	3 330	1 210	804	597	515	356
Breakdown by remaing maturity										
Maximum 1 year	13 093	5 971	2 662	2 308	911	542	244	142	235	78
More than 1 year	16 097	4 603	5 715	1 119	2 419	668	560	455	280	278
Total	29 190	10 574	8 377	3 427	3 330	1 210	804	597	515	356

ASSET/LIABILITY MANAGEMENT

The table shows - for the banking business - the extent to which the value of the portfolio would change (BPV) 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). The figures relate to KBC Bank, CBC Banque, Centea, KBC Lease, KBC Deutschland, CSOB, K&H Bank and Kredyt Bank (hence they exclude KBL EPB).

At the beginning of 2Q 2005, the interest rate risk within the discretionary interest rate position was reduced by selling interest rate futures (against the existing long bond position) to protect the bank's net worth against a possible rise in long-term bond yields. This explains why the BPV-figure fell in 2Q 2005. Following the decision to scale down the Group's share exposure, KBC Bank no longer has a discretionary equity position.

The second table below provides an overview of the investment portfolio of KBC Insurance. In the consolidated financial statements of KBC Group, the insurer's investment portfolio is not shown as such, but is spread over various balance sheet items (mainly securities and to a less extent investment property, loans and advances to customers, investments in associated companies, etc.).

ALM risk KBC Bank (EUR m)	Banking book
	BPV
Average 1Q 2004	18
Average 2Q 2004	14
Average 3Q 2004	6
Average 4Q 2004	8
Average 1Q 2005	9
Average 2Q 2005	2
30-06-2005	0
Maximum in 1H 2005	10
Minimum in 1H 2005	0

Investment portfolio KBC Insurance (EUR m)	book value		market value	
Breakdown into asset type	31-12-2004	30-06-2005	31-12-2004	30-06-2005
Securities	13 397	15 914	14 300	16 222
Bonds and alike	10 409	12 131	11 036	12 439
Held-to-maturity	-	2 660	-	2 968
Available-for-sale	-	8 320	-	8 320
At fair value through profit and loss	-	1 151	-	1 151
Shares and alike	2 988	3 783	3 264	3 783
Available-for-sale	-	3 649	-	3 649
At fair value trough profit and loss	-	134	-	134
Loans and advances to customers	140	150	140	150
Loans and advances to banks	193	202	193	202
Property and equipment and investment property	297	289	419	392
Investments in associated companies	102	18	193	18
Other assets	120	123	125	123
Investments, unit-linked	3 931	4 807	3 931	4 807
Total	18 180	21 501	19 300	21 913

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS32/39 and IFRS4 are only applied as of 2005, without restatement of the 2004 figures.

MARKET RISK MANAGEMENT

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

Through its specialized subsidiaries KBC Securities, KBC Peel Hunt, Patria Finance and KBC Financial Products, the group also engages in trading in equities and their derivatives, such as options and convertible bonds.

Via KBC Financial Products, the bank is also involved in trading in credit derivatives and in managing and providing services relating to hedge funds and launching and managing other instruments, including Collateralized Debt Obligations (CDOs). Neither the bank nor its subsidiaries are active in the commodities markets.

KBL EPB's market risks are not yet included in the figures.

The table shows the Value-at-Risk (99% confidence interval, ten-day holding period) for the bank's dealing rooms on the money and capital markets, based on historical simulation. The results of scenario analysis are given for KBC Financial Products.

Market risk (EUR m)	Interest rate activities	Forex activities	KBC Financial Products
	VAR	VAR	scenario analysis
Average 1Q 2004	17	2	34
Average 2Q 2004	17	2	42
Average 3Q 2004	18	1	44
Average 4Q 2004	18	1	29
Average 1Q 2005	13	1	27
Average 2Q 2005	11	1	20
30-06-2005	8	1	15
Maximum in 1H 2005	26	5	60
Minimum in 1H 2005	7	0	8

CONSOLIDATED FINANCIAL STATEMENTS KBC GROUP

CONSOLIDATED INCOME STATEMENT

EUR m	1H 2004 PRO FORMA	1H 2005
Net interest income	1 961	2 122
Gross earned premiums (see note 5)	2 679	1 707
Dividend income	146	169
Net gains from financial instruments at fair value	415	225
Net realised gains from available-for-sale assets	253	265
Net fee and commission income	681	839
Net post-tax income from discontinued operations	0	0
Other income	218	333
GROSS INCOME	6 353	5 660
Operating expenses (see note 6)	- 2 373	- 2 313
Impairment	- 242	- 57
on loans and receivables	- 107	- 34
on available-for-sale assets	- 130	- 16
on goodwill	- 2	- 7
on other	- 4	0
Gross technical charges, insurance	- 2 408	- 1 464
Ceded reinsurance result	- 27	- 33
Share in results of associated companies	- 39	33
PROFIT BEFORE TAX	1 264	1 826
Income tax expense	- 347	- 469
PROFIT AFTER TAX	916	1 357
Minority interests	- 107	- 104
NET PROFIT - GROUP SHARE	810	1 253
Earnings per share (in EUR)		
Basic	2.23	3.50
Diluted	2.18	3.42

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS32/39 and IFRS4 are only applied as of 2005, without restatement of the 2004 figures. 'Pro forma' means: based on a combined 'old KBC'-Almanij entity.

Quarterly consolidated income statement figures (for the second quarter of 2004 and the first and second quarter of 2005) are provided in the 'Group Results' section, in the table on page 6 of this report.

CONSOLIDATED BALANCE SHEET

ASSETS (EUR m)	Note	31-12-2004 PRO FORMA	30-06-2005
Cash and balances with central banks		1 553	1 692
Treasury bills and other bills eligible for rediscounting with central banks		8 078	6 026
Loans and advances to banks		38 463	46 885
Loans and advances to customers	8,9	111 177	108 704
Securities	10	98 862	111 913
Derivative financial instruments	11	15 376	18 952
Investment property		169	293
Reinsurers' share in technical provisions, insurance		258	273
Accrued income		3 504	2 941
Other assets		2 435	2 177
Tax assets		671	888
Non-current assets held for sale		0	0
Investments in associated companies		1 228	1 131
Goodwill and other intangible fixed assets		1 086	1 386
Property and equipment		2 300	2 295
TOTAL ASSETS		285 163	305 557

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS32/39 and IFRS4 are only applied as of 2005, without restatement of the 2004 figures. 'Pro forma' means: based on a combined 'old KBC'-Almanij entity.

LIABILITIES (EUR m)	Note	31-12-2004 PRO FORMA	30-06-2005
Deposits from banks		55 083	55 423
Deposits from customers and debt securities	12	157 712	167 807
Derivative financial instruments	11	17 728	23 521
Gross technical provisions	13	13 259	13 920
Liabilities under investment contracts	14	3 931	4 715
Accrued expense		2 743	3 563
Other liabilities		12 588	11 743
Tax liabilities		672	1 401
Non-current liabilities held for sale		0	0
Provisions for risks and charges		580	555
Subordinated liabilities		6 768	6 853
TOTAL LIABILITIES		271 064	289 500
Total Equity		14 099	16 058
Parent shareholders' equity	15	12 328	14 382
Minority interest		1 771	1 675
TOTAL LIABILITIES AND EQUITY		285 163	305 557

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS32/39 and IFRS4 are only applied as of 2005, without restatement of the 2004 figures. 'Pro forma' means: based on a combined 'old KBC'-Almanij entity.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EUR m	Issued and paid up share capital	Share premium	Treasury shares	Revaluation reserve (AFS investments)	Hedging reserve (cash flow hedges)	Reserves	Translation differences	Parent share-holders' equity	Minority interest	Total Equity
30-06-2004 PRO FORMA										
Balance at the beginning of the year	1 233	4 124	0	0	0	5 902	0	11 259	1 839	13 098
Capital increase	0	0	0	0	0	0	0	0	0	0
Net profit for the period	0	0	0	0	0	810	0	810	0	810
Dividends	0	0	0	0	0	- 458	0	- 458	0	- 458
Other	0	0	0	0	0	4	- 50	- 46	- 142	- 188
Total change	0	0	0	0	0	356	- 50	306	- 142	164
Balance at the end of the period	1 233	4 124	0	0	0	6 257	- 50	11 564	1 697	13 262
30-06-2005										
Balance at the beginning of the year	1 234	4 130	0	0	0	7 002	- 38	12 328	1 771	14 099
First-time application IAS32/39 and IFRS4 on 01-01-2005	0	185	- 340	1 131	9	- 177	0	808	0	808
Capital increase	0	0	0	0	0	0	0	0	0	0
(Result / Derivatives on) treasury shares	0	0	- 121	0	0	125	0	4	0	4
Net profit for the period	0	0	0	0	0	1 253	0	1 253	0	1 253
Dividends	0	0	0	0	0	- 659	0	- 659	0	- 659
Other	0	1	0	507	12	- 1	130	649	- 96	553
Total change	0	185	- 461	1 638	22	541	130	2 054	- 96	1 958
Balance at the end of the period	1 234	4 315	- 461	1 638	22	7 543	92	14 382	1 675	16 058
of which revaluation reserve for shares				829						
of which revaluation reserve for bonds				807						
of which revaluation reserve for other assets than bonds and shares				1						

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS32/39 and IFRS4 are only applied as of 2005, without restatement of the 2004 figures. 'Pro forma' means: based on a combined 'old KBC'-Almanij entity.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

As is the case under Belgian GAAP, cash flows from operating activities are reported using the indirect method under IFRS too. The main reclassifications between the different types of cash flow (operating, financing and investing activities), compared to the methodology used under Belgian GAAP, are:

- purchase of and the proceeds from repayment of held-to-maturity securities: investing activities under IFRS (operating activities under Belgian GAAP)
- purchase and sale of treasury shares: financing activities under IFRS (operating activities under Belgian GAAP).

EUR m	1H 2004 PRO FORMA	1H 2005
Net cash from (used in) operating activities	- 2 506	- 7 480
Net cash from (used in) investing activities	483	- 974
Net cash flows from (used in) financing activities	365	2 537
Net increase/(decrease) in cash and cash equivalents	- 1 658	- 5 917
Cash and cash equivalents at the beginning of the year	5 218	10 874
Effects of exchange rate changes on opening cash and cash equivalents	168	247
Cash and cash equivalents at the end of the period	3 728	6 767

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS32/39 and IFRS4 are only applied as of 2005, without restatement of the 2004 figures. 'Pro forma' means: based on a combined 'old KBC'-Almanij entity.

NOTES

Provided here is a limited selection of the notes to the accounts that will appear in the 2005 Annual Report.

1 Statement of compliance

The interim financial statements were authorized for issue on 1 September 2005 by the Board of Directors of KBC Group.

KBC Group's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ('IFRS') approved by the EU, and with the Royal Decree of 13 February 1996 on the consolidated annual accounts of insurance and reinsurance companies (for insurance activities not subject to IFRS4 – phase 1). They are presented in accordance with IAS34 'Interim Financial Reporting'.

The consolidated financial statements of KBC Group present one year of comparative information. As allowed under the IFRS1 exemption, this comparative information does not however comply with IAS32, IAS39 and IFRS4. Belgian GAAP rules apply to the comparative figures for financial instruments and insurance contracts.

The Group qualifies as a first-time adoptor 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 IAS32/39 and IFRS4 (in the opening balance sheet at 1 January 2005).

In conformity with IFRS1, the following exceptions were made to the general principle that the opening balance sheet needs to comply with each IFRS:

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

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

2 Accounting principles

A summary of the main accounting principles is provided in the 1Q 2005 Quarterly Report of KBC Group, which is available on KBC's website (www.kbc.com).
In the second quarter of 2005, no changes in content were made in the accounting principles that had a material impact on the results.

Exchange rates

Main currencies	Exchange rate as at 30-06-2005		Exchange rate average in 1H 2005	
	1 EUR = … CURR	Change versus 31-12-2004 (negative: depreciation versus EUR)	1 EUR = … CURR	Change versus avg 1H 2004 (negative: depreciation versus EUR)
USD (USA)	1.209	13%	1.290	-5%
GBP (UK)	0.674	5%	0.686	-2%
CZK (Czech Rep.)	30.03	1%	30.16	8%
SKK (Slovakia)	38.41	1%	38.63	5%
HUF (Hungary)	247.24	-1%	247.89	3%
PLN (Poland)	4.04	1%	4.09	16%

3 Reconciliation of Belgian GAAP - IFRS

EUR m

A: Reconciliation BGAAP - IFRS excluding IAS32/39 and IFRS4

Below, the net profit (2Q 2004, 1H 2004 and FY 2004) and equity (opening balance as at 01-01-2004, 30-06-2004 and 31-12-2004) figure under IFRS (excluding IAS32/39 and IFRS4) is reconciled with the comparable figure under Belgian GAAP.

Profit	2Q 2004 PRO FORMA	1H 2004 PRO FORMA	FY 2004 PRO FORMA
Profit - group share according to Belgian GAAP	429	849	1 682
Depreciation of goodwill	24	46	89
Employee benefits	-2	-23	-35
Tangible - Intangible fixed assets	3	9	3
Provisions for risks and charges	-23	-79	-97
Leasing	-1	-1	0
Deferred taxes	-1	18	2
Other	5	-9	-30
Profit - group share according to IFRS (excl. IAS 32/39 and IFRS4)	434	810	1 615

Parent shareholders' equity	01-01-2004 PRO FORMA	30-06-2004 PRO FORMA	31-12-2004 PRO FORMA
Parent shareholders' equity according to Belgian GAAP	11 005	11 769	11 902
Employee benefits	-414	-437	-450
Tangible - Intangible fixed assets	78	87	81
Provisions for other risks and charges	111	32	14
Deferred taxes	7	25	11
Leasing	8	7	9
Goodwill	-9	37	80
Profit appropriation	458	0	674
Other	15	44	7
Parent shareholders' equity according to IFRS (excl. IAS 32/39 and IFRS4)	11 259	11 564	12 328

B: Reconciliation IFRS excluding IAS32/39 and IFRS4 - IFRS including IAS32/39 and IFRS 4

Below, the equity figure (as at 31-12-2004) under IFRS excluding IAS32/39 and IFRS4 is reconciled with the comparable figure under IFRS including IAS32/39 and IFRS4. Furthermore, for a selection of balance sheet items, figures excluding and including IAS32/39 and IFRS4 adjustments are provided.

Parent shareholders' equity	31-12-2004 PRO FORMA
Parent Shareholders' equity according to IFRS, excl. IAS32/39 and IFRS4	12 328
Treasury shares	-292
Allocation of mandatory convertible bonds to equity	185
Credit provisioning	-311
Effective yield (capitalisation of transaction costs)	-11
Impairment on shares (insurance business)	-139
Other fair valueing of financial instruments	1 508
IFRS 4 (mainly equalization reserve)	186
Deferred tax	-277
Minority interest on items above	-41
Parent shareholders' equity according to IFRS	13 136

Selected balance sheet items	31-12-2004 PRO FORMA excl. IAS32/39 and IFRS4	31-12-2004 PRO FORMA incl. IAS32/39 and IFRS4	explanation of main differences (ref. to text below)
Loans and advances to customers	111 177	110 692	j
Securities	98 862	100 578	h, l
Derivative financial instruments (assets)	15 376	17 324	l
Derivative financial instruments (liabilities)	17 728	20 524	l
Gross technical provisions	13 259	13 068	m
Parent shareholders' equity	12 328	13 136	see above

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

Main differences between IFRS and Belgian GAAP (excluding IAS32, IAS39 and IFRS4)

a Amortization of goodwill

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

b Employee Benefits

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

c Tangible – intangible fixed assets

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

d Provisions for risks and charges

Provisions can only be recognized pursuant to IAS37 when an enterprise has a present obligation as a result of 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.

Belgian GAAP rules do not require a present obligation to recognize provisions: they can be recognized to cover clearly defined future losses or costs that are probable or certain at balance sheet date but the amount of which cannot be determined exactly. Therefore, certain provisions recognized under Belgian GAAP cannot be maintained under IFRS.

e Leasing

As in the Belgian GAAP, IAS17 makes a distinction between finance leases and operating leases. A lease is considered to be a finance lease for IFRS purposes, if it transfers substantially all the risks and rewards relating to the underlying asset to the lessee. All other leases are considered as operating leases. Given the broader criteria under IAS17 for considering a lease to be a finance lease, many of the leases currently recognized as operating leases will be reclassified as finance leases. Operating leases are presented as rentals in the financial statements, while finance leases are treated as loans.

f Deferred taxes

IAS12 requires recognition of all deferred tax liabilities due to taxable temporary differences. Deferred tax assets can be recognized for the carryforward of unused tax losses and unused tax credits if it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilized. Under Belgian GAAP, deferred tax assets and liabilities can be booked under specific circumstances.

g Other changes

A significant change relates to the scope of consolidation: all entities controlled by KBC or in which KBC has significant influence should be included in the scope of consolidation pursuant to IAS27, IAS28 and SIC12 (when they exceed the materiality limits). Therefore, special purpose entities, certain venture capital companies and certain investment property companies should be included in the scope of consolidation. Under Belgian GAAP, special purpose entities or entities to be sold in the future are not included in the scope of consolidation.

Another significant change relates to profit appropriation: under IFRS, equity is presented before profit appropriation, whereas under Belgian GAAP, equity is presented after profit appropriation.

Main differences between IFRS and Belgian GAAP, where IAS32, IAS39 and IFRS4 are concerned

h Treasury shares

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

i Allocation of mandatorily convertible bonds to equity

IAS32 requires a clear distinction to be made between equity instruments and debt instruments on the basis of several criteria. Certain financial instruments that are considered to be debt instruments under Belgian GAAP (such as mandatorily convertible bonds) are classified as equity instruments under IFRS. Any results from these financial instruments are reported directly in equity instead of net profit or loss for the financial year.

j Credit provisioning

Specific as well as portfolio-based provisions can be recognized under IAS39 if there is any indication of impairment at the balance-sheet date. Any indications of impairment have to be assessed on an individual basis for all significant loans. Loans for which there is no indication of impairment on an individual level have to be included in a portfolio of loans with similar risk characteristics and impairment then has to be assessed on a portfolio basis.

A specific loan loss provision has to be calculated as the difference between a loan's carrying value and its recoverable amount (i.e. the present value of estimated future cash flows). Under Belgian GAAP, no discount factor is taken into account to calculate specific loan loss provisions. Furthermore, Belgian GAAP does not require portfolio-based provisions to be recognized on the same basis as IAS39.

k Effective yield

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

l Fair value of financial instruments

Fixed-income securities – investment portfolio

IAS39 makes a distinction between held-to-maturity (HTM) investments and available-for-sale (AFS) investments. Furthermore, under IAS39, any financial asset can be designated as being at 'fair value through profit or loss' (FIFV). HTM investments are measured at amortized cost. AFS and FIFV investments are measured at fair value. Fair value changes in AFS investments are reported in equity until the disposal or impairment of the investments, in which case the cumulative revaluation result will be reported in net profit or loss. Fair value changes in FIFV investments are reported in net profit or loss.

Under Belgian GAAP, no such distinction exists in the investment portfolio. Fixed-income investments in the investment portfolio are measured at amortized cost.

Shares – investment portfolio

Shares in the investment portfolio can be designated as being at fair value through profit or loss (FIFV) or available-for-sale (AFS) investments and both are measured at fair value. Unrealized gains or losses on AFS shares are reported in equity until the disposal or impairment of the shares, in which case the cumulative revaluation result will be reported in net profit or loss for the financial year. Unrealized gains or losses on FIFV shares are reported in net profit or loss for the financial year.

Under Belgian GAAP, shares in the banking investment portfolio are measured at cost unless their market value at balance sheet date is lower, in which case they are measured at market value (LoCoM principle). Shares in the insurance investment portfolio are reported at cost. Impairment losses are recognized on the basis of specific impairment rules. The impairment rules used for Belgian GAAP reporting differ significantly from the impairment rules under IAS39.

Derivatives not held for trading purposes

IAS39 presumes that all derivatives are trading derivatives unless they are designated and effective hedging instruments. IAS39 requires hedging derivatives to be measured at fair value. Resulting fair value changes have to be reported in net profit or loss for fair value hedges or in equity for cash flow hedges.

Under Belgian GAAP, these derivatives are measured at cost.

m IFRS 4

Equalization reserves: IFRS 4 prohibits provisions for possible claims under contracts that are not in existence at the reporting date (such as the equalization reserve), which are allowed under Belgian GAAP.

IFRS 4 makes a distinction between insurance contracts and investment contracts with DPF (Discretionary Participation Feature) and without DPF, whereas Belgian GAAP does not. Insurance contracts and investment contracts with DPF will continue to be recognized according to Belgian GAAP rules. However, investment contracts without DPF are measured using deposit accounting rules under IFRS32 and IFRS39. See 'Valuation rules'.

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

4a Segment reporting by business segment

For a definition of each business segment, please see 'Results per business segment'.

EUR m	Banking	Insurance	Asset Mana-gement	KBL European Private Bankers	Gevaert	Holding Company Activities	Inter-segment elimi-nations	KBC Group
INCOME STATEMENT 1H 2004 (PRO FORMA)								
Net interest income	1 661	217	1	116	- 9	- 29	4	1 961
Gross earned premium	0	2 679	0	0	0	0	0	2 679
Dividend income	54	67	4	5	3	12	0	146
Net gains from financial instruments at fair value	397	4	4	8	1	0	0	415
Net realised gains from available-for-sale assets	176	62	1	12	2	0	0	253
Net fee and commission income	500	- 168	163	188	0	0	- 2	681
Net post-tax income from discontinued operations	0	0	0	0	0	0	0	0
Other income	123	33	1	15	52	238	- 245	218
GROSS INCOME	2 911	2 895	174	344	49	222	- 242	6 353
Operating expenses	- 1 804	- 254	- 27	- 256	- 39	- 235	242	- 2 373
Impairment	- 112	- 164	2	25	7	0	0	- 242
on loans and receivables	- 120	- 1	0	15	0	0	0	- 107
on available-for-sale assets	8	- 162	2	12	10	0	0	- 130
on goodwill	0	0	0	- 2	0	0	0	- 2
on other	0	0	0	0	- 3	0	0	- 4
Gross technical charges	0	- 2 408	0	0	0	0	0	- 2 408
Ceded reinsurance result	0	- 27	0	0	0	0	0	- 27
Share in results of associated companies	13	10	0	1	- 63	0	0	- 39
PROFIT BEFORE TAX	1 009	53	149	113	- 45	- 14	0	1 264
Income tax expense	- 225	- 47	- 40	- 29	- 2	- 5	0	- 347
PROFIT AFTER TAX	784	6	109	85	- 48	- 19	0	916
Minority interests	- 85	- 3	0	- 19	0	0	0	- 107
NET PROFIT - GROUP SHARE	699	3	109	66	- 48	- 19	0	810
INCOME STATEMENT 1H 2005								
Net interest income	1 807	266	- 1	79	- 2	- 30	4	2 122
Gross earned premium	0	1 707	0	0	0	0	0	1 707
Dividend income	67	86	7	7	3	0	0	169
Net gains from financial instruments at fair value	121	4	8	82	14	- 4	0	225
Net realised gains from available-for-sale assets	63	144	1	21	37	0	0	265
Net fee and commission income	605	- 148	184	206	0	- 2	- 7	839
Net post-tax income from discontinued operations	0	0	0	0	0	0	0	0
Other income	223	29	1	33	49	235	- 239	333
GROSS INCOME	2 887	2 088	199	429	101	200	- 242	5 660
Operating expenses	- 1 685	- 254	- 30	- 287	- 42	- 257	242	- 2 313
Impairment	- 34	- 20	0	- 5	1	0	0	- 57
on loans and receivables	- 34	- 1	0	0	1	0	0	- 34
on available-for-sale assets	1	- 18	0	1	1	0	0	- 16
on goodwill	0	- 1	0	- 6	0	0	0	- 7
on other	0	0	0	0	0	0	0	0
Gross technical charges	0	- 1 464	0	0	0	0	0	- 1 464
Ceded reinsurance result	0	- 33	0	0	0	0	0	- 33
Share in results of associated companies	17	0	0	2	15	0	0	33
PROFIT BEFORE TAX	1 185	316	169	137	75	- 57	0	1 826
Income tax expense	- 306	- 66	- 43	- 39	- 12	- 2	0	- 469
PROFIT AFTER TAX	879	250	126	98	63	- 59	0	1 357
Minority interests	- 96	- 4	0	- 4	- 1	0	0	- 104
NET PROFIT - GROUP SHARE	784	246	126	94	63	- 59	0	1 253
BALANCE SHEET 31-12-2004								
Total assets	231 126	19 562	623	31 713	1 551	588		285 163
Total liabilities	220 975	17 887	88	30 607	252	1 255		271 064
BALANCE SHEET 30-06-2005								
Total assets	248 352	22 840	673	31 772	1 263	657		305 557
Total liabilities	237 539	19 720	81	30 449	268	1 443		289 500

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS32/39 and IFRS4 are only applied as of 2005, without restatement of the 2004 figures. 'Pro forma' means: based on a combined 'old KBC'-Almanij entity.

4b Segment reporting by geographic segment

The geographic segmentation is based on the location where the services are rendered. In other words, for the balance sheet, the location of the branch or subsidiary determines in which segment it is included. Since at least 95% of the customers are local customers, this principle is also observed in the geographical segmentation of the income statement.

More detailed geographic segmentation figures for balance sheet items are provided in the various notes to the balance sheet. These breakdowns are based on the geographic location of the counterparty.

EUR m	Belgium	Central Europe	Rest of the world	Inter-segment elimi-nations	KBC Group
1H 2004 (PRO FORMA)					
Gross income	4 035	1 133	1 185	0	6 353
31/12/2004 (PRO FORMA)					
Total assets	168 028	30 043	87 092	0	285 163
Total liabilities	153 802	29 199	88 063	0	271 064
1H 2005					
Gross income	3 099	1 388	1 172	0	5 660
30/06/2005					
Total assets	177 445	34 307	93 805	0	305 557
Total liabilities	162 879	33 105	93 516	0	289 500

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS32/39 and IFRS4 are only applied as of 2005, without restatement of the 2004 figures. 'Pro forma' means: based on a combined 'old KBC'-Almanij entity.

5 Technical accounts, insurance

The technical accounts as presented below differ from the presentation of the consolidated income statement of the KBC Group. The main differences are:

- a breakdown is provided in insurance contracts (life versus non-life), investment contracts (with DPF versus 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 P/L lines (net interest income, dividend income, net gains from financial instruments at fair value, net realised gains from available-for-sale assets, net fee and commission income and other income).

Note: IFRS4 has only been applied as of 2005, which explains why no figures regarding 'Investment contracts' are given for the 2004 reference period.

	Insurance contracts			Investment contracts		Non-technical account	TOTAL
EUR m	Life	Non-life	Total	with DPF (Life)	without DPF (Life)		
1H 2004 (PRO FORMA)							
Gross earned premiums	1 910	769	2 679	-	-	0	2 679
Gross technical charges	- 2 042	- 502	- 2 544	-	-	0	- 2 544
Gross claims paid	- 688	- 409	- 1 098	-	-	0	- 1 098
Gross provision for claims outstanding	- 2	- 59	- 61	-	-	0	- 61
Bonuses and rebates	8	0	7	-	-	0	7
Other technical provisions	- 1 360	- 20	- 1 380	-	-	0	- 1 380
Other technical income and charges	1	- 14	- 13	-	-	0	- 13
Investment income and charges	255	21	277	-	-	3	279
Investment income	0	0	0	-	-	415	415
Value adjustments	96	0	96	-	-	- 170	- 74
Investment charges	0	0	0	-	-	- 59	- 59
Other income and charges (non-technical)	0	0	0	-	-	- 3	- 3
Allocation to the technical accounts	160	21	181	-	-	- 181	0
General administrative expenses	- 97	- 249	- 345	-	-	0	- 345
Net acquisition costs	- 76	- 189	- 265	-	-	0	- 265
Administrative expenses	- 20	- 60	- 80	-	-	0	- 80
Impairment of goodwill	0	0	0	-	-	0	0
Share in results of associated companies	0	0	0	-	-	10	10
Ceded reinsurance result	- 1	- 24	- 26	-	-	- 1	- 27
Technical charges	1	24	25	-	-	0	25
Fee and commission expense	0	11	12	-	-	0	12
Interest expense deposits from reinsurers	0	0	0	-	-	- 1	- 1
Earned premiums	- 2	- 60	- 62	-	-	0	- 62
PROFIT BEFORE TAX	26	15	41	-	-	12	53
1H 2005							
Gross earned premiums	308	815	1 123	584	0	0	1 707
Gross technical charges	- 305	- 524	- 828	- 684	- 216	0	- 1 728
Gross claims paid	- 214	- 419	- 634	- 114	- 1	0	- 749
Gross provision for claims outstanding	10	- 84	- 74	15	0	0	- 59
Bonuses and rebates	2	0	2	5	0	0	7
Other technical provisions	- 103	- 5	- 108	- 591	- 247	0	- 946
Other technical income and charges	0	- 14	- 14	1	32	0	19
Investment income and charges	157	79	235	121	253	128	737
Investment income	0	0	0	0	0	570	570
Value adjustments	0	0	0	0	253	0	253
Investment charges	0	0	0	0	0	- 83	- 83
Other income and charges (non-technical)	0	0	0	0	0	- 2	- 2
Allocation to the technical accounts	157	79	235	121	0	- 357	0
General administrative expenses	- 63	- 255	- 318	- 23	- 24	0	- 365
Net acquisition costs	- 46	- 192	- 238	- 19	- 22	0	- 279
Administrative expenses	- 17	- 64	- 80	- 4	- 3	0	- 86
Impairment of goodwill	0	0	0	0	0	- 1	- 1
Share in results of associated companies	0	0	0	0	0	0	0
Ceded reinsurance result	- 1	- 30	- 32	0	0	- 2	- 33
Technical charges	1	19	20	0	0	0	20
Fee and commission expense	0	8	9	0	0	0	9
Interest expense deposits from reinsurers	0	0	0	0	0	- 2	- 2
Earned premiums	- 3	- 58	- 61	0	0	0	- 61
PROFIT BEFORE TAX	96	85	180	- 2	12	125	316

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS32/39 and IFRS4 are only applied as of 2005, without restatement of the 2004 figures. 'Pro forma' means: based on a combined 'old KBC'-Almanij entity.

6 Operating expenses

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

EUR m	1H 2004 PRO FORMA	1H 2005
Total	- 2 373	- 2 313
Staff expenses	- 1 390	- 1 350
General administrative expenses	- 807	- 763
Depreciation and amortization of fixed assets	- 196	- 186
Provisions for risks and charges	20	- 14

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS32/39 and IFRS4 are only applied as of 2005, without restatement of the 2004 figures. 'Pro forma' means: based on a combined 'old KBC'-Almanij entity.

7 Classification of financial instruments

Financial instruments are classified into a number of categories.

Assets are grouped into the following portfolios: loans and receivables (L&R), held-to-maturity (HTM), available-for-sale (AFS), held-for-trading (HFT) and 'other financial instruments at fair value' (FIFV).

Liabilities are classified as follows: held-for-trading (Trading), 'other financial instruments at fair value' (FIFV) and other liabilities (Funding).

As IAS32/39 and IFRS4 have only been applied from 1 January 2005, no reference figures for 2004 have been provided regarding the breakdown of financial instruments into the various portfolios.

Fair value: when available, published price quotations (from dealers, brokers, industry groups, pricing services or regulatory agencies) 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 cash flow 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.

Market value adjustments are recognized 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 exposures, liquidity management and operations-related costs.

EUR m

ASSETS	L&R	HTM	AFS	HFT (*)	FIFV	Total
31-12-2004 PRO FORMA						
Cash and balances with central banks	-	-	-	-	-	1 553
Treasury bills and other bills eligible for rediscounting with central banks	-	-	-	-	-	8 078
Loans and advances to banks	-	-	-	-	-	38 463
Loans and advances to customers	-	-	-	-	-	111 177
Fixed-income securities	-	-	-	-	-	79 275
Equity instruments	-	-	-	-	-	19 587
Derivative financial instruments	-	-	-	-	-	15 376
30-06-2005						
Cash and balances with central banks	1 692	0	0	0	0	1 692
Treasury bills and other bills eligible for rediscounting with central banks	0	174	4 468	1 385	0	6 026
Loans and advances to banks	28 597	14	52	7 196	11 026	46 885
Loans and advances to customers	98 748	0	0	4 811	5 145	108 704
Fixed-income securities	801	10 573	33 460	20 694	20 412	85 939
Equity instruments	0	0	5 206	15 779	4 989	25 973
Derivative financial instruments	0	0	0	18 952	0	18 952
LIABILITIES	Funding	Trading (*)	FIFV			Total
31-12-2004 PRO FORMA						
Deposits from banks	-	-	-	-	-	55 083
Deposits from customers and debt securities	-	-	-	-	-	157 712
Derivative financial instruments	-	-	-	-	-	17 728
Liabilities under Investment contracts	-	-	-	-	-	3 931
30-06-2005						
Deposits from banks	50 024	5 398	0	0	0	55 423
Deposits from customers and debt securities	157 275	10 532	0	0	0	167 807
Derivative financial instruments	0	23 521	0	0	0	23 521
Liabilities under Investment contracts	0	0	0	0	4 715 (**)	4 715

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS32/39 and IFRS4 are only applied as of 2005, without restatement of the 2004 figures. 'Pro forma' means: based on a combined 'old KBC'-Almanij entity.

(*) Trading as well as hedging derivatives are classified as trading.

(**) IFRS 4 'insurance contracts' refers to IAS 39 for the accounting treatment of (unbundled) deposit components (=financial liability that does not include a discretionary participation feature) . Despite the 'IAS 39 carve outs' made by the European Commission stating that the fair value option can only be used for financial assets, the European Insurance Accounts Directive allows a fair value measurement through profit or loss for these financial liabilities.

8 Loans and advances to customers

EUR m	31-12-2004 PRO FORMA	30-06-2005
Total	111 177	108 704
Geographic breakdown	111 177	108 704
Belgium	50 999	53 406
Central Europe	14 253	14 751
Rest of the World	45 925	40 548
Breakdown by type of credit	111 177	108 704
Discount and acceptance credit	359	382
Consumer credit	1 642	1 736
Mortgage loans	27 839	30 682
Term loans	65 081	57 532
Finance leasing	5 307	5 676
Current account advances	5 924	7 341
Advances on life assurance contracts	9	9
Other (including impairments)	5 015	5 346
of which: securitized	1 057	993
of which: repos	17 511	8 920
Quality		
Gross amount outstanding	113 860	111 665
Impairment for losses on loans and advances	- 2 683	- 2 960
Net amount outstanding	111 177	108 704

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS32/39 and IFRS4 are only applied as of 2005, without restatement of the 2004 figures. 'Pro forma' means: based on a combined 'old KBC'-Almanij entity.

9 Impairment for loan losses

Information on loan loss ratios, non-performing loans (impaired loans for which principal repayments or interest payments are more than 90 days in arrears) and coverage of these non-performing loans by loan loss impairments is provided in the 'Risk Management' section (this section is not part of the audited financial accounts).

EUR m	31-12-2004 PRO FORMA	30-06-2005
Total	2 786	3 038
Breakdown by type	2 786	3 038
Specific impairment, on-balance-sheet lending	2 529	2 649
Specific impairment, off-balance-sheet credit commitments	88	59
Portfolio-based impairments (in 2004: provision for international credits and provision for country risks).	169	330
Breakdown by counterpart	2 786	3 038
Impairment for loans and advances to banks	15	5
Impairment for loans and advances to customers	2 683	2 960
Off-balance-sheet credit commitments	88	72
Geographic breakdown	2 786	3 038
Belgium	937	1 147
Central Europe	1 052	1 051
Rest of the world	797	840

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS32/39 and IFRS4 are only applied as of 2005, without restatement of the 2004 figures. 'Pro forma' means: based on a combined 'old KBC'-Almanij entity.

10 Securities

Securities can be classified as loans and receivables, held-to-maturity (HTM), available-for-sale (AFS), held-for-trading (HFT) or 'other financial instruments at fair value' (FIFV). Securities classified as AFS, HFT and FIFV are measured at fair value. HTM securities are measured at amortized cost.

EUR m	31-12-2004 PRO FORMA	30-06-2005
Total	98 862	111 913
Geographic breakdown	98 862	111 913
Belgium	36 323	40 243
Central Europe	10 010	12 101
Rest of the World	52 530	59 569
Breakdown by type and counterpart	98 862	111 913
Fixed-income securities	78 797	85 939
Government bonds	42 421	52 044
Credit institutions	13 394	17 418
Other	22 983	16 478
Equity instruments	20 065	25 973
Shares	16 133	21 167
Investment contracts	3 931	4 807
Breakdown by portfolio	98 862	111 913
Fixed-income securities	78 797	85 939
Loans and receivables	-	801
Held-to-maturity	-	10 573
Available-for-sale	-	33 460
Held-for-trading	-	20 694
Other financial instruments at fair value	-	20 412
Equity instruments	20 065	25 973
Available-for-sale	-	5 206
Held-for-trading	-	15 779
Other financial instruments at fair value	-	4 989

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS32/39 and IFRS4 are only applied as of 2005, without restatement of the 2004 figures. 'Pro forma' means: based on a combined 'old KBC'-Almanij entity.

11 Derivative financial instruments

Nearly all derivatives are designated as trading derivatives, as the Group does not apply hedge accounting on a large scale. Volatility is controlled mainly by designating certain financial assets as other financial instruments at fair value (FIFV).

EUR m	31-12-2004 Notional amounts PRO FORMA	30-06-2005 Notional amounts
Interest rate contracts	648 543	723 842
Interest rate swaps	510 832	566 448
Forward rate agreements	22 174	36 141
Futures	31 997	36 993
Options	83 541	84 260
Foreign exchange contracts	117 731	142 402
Forward foreign exchange operations/Currency forwards	77 420	87 287
Currency and interest rate swaps	27 646	34 390
Futures	13	0
Options	12 652	20 724
Equity contracts	102 244	29 387
Forwards	0	0
Futures	0	25
Options	102 244	29 362

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS32/39 and IFRS4 are only applied as of 2005, without restatement of the 2004 figures. 'Pro forma' means: based on a combined 'old KBC'-Almanij entity.

12 Deposits from customers and debt securities

EUR m	31-12-2004 PRO FORMA	30-06-2005
Total	157 712	167 807
Geographic breakdown	157 712	167 807
Belgium	69 404	71 351
Central Europe	22 948	26 566
Rest of the World	65 360	69 890
Breakdown by type	157 712	167 807
Demand deposits	29 700	33 361
Time deposits	47 218	46 561
Savings deposits	29 244	30 836
Special deposits	3 707	3 960
Other deposits	17 350	18 101
Savings certificates	4 700	3 965
Bonds	9 259	9 719
Certificates of deposit	16 535	21 304
of which repos	11 594	10 753

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS32/39 and IFRS4 are only applied as of 2005, without restatement of the 2004 figures. 'Pro forma' means: based on a combined 'old KBC'-Almanij entity.

13 Gross technical provisions

Technical provisions relate to insurance contracts and investment contracts with DPF (Discretionary Participation Feature). Liabilities under investment contracts without DPF (see note 14) have to be valued according to IAS39 (deposit accounting); these liabilities concern mainly the unit-linked contracts.

EUR m	31-12-2004 PRO FORMA	30-06-2005
Gross technical provisions	13 259	13 920
Insurance contracts	13 259	7 852
Provisions for unearned premiums and unexpired risk	437	519
Life assurance provision	9 563	4 071
Provision for claims outstanding	2 912	3 019
Provision for bonuses and rebates	44	17
Provision for equalization	191	0
Other technical provisions	112	226
Investment contracts with DPF	-	6 068
Provision for unearned premiums and unexpired risk		0
Life assurance provision	-	6 049
Provision for claims outstanding	-	0
Provision for bonuses and rebates	-	19
Other technical provisions		0
Reinsurers' share	258	273
Insurance contracts	258	273
Provisions for unearned premiums and unexpired risk	23	31
Life assurance provision	7	7
Provision for claims outstanding	227	234
Provision for bonuses and rebates	0	0
Other technical provisions	1	0
Investment contracts with DPF	-	0
Life assurance provision	-	0
Provision for claims outstanding	-	0
Provision for bonuses and rebates	-	0

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS32/39 and IFRS4 are only applied as of 2005, without restatement of the 2004 figures. 'Pro forma' means: based on a combined 'old KBC'-Almanij entity.

14 Liabilities under investment contracts

For comments, see Note 13.

EUR m	31-12-2004 PRO FORMA	30-06-2005
Total	3 931	4 715
Unit-linked	3 931	4 698
Insurance bond without death rider	0	0
Other	0	16

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS32/39 and IFRS4 are only applied as of 2005, without restatement of the 2004 figures.
'Pro forma' means: based on a combined 'old KBC'-Almanij entity.

15 Parent shareholders' equity

The share capital of KBC Group consists of ordinary shares of no nominal value and mandatorily convertible bonds (MCBs – see 'other equity instruments' in the table).

As at 30 June 2005, there were 366 427 086 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 Luxemburg Stock Exchange. The par value per ordinary share (issued and paid up share capital per ordinary share) amounted to approx. 3.37 euros at 30 June 2005. There are no shares issued that have not been fully paid. There are no other restrictions attaching to the shares.
As regards authorized shares, the authorization to increase capital may be exercised until 17 June 2009 for an amount of 199 728 026 euros (which, based on the accounting par value of the shares as at the end of June 2005, may lead to the issue of maximum 59 266 476 new shares).
As at 30 June 2005, KBC Group companies held 9 070 401 KBC Group shares (8 491 505 excluding the shares held in the trading book of KBC Securities and KBC Financial Products), a large number of which (4 025 704) are held to meet requirements under the various employee stock option plans.

As at 30 June 2005, there were 2 644 483 1998-2008 MCBs in circulation (for a nominal amount of 185 195 038 euros, with a maturity date of 30 November 2008 and with a base rate of 3.5% (as of 2000 related to the evolution of the dividend of 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 new KBC ordinary share for one MCB. MCBs which have not been contributed by their holders will be converted automatically into ordinary shares at maturity. MCBs only bear voting rights when converted into ordinary shares.

Note that the preferred redeemable trust securities (preference shares) are not included in parent shareholders' equity, but in minority interests.

Freely convertible bonds are also not taken into account in parent shareholders' equity: as at 30 June 2005, the maximum number of new KBC-shares to be issued should all freely convertible bonds be converted on or before their maturity date (10 December 2005), is 5 228 700.

in number of shares	31-12-2004 PRO FORMA	30-06-2005
Total number of shares issued and fully paid up	369 071 569	369 071 569
Ordinary shares	366 423 447	366 427 086
Other equity instruments	2 648 122	2 644 483
of which those that entitle the holder to a dividend payment	368 932 807	369 071 569
of which treasury shares	9 744 683	9 070 401

16a Solvency, banking (KBC Bank and KBL EPB combined, both consolidated)

The table below aggregates the solvency calculation for KBC Bank and KBL EPB. Separate calculations for KBC Bank and KBL EPB are available. Both solvency ratio calculations are based on local (i.e. Belgian and Luxemburg, respectively) GAAP principles.

On a statutory basis, KBC Bank group and KBL EPB group companies are subject to regulatory guidelines imposed locally by the supervisory authorities in the various countries.
On a consolidated level, KBC Bank and KBL EPB are subject to the guidelines imposed by the Belgian regulatory authority (Belgian Banking, Finance and Insurance Commission) and by the Luxemburg regulatory authority (Commission de Surveillance du Secteur Financier), respectively.

EUR m	31-12-2004	30-06-2005
Regulatory capital, KBC Bank + KBL (after profit appropriation)	13 799	14 555
Tier-1 capital	10 629	10 733
Capital and reserves (for 1H 2005: excluding profit)	9 136	9 178
Revaluation reserve	- 8	- 8
Fund for General Banking Risks	2	2
Formation expenses and intangible assets	- 123	- 119
Own shares	- 3	- 1
Goodwill on consolidation	- 445	- 427
Preference shares / Hybrid Tier One	1 578	1 594
Minority interests	492	513
Tier-2 capital	3 854	4 233
Revaluation reserve	8	8
Upper-Tier-2 instruments	1 269	1 334
Subordinated liabilities	2 577	2 892
Tier-3 capital	31	823
Items to be deducted	- 714	- 1 234
Total weighted risk volume	105 768	111 693
Credit risk, investment	95 741	100 759
Credit risk, trading	3 719	2 826
Interest rate risk, trading	4 337	5 915
Trading portfolio position in equities	1 445	1 562
Foreign exchange risk	526	631
Solvency ratios		
Tier-1 ratio	10.05%	9.61%
CAD ratio	13.05%	13.03%

16b Solvency, insurance (KBC Insurance, consolidated)

On a statutory basis, KBC Insurance group companies are subject to various regulatory guidelines imposed by the supervisory authorities in the various countries.

On a consolidated (KBC Insurance) level, KBC Insurance is subject to the guidelines imposed by the Belgian regulatory authority (Belgian Banking, Finance and Insurance Commission) for the year-end calculation, which is based on Belgian GAAP principles.
For the interim periods, however, KBC Insurance makes an own IFRS-based calculation that takes into account equity as defined by the IFRS (inter alia including the revaluation reserve for AFS investments, but excluding unrealized gains on the HTM portfolio and on property).

EUR m	31-12-2004	30-06-2005
Share capital	29	29
Share premium account	122	122
Reserves	1 992	2 085
Revaluation reserve available-for-sale	636	1 032
Translation differences	20	24
Total group equity	2 798	3 292
Dividends payout, KBC insurance	- 156	- 123
Minority interests	64	74
Total capital and reserves	2 706	3 242
Subordinated debts	18	14
Total capital resources	2 723	3 256
Intangible fixed assets	- 204	- 188
Available capital	2 520	3 068
Non Life and industrial accidend-legal lines	236	248
Annuities	7	7
Required solvency margin for the Non Life business	244	255
Branch 21	467	501
Branch 23	16	16
Required solvency margin for the Life business	482	517
Required solvency margin	726	772
Solvency ratio (%)	347.0%	397.3%
Solvency surplus (EUR m)	1 793	2 296

17 List of significant subsidiaries and associated companies

Company	Location of registered seat	Ownership percentage at KBC Group level	Activity
BANKING			
Fully consolidated subsidiaries			
Antwerpse Diamantbank NV	Antwerp - BE	100.00	Credit institution
CBC Banque SA	Brussels - BE	100.00	Credit institution
CENTEA NV	Antwerp - BE	99.56	Credit institution
CSOB a.s.	Prague - CZ	89.97	Credit institution
Fin-Force NV	Brussels - BE	85.01	Processing financial transactions
IIB Bank Ltd.	Dublin - IE	100.00	Credit institution
KBC Bank NV	Brussels - BE	100.00	Credit institution
KBC Bank Deutschland AG	Bremen - GE	99.75	Credit institution
KBC Bank Funding LLC & Trust (group)	New York - USA	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	Stock exchange broker / corporate finance
KBC Internationale Financieringsmaatschappij NV	Rotterdam - NL	100.00	Issuance of bonds
KBC Lease NV (group)	Various locations	100.00	Leasing
KBC Peel Hunt Ltd.	London - UK	99.99	Stock exchange broker / corporate finance
KBC Private Equity NV (ex-KBC Investco NV)	Antwerp - BE	100.00	Private equity
KBC Securities NV	Brussels - BE	100.00	Stock exchange broker / corporate finance
K&H Bank Rt.	Budapest - HU	59.47	Credit institution
Kredyt Bank SA	Warsaw - PL	85.53	Credit institution
Patria Finance a.s.	Prague - CZ	100.00	Stock exchange broker / corporate finance
Proportionally consolidated subsidiaries			
International Factors NV	Brussels - BE	50.00	Factoring
Orbay NV	Utrecht - NL	49.00	Administration of securities transactions
Associated companies			
Bank Card Company NV	Brussels - BE	21.55	Credit cards
Banksys NV	Brussels - BE	20.55	Credit cards
Nova Ljubljanska banka d.d.	Ljubljana - SL	34.00	Credit institution
INSURANCE			
Fully consolidated subsidiaries			
ADD NV	Heverlee - BE	100.00	Insurance company
Argosz Insurance Corporation Ltd.	Budapest - HU	98.76	Insurance company
Assurisk SA	Luxembourg - LU	100.00	Insurance company
CSOB Pojist'ovna a.s.(Czech Republic)	Pardubice - CZ	97.49	Insurance company
CSOB Poist'ovna a.s.(Slovak Republic)	Bratislava - SK	87.30	Insurance company
Fidea NV	Antwerp - BE	100.00	Insurance company
K&H Életbiztositó Rt. (K&H Life)	Budapest - HU	79.73	Insurance company
KBC Verzekeringen NV	Heverlee - BE	100.00	Insurance company
Maatschappij voor Brandherverzekering CV	Leuven - BE	90.55	Insurance company
Secura NV	Brussels - BE	95.04	Insurance company
VITIS Life Luxembourg SA	Luxembourg - LU	100.00	Insurance company
VTB-VAB NV	Antwerp - BE	64.80	Car assistance
TUIR WARTA SA	Warsaw - PL	75.13	Insurance company
Proportionally consolidated subsidiaries			
NLB Vita d.d.	Ljubljana - SL	50.00	Insurance company
ASSET MANAGEMENT			
Fully consolidated subsidiaries			
KBC Asset Management NV	Brussels - BE	100.00	Asset Management
KBC Asset Management Ltd.	Dublin - IE	100.00	Asset Management

List continues on next page.

Continued

KBL EUROPEAN PRIVATE BANKERS			
Fully consolidated subsidiaries			
Banco Urquijo SA	Madrid - SP	96.81	Credit institution
Brown, Shipley & Co Ltd. (group)	London - UK	97.13	Credit institution
KBL Bank Ireland	Dublin - IE	97.13	Credit institution
Kredietbank SA Luxembourgeoise	Luxembourg - LU	97.13	Credit institution
Kredietbank (Suisse) SA, Genève (group)	Geneva - SW	97.13	Credit institution
Merck Finck & Co. (group)	München - GE	97.13	Credit institution
Puilaetco Private Bankers SA	Brussels - BE	97.13	Credit institution
Theodoor Gilissen Bankiers NV	Amsterdam - NL	97.13	Credit institution
GEVAERT			
Fully consolidated subsidiaries			
Almafin NV (group)	Brussels - BE	99.99	Financial services
Bofort NV (group)	Brussels - BE	100.00	Services
City Hotels NV	Brussels - BE	85.51	Hotel business
Gevaert NV (group)	Antwerpen - BE	100.00	Holding company
Associated companies			
Agfa-Gevaert NV	Mortsel - BE	27.13	Industrial company
HOLDING COMPANY ACTIVITIES			
Fully consolidated subsidiaries			
KBC Exploitatie NV	Mechelen - BE	100.00	Cost sharing structure
KBC Groep NV	Brussels - BE	100.00	Holding
Kredietcorp SA	Luxembourg - LU	99.99	Issuance of bonds

18 Main changes in the scope of consolidation and equity accounting

Business segment	Company	Ownership percentage at KBC Group level		Comments
For income statement comparison		1H 2004	1H 2005	
ADDITIONS				
Banking	Orbay NV	-	49.00%	Joint venture with Rabobank
KBL European Private Bankers	Puilaetco Private Bankers SA	-	97.13%	consolidated from 1 July 2004 on
EXCLUSIONS				
Insurance	FBD Ltd.	19.30%	-	sold in 4Q 2004
Insurance	FBD Holdings PLC.	22.75%	-	sold in 1Q 2005
CHANGES IN OWNERSHIP PERCENTAGE				
Banking	Kredyt Bank SA	81.40%	85.53%	capital increase
Banking	Fin-Force NV	90.00%	85.01%	
Banking	KBC Clearing	94.90%	100.00%	
Insurance	CSOB Poist'ovna (Slovak Republic)	75.14%	87.30%	Purchase of CSOB Bank of 13,67% of shares of CSOB Pojist'ovna
For balance sheet comparison		31-12-2004	30-06-2005	
ADDITIONS				
No material additions				
EXCLUSIONS				
Insurance	FBD Holdings PLC.	22.75%	-	sold in 1Q 2005
CHANGES IN OWNERSHIP PERCENTAGE				
No material changes				

In the first quarter of 2005, FBD Holdings was sold, provoking a realized capital gain of 89 m euros. Apart from this, there were no changes in the scope of consolidation that had any material effect on the balance sheet and/or income statement.

19 Settlement of Slovak Collection Unit litigation

The 'other income' item includes (for eq. 101 m euros), in the first quarter of 2005, a recuperation related to an unpaid loan to the Slovak Collection Unit (wholly controlled by the Ministry of Finance of the Slovak Republic). At the end of December 2004, the International Centre for the Settlement of Investment Disputes in Washington decided that the Slovakian state had to repay the loan extended to the Slovak Collection Unit by CSOB in 1993. As there has been no appeal against this decision within the foreseen timeframe, the deal is now settled, with a positive effect (after taxes and minorities) of (eq.) 68 m euros on KBC's net profit.

ANNEX: RESULTS PER AREA OF ACTIVITY

AREA OF ACTIVITY REPORTING

In addition to the two IFRS segmentation formats, information is also provided in this report regarding KBC's 'areas of activity' (a reporting format based largely on a breakdown KBC has been using over the past few years).
These areas of activity are: Retail and Private Bancassurance, Central Europe, Corporate Services, Market Activities, KBL European Private Bankers and Gevaert.

This breakdown, which is not audited, has been added to ensure transparency and to provide a link with past reporting formats. It is not part of the mandatory IFRS segmentation formats.

The allocation of capital to the different areas of activity is based on regulatory requirements. However, since the group sets higher objectives than required by law, more equity (commensurate with a tier-1 ratio of 8% in the banking businesses and a solvency ratio of 200% in the insurance business) is allocated to the different areas of activity, too. As regard the banking businesses, the tier-1 capital consists of pure equity (85%) and preference shares (15%). For the insurance business the allocated capital consists of pure equity alone. In calculating ROAC, only pure equity is taken into account (in the denominator). Since 100% of the risk-weighted assets are consolidated in the banking businesses, the allocated capital also reflects 100% of these assets. Consequently, net profit including minority interests is used to calculate the ROAC for the various areas of activity. The same approach is taken for the insurance business.

The Group item includes the yield on surplus equity, capital gains and value adjustments recorded on securities in the banking business (except for securities in the dealing rooms trading portfolios), results that cannot be meaningfully allocated to the various areas of activity, and debt-service charges on leveraging (funding of subsidiaries' equity capital with borrowings) by the holding company.

The breakdown by primary IFRS segment within each area of activity is based on the statutory IFRS segmentation principles and does not reflect a breakdown by product (e.g. insurance: a portion of the results obtained from insurance products is included under the banking business).

DETAILED TABLES

In the tables below, an overview of the area-of-activity reporting and some comment is provided. The first two tables provide quarterly figures (2Q 2004 and 2Q 2005), whereas the last two tables provide half-year figures (1H 2004 and 1H 2005).

More detailed information is available on the KBC web site www . kbc . com.

Quarterly figures

Breakdown into areas of activity, 2Q 2004 (pro forma)	Retail and private banc-assurance	Central Europe	Corporate services	Market activities	KBL European Private Bankers	Gevaert	Group item	Total
Banking and Asset Management								
Gross income	559	379	246	199	-	-	110	1 493
Operating expenses	-391	-248	-87	-112	-	-	9	-829
Impairment	-10	-23	-15	-3	-	-	-22	-73
Share in results of associated companies	0	2	0	0	-	-	1	3
Income tax expense	-56	-25	-30	-14	-	-	-3	-128
Minority interests	0	-11	0	0	-	-	-30	-41
Net profit - Group share	101	73	115	70	-	-	65	425
Insurance								
Gross income	1 255	197	74	-	-	-	-8	1 518
Operating expenses	-79	-42	-7	-	-	-	-1	-129
Impairment	-35	-1	1	-	-	-	0	-36
Gross technical charges insurance	-1 079	-108	-59	-	-	-	6	-1 240
Ceded reinsurance result	-8	-14	-4	-	-	-	5	-22
Share in results of associated companies	7	0	0	-	-	-	0	7
Income tax expense	-30	-4	-2	-	-	-	1	-35
Minority interests	0	-4	0	-	-	-	0	-4
Net profit - Group share	30	24	2	-	-	-	1	58
KBL European Private Banking								
Gross income	-	-	-	-	158	-	-	158
Operating expenses	-	-	-	-	-135	-	-	-135
Impairment	-	-	-	-	11	-	-	11
Share in results of associated companies	-	-	-	-	0	-	-	0
Income tax expense	-	-	-	-	-7	-	-	-7
Minority interests	-	-	-	-	-6	-	-	-6
Net profit - Group share	-	-	-	-	23	-	-	23
Gevaert								
Gross income	-	-	-	-	-	17	-	17
Operating expenses	-	-	-	-	-	-18	-	-18
Impairment	-	-	-	-	-	7	-	7
Share in results of associated companies	-	-	-	-	-	-69	-	-69
Income tax expense	-	-	-	-	-	-2	-	-2
Minority interests	-	-	-	-	-	0	-	0
Net profit - Group share	-	-	-	-	-	-65	-	-65
Holding Company Activities								
Net profit - Group share	-	-	-	-	-	-	-7	-7
Total								
Net profit - Group share	132	98	118	70	23	-65	60	434

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS32/39 and IFRS4 are only applied as of 2005, without restatement of the 2004 figures. 'Pro forma' means: based on a combined 'old KBC'-Almanij entity.

Breakdown into areas of activity, 2Q 2005	Retail and private banc-assurance	Central Europe	Corporate services	Market activities	KBL European Private Bankers	Gevaert	Group item	Total
Banking and Asset Management								
Gross income	629	403	250	235	-	-	-39	1 478
Operating expenses	-363	-273	-89	-142	-	-	-27	-893
Impairment	-6	-2	-21	-2	-	-	-5	-36
Share in results of associated companies	0	0	0	0	-	-	5	5
Income tax expense	-91	-11	-45	-38	-	-	54	-131
Minority interests	0	-16	0	0	-	-	-26	-42
Net profit - Group share	170	101	95	53	-	-	-38	381
Insurance								
Gross income	856	237	68	-	-	-	19	1 180
Operating expenses	-82	-42	-7	-	-	-	0	-131
Impairment	-3	0	0	-	-	-	0	-4
Gross technical charges insurance	-662	-149	-43	-	-	-	1	-852
Ceded reinsurance result	1	-18	-3	-	-	-	4	-17
Share in results of associated companies	0	0	0	-	-	-	0	0
Income tax expense	-35	-4	-8	-	-	-	0	-48
Minority interests	0	-4	0	-	-	-	1	-4
Net profit - Group share	74	19	6	-	-	-	26	124
KBL European Private Banking								
Gross income	-	-	-	-	217	-	-	217
Operating expenses	-	-	-	-	-153	-	-	-153
Impairment	-	-	-	-	-4	-	-	-4
Share in results of associated companies	-	-	-	-	1	-	-	1
Income tax expense	-	-	-	-	-18	-	-	-18
Minority interests	-	-	-	-	-1	-	-	-1
Net profit - Group share	-	-	-	-	41	-	-	41
Gevaert								
Gross income	-	-	-	-	-	56	-	56
Operating expenses	-	-	-	-	-	-22	-	-22
Impairment	-	-	-	-	-	2	-	2
Share in results of associated companies	-	-	-	-	-	6	-	6
Income tax expense	-	-	-	-	-	-11	-	-11
Minority interests	-	-	-	-	-	0	-	0
Net profit - Group share	-	-	-	-	-	31	-	31
Holding Company Activities								
Net profit - Group share	-	-	-	-	-	-	-41	-41
Total								
Net profit - Group share	244	121	101	53	41	31	-54	536

Half-year figures

Breakdown into areas of activity, 1H 2004 (pro forma)	Retail and private banc-assurance	Central Europe	Corporate services	Market activities	KBL European Private Bankers	Gevaert	Group item	Total
Banking and Asset Management								
Gross income	1 144	734	476	456	-	-	276	3 085
Operating expenses	-768	-487	-169	-261	-	-	-145	-1 831
Impairment	-17	-20	-21	-3	-	-	-49	-110
Share in results of associated companies	0	5	0	0	-	-	9	13
Income tax expense	-111	-58	-68	-54	-	-	27	-265
Minority interests	0	-29	0	0	-	-	-55	-85
Net profit - Group share	247	144	219	137	-	-	62	808
Insurance								
Gross income	2 378	376	152	-	-	-	-10	2 895
Operating expenses	-157	-83	-14	-	-	-	-1	-254
Impairment	-162	-1	-1	-	-	-	0	-164
Gross technical charges insurance	-2 049	-238	-129	-	-	-	8	-2 408
Ceded reinsurance result	-8	-31	5	-	-	-	8	-27
Share in results of associated companies	11	0	0	-	-	-	-1	10
Income tax expense	-40	-1	-6	-	-	-	0	-47
Minority interests	-1	-2	0	-	-	-	0	-3
Net profit - Group share	-28	20	7	-	-	-	4	3
KBL European Private Banking								
Gross income	-	-	-	-	344	-	-	344
Operating expenses	-	-	-	-	-256	-	-	-256
Impairment	-	-	-	-	25	-	-	25
Share in results of associated companies	-	-	-	-	1	-	-	1
Income tax expense	-	-	-	-	-29	-	-	-29
Minority interests	-	-	-	-	-19	-	-	-19
Net profit - Group share	-	-	-	-	66	-	-	66
Gevaert								
Gross income	-	-	-	-	-	49	-	49
Operating expenses	-	-	-	-	-	-39	-	-39
Impairment	-	-	-	-	-	7	-	7
Share in results of associated companies	-	-	-	-	-	-63	-	-63
Income tax expense	-	-	-	-	-	-3	-	-3
Minority interests	-	-	-	-	-	0	-	0
Net profit - Group share	-	-	-	-	-	-48	-	-48
Holding Company Activities								
Net profit - Group share	-	-	-	-	-	-	-19	-19
Total								
Net profit - Group share	219	163	226	137	66	-48	46	810
Allocated equity	*3 287*	*1 193*	*2 169*	*710*	*991*	*1 126*	-	-
*ROAC**	*13%*	*33%*	*21%*	*39%*	*17%*	*-9%*	-	*14%*
Share in Group result	*27%*	*20%*	*28%*	*17%*	*8%*	*-6%*	*6%*	*100%*

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS32/39 and IFRS4 are only applied as of 2005, without restatement of the 2004 figures. 'Pro forma' means: based on a combined 'old KBC'-Almanij entity.

* Net profit, including minority interests / allocated equity. For the whole KBC Group, the adjusted ROE is given.

Breakdown into areas of activity, 1H 2005	Retail and private banc-assurance	Central Europe	Corporate services	Market activities	KBL European Private Bankers	Gevaert	Group item	Total
Banking and Asset Management								
Gross income	1 288	925	508	410	-	-	-46	3 086
Operating expenses	-734	-526	-183	-235	-	-	-38	-1 715
Impairment	7	-7	-34	-2	-	-	2	-34
Share in results of associated companies	0	1	0	0	-	-	15	17
Income tax expense	-178	-71	-84	-67	-	-	51	-349
Minority interests	0	-41	0	0	-	-	-55	-96
Net profit - Group share	383	282	208	106	-	-	-69	910
Insurance								
Gross income	1 474	440	147	-	-	-	27	2 088
Operating expenses	-156	-83	-15	-	-	-	0	-254
Impairment	-15	-1	-4	-	-	-	0	-20
Gross technical charges insurance	-1 093	-282	-91	-	-	-	2	-1 464
Ceded reinsurance result	-8	-27	-9	-	-	-	11	-33
Share in results of associated companies	0	0	0	-	-	-	0	0
Income tax expense	-46	-10	-10	-	-	-	0	-66
Minority interests	-1	-7	0	-	-	-	5	-4
Net profit - Group share	155	30	17	-	-	-	44	246
KBL European Private Banking								
Gross income	-	-	-	-	429	-	-	429
Operating expenses	-	-	-	-	-287	-	-	-287
Impairment	-	-	-	-	-5	-	-	-5
Share in results of associated companies	-	-	-	-	2	-	-	2
Income tax expense	-	-	-	-	-39	-	-	-39
Minority interests	-	-	-	-	-4	-	-	-4
Net profit - Group share	-	-	-	-	94	-	-	94
Gevaert								
Gross income	-	-	-	-	-	101	-	101
Operating expenses	-	-	-	-	-	-42	-	-42
Impairment	-	-	-	-	-	1	-	1
Share in results of associated companies	-	-	-	-	-	15	-	15
Income tax expense	-	-	-	-	-	-12	-	-12
Minority interests	-	-	-	-	-	-1	-	-1
Net profit - Group share	-	-	-	-	-	63	-	63
Holding Company Activities								
Net profit - Group share	-	-	-	-	-	-	-59	-59
Total								
Net profit - Group share	539	312	225	106	94	63	-86	1 253
Allocated equity	*3 672*	*1 335*	*2 286*	*751*	*1 240*	*1 097*	-	-
*ROAC**	*29%*	*54%*	*20%*	*28%*	*16%*	*11%*	-	*20%*
Share in Group result	*43%*	*25%*	*18%*	*8%*	*8%*	*5%*	*-7%*	*100%*

* Net profit, including minority interests / allocated equity. For the whole KBC Group, the adjusted ROE is given.

COMMENT

Retail and private bancassurance

In the retail and private bancassurance segment, a strong quarterly result was again turned in (244 m euros), albeit slightly lower than the result for the two preceding quarters because of the drop in banking income (partially for seasonal reasons) and higher taxes.

Profit for the first six months of the year (539 m euros) was 320 m euros up on the year-earlier figure thanks to the solid growth in income (mainly from investments and insurance) and the sustained drop in expenses (-4%). Significant impairment (162 m euros) had also been recorded on the investment portfolio at the start of 2004. The cost/income ratio fell to 57%, and the loan loss ratio now comes to 0%. The return on allocated capital went up to 29 %. The private banking sub-segment in Belgium made a profit contribution of 32 m euros.

Central Europe

The results in the Central European region are provided in the table in the text. Details on the banking subsidiaries are provided in the second table at the bottom of the page.

Profit for the quarter in Central Europe (121 m euros) was on a par with profit for the previous quarter (disregarding the non-recurring income of 68 m euros that was able to be recorded at that time) and well above the quarterly average for 2004. The quarter was marked by the growing success of insurance activities and asset management, among other things. There was robust growth in lending, while net loan loss provisioning remained negligible.

The main features of the first two quarters of 2005 combined were as follows:

Central Europe area of activity, breakdown of net profit - Group share (EUR m)	1H 2004 pro forma	1H 2005
Banking	144	282
CSOB (Czech & Slovak Rep.)	101	210
K&H Bank (Hungary)	18	15
Kredyt Bank (Poland)	17	45
NLB (Slovenia)	7	12
Insurance	20	30
Warta (Poland)	7	17
CSOB Pojist'ovna (Czech Republic)	11	11
Other	2	3
Total	163	312

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS32/39 and IFRS4 are only applied as of 2005, without restatement of the 2004 figures. 'Pro forma' means: based on a combined 'old KBC'-Almanij entity.

In the Czech Republic and Slovakia, the profit contribution (210 m euros) made by the banking business was 109 m euros higher, though this figure was admittedly enhanced by the non-recurring income generated by the repayment of a Slovakian loan (net impact of 68 m euros).

Central European banks - statutory profit and profit contribution, EUR m

Half-year figures	1H 2004 pro forma				1H 2005			
	CSOB	K&H Bank	Kredyt Bank	NLB*	CSOB	K&H Bank	Kredyt Bank	NLB*
Net interest income	242	105	108	-	252	108	102	-
Dividend income	0	0	0	-	6	0	0	-
Net gains from financial instruments at fair value	29	37	9	-	45	50	17	-
Net realized gains from available-for-sale assets	13	1	3	-	6	0	-1	-
Net fee and commission income	102	33	23	-	114	43	23	-
Other income	31	5	8	-	123	6	9	-
Gross income	417	181	151	-	547	207	149	-
Operating expenses	-234	-130	-119	-	-265	-142	-113	-
Impairment	-9	-1	-9	-	6	-25	12	-
Share in results of associated companies	0	1	3	-	0	1	0	-
Income tax expense	-49	-8	-2	-	-61	-11	9	-
Net profit - Group share (statutory)	125	44	23	-	227	30	57	-
Allocated head office expenses	-1	-1	-1	-	-2	-1	-1	-
Intragroup eliminations	0	0	0	-	20	0	0	-
Minority interests	-12	-13	-5	-	-23	-10	-8	-
Capital allocation results	-11	-12	0	-	-12	-5	-3	-
Profit contribution - Group share (area of activity reporting)	101	18	17	7	210	15	45	12

N.B.: the reference figures for 2004 are not fully comparable with the 2005 figures, since IAS32/39 and IFRS4 are only applied as of 2005, without restatement of the 2004 figures. 'Pro forma' means: based on a combined 'old KBC'-Almanij entity.

* Accounted for using the equity method.

Growth in deposits and loans and higher commission income more than offset the adverse impact of lower market interest rates, while the loan loss ratio remained at 0%. As a result, the return on capital allocated to banking rose to 56% (disregarding the above non-recurring income). Premium turnover in the non-life insurance business went up by 28%, and outstanding life insurance rose by 12%. The total profit contribution made by the insurance business came to 9 m euros (a return of 21%).

In the banking business in Poland, a profit of 45 m euros was turned in, an increase of 28 m euros (including 9 m euros that stemmed from a deferred tax asset in the second quarter). Thanks to the improved cost/income ratio and the absence of loan losses, the return on allocated capital ended the period at 42%. Insurance activities contributed 17 m euros to profit (a return of 36%), thanks to the improvement in cost performance (-8%) and the growing life insurance business.

In Hungary, the increase in income (+14%) more than made up for the rise in charges (+10%), leading to a 26% increase in the operating result. The loan loss ratio (0.93%) is comparable to the loan loss ratio of other institutions in the market. On balance, profit for the first half year came to 15 m euros, and the return on allocated capital came to 17%. The profit contribution made by the insurance business went up to 5 m euros (a return of 42%), owing to the improvement in the level of costs and claims (a combined ratio of 86%).

The contribution to profit made by the banking business in Slovenia (minority interest) for the first six months of the year amounted to 12 m euros, while the result achieved in the life assurance business amounted to -0.1 m euros.

Corporate services

In the corporate customer segment, the slight drop in income and slight increase in taxes pushed second-quarter profit (101 m euros) down below the average for the preceding quarters.
However, profit for the first half of the year remained at the same sound level as a year earlier, with continuing sound ratios for cost control (a cost/income ratio of 36%), the non-life insurance result (a combined ratio of 90%) and loan loss provisions (a loan loss ratio of 0.13%). The return on allocated capital for this segment comes to 20%.

Market activities

The second-quarter profit contribution made by the capital market activities (53 m euros) remained on a par with the contribution made in the preceding quarter, but was lower than the record level turned in for early 2004, when very strong results were posted especially in the derivatives business.
For the first six months of the year, profit came to 106 m euros, 23% less year-on-year, but a return on allocated capital of 28% was still achieved. In the stock broking business, while in the segment of structured credit products, there was an improvement in results.

KBL European Private Bankers and Gevaert

Comments on KBL European Private Bankers and Gevaert, which - for practical reasons – will be considered as separate areas of activity in 2005, are provided in the 'Results per business segment' section.

ANNEX: GLOSSARY OF RATIOS USED

Adjusted return on equity	[net profit (Group share) on an annualized basis] / [average parent shareholders' equity, excluding the revaluation reserve for available-for-sale investments]
Basic earnings per share	[net profit, Group share] / [weighted average number of ordinary shares plus mandatorily convertible bonds minus treasury shares].
Combined ratio, non-life insurance	[net claims incurred / net earned premiums] + [net expenses / net written premiums]. The combined ratio only relates to non-life insurance.
Cost/income ratio	[operating expenses of IFRS segments Banking, Asset Management and KBL EPB] / [gross income of IFRS-segments Banking, Asset Management and KBL EPB]
Cover ratio	[individual loan impairments for non-performing loans] / [outstanding non-performing loan portfolio]. For a definition of non-performing loans, see below, under 'Non-performing ratio'.
Diluted earnings per share	[net profit, Group share, adjusted for after tax interest expense on freely convertible bonds] / [weighted average number of ordinary shares plus mandatorily convertible bonds minus treasury shares plus dilutive potential of options and freely convertible bonds].
Equity market capitalization	[closing price KBC share] x [number of ordinary shares outstanding]
Loan loss ratio	[net transfer to loan impairments, annualized] / [average total outstanding loan portfolio]. Corporate and bank bonds are included in the loan portfolio.
Non-performing ratio	[amount outstanding of non-performing loans (loans for which principal repayments or interest payments are more than ninety days in arrears)] / [total outstanding loan portfolio].
Parent shareholders' equity per share	[parent shareholders' equity] / [number of ordinary shares plus mandatorily convertible bonds minus treasury shares]. The calculation for 2004 is excluding IAS32/39 and IFRS4, hence no addition of mandatorily convertible bonds nor substraction of treasury shares in the denominator.
Solvency ratio	[consolidated solvency capital of KBC Insurance, based on equity as defined by the IFRS] / [required solvency margin]. The calculation is detailed in note 16b.
Tier-1 ratio	[consolidated Tier-1 capital of KBC Bank and KBL EPB] / [total risk-weighted volume of KBC Bank and KBL EPB]. The calculation is detailed in note 16a and is based on Belgian and Luxemburg GAAP principles. At year-end, retained profit is included in capital and reserves in the tier-1 calculation; during the year, this is not the case. The calculation is also available for KBC Bank and KBL EPB separately.

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